22 September 2020

DOCUMENT C-M(2020)0034-AS1

IBAN AUDITOR'S REPORT ON THE AUDIT OF THE 2018 FINANCIAL STATEMENTS OF DCPS, IS, NCPS, NFO, NNHQ, NPF, NSC AND RMCF

ACTION SHEET

On 21 September 2020, under the silence procedure, the Council noted the RPPB report, agreed its conclusions and recommendations, and agreed to the public disclosure of the report, the IBAN Auditor's Reports and the associated 2018 financial statements, attached to C-M(2020)0034.

(Signed) Jens Stoltenberg Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2020)0034

NATO UNCLASSIFIED





7 September 2020

DOCUMENT C-M(2020)0034 Silence Procedure ends: 21 Sep 2020 17:30

IBAN AUDITOR'S REPORT ON THE AUDIT OF THE 2018 FINANCIAL STATEMENTS OF DCPS, IS, NCPS, NFO, NNHQ, NPF, NSC AND RMCF

Note by the Secretary General

- 1. I attach the International Board of Auditors for NATO (IBAN) Auditor's Reports on the 2018 financial statements of the Defined Contribution Pension Scheme (DCPS), International Staff (IS), NATO Coordinated Pension Scheme (NCPS), NATO FORACS Office (NFO), New NATO Headquarters (NNHQ), NATO Provident Fund (NPF), NATO Staff Centre (NSC) and Retirees Medical Claims Fund (RMCF). The IBAN Auditor's Reports set out unqualified opinions on both the 2018 financial statements and on compliance for DCPS, IS, NCPS, NFO, NNHQ, NPF, NSC and RMCF.
- 2. The IBAN reports have been reviewed by the Resource Policy and Planning Board (RPPB) (see Annex).
- 3. I do not believe this issue requires further discussion. Therefore, **unless I hear to the contrary by 17:30 hours on Monday, 21 September 2020** I shall assume the Council noted the RPPB report, agreed its conclusions and recommendations, and agreed to the public disclosure of this report, the IBAN Auditor's Reports and the associated 2018 financial statements.

(Signed) Jens Stoltenberg

Annex 1: RPPB report

Enclosure 1: IBAN audit reports + financial

statements

1 Annex

1 Enclosure Original: English



ANNEX TO C-M(2020)0034

IBAN AUDITOR'S REPORT ON THE 2018 FINANCIAL STATEMENTS OF DCPS, IS, NCPS, NFO, NNHQ, NPF, NSC, RMCF

Report by the Resource Policy and Planning Board (RPPB)

IBAN Auditor's Report on the audit of 2018 financial statements of the NATO

References:

IBA-A(2019)0144

Λ.	10/1-/1/2019/0144	Defined Contribution Scheme
B.	IBA-A(2019)0101	IBAN Auditor's Report on the audit of 2018 financial statements of the International Staff
C.	IBA-A(2019)0142	IBAN Auditor's Report on the audit of 2018 financial statements of the NATO Coordinated Pension Scheme
D.	IBA-A(2019)0098	IBAN Auditor's Report on the audit of 2018 financial statements of the NATO FORACS Office
E.	IBA-A(2019)0102	IBAN Auditor's Report on the audit of 2018 financial statements of the New NATO Head Quarters
F.	IBA-A(2019)0104	IBAN Auditor's Report on the audit of 2018 financial statements of the NATO Provident Fund
G.	IBA-A(2019)0107	IBAN Auditor's Report on the audit of 2018 financial statements of the NATO Staff Centre
H.	IBA-A(2019)0143	IBAN Auditor's Report on the audit of 2018 financial statements of the Retirees Medical Claims Fund
I.	C-M(2015)0025	NATO Financial Regulations (NFR)
J.	PO(2015)0052	Wales Summit tasker on transparency and accountability

INTRODUCTION

1. This report by the RPPB addresses the IBAN Auditor's Reports on the 2018 financial statement of the NATO Defined Contribution Pension Scheme (DCPS), International Staff (IS), NATO Coordinated Pension Scheme (NCPS), NATO FORACS Office (NFO), New NATO Head Quarters (NNHQ), NATO Provident Fund (NPF), NATO Staff Centre (NSC) and Retirees Medical Claims Fund (RMCF). The IBAN Auditor's Reports set out unqualified opinions on the financial statements and on compliance of DCPS, IS, NCPS, NFO, NNHQ, NPF, NSC, RMCF in 2018 (reference A, B, C, D, E, F, G, H).

AIM

- 2. This report summarises the IBAN Auditor's Reports to enable the Board to reflect on strategic issues or concerns emanating from the audit of financial statements of NATO entities and to recommend courses of action to Council as applicable, which has the potential to improve transparency, accountability and consistency.
- 3. In line with Financial Controller responsibilities laid out in Article 35 (FRPXXXV) of the NATO Financial Regulations (NFR), the IS Financial Controller is accountable for signing

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and overseeing the development of the 2018 financial statements for all the NATO Reporting Entities covered under this report.¹

DISCUSSION

- 4. 11 observations were raised for IS, NCPS, NFO, NNHQ and RMCF. As of the date of the respective IBAN Auditor's Reports a total of 8 prior year observations were in-progress or open and 22 prior year observations were closed. No observations impacted the audit opinions in 2018.
- 5. <u>Going concern.</u> No new observations were raised in respect of the NPF or the NSC. The last member of staff contributing to the NPF left in April 2018 and therefore the fund is closed and will not continue operating for the future. NPF will no longer prepare financial statements. Since 1st January 2019 NSC financial information has been incorporated into the NATO International Staff financial statements.
- Risk management, internal control and internal audit. The common issues facing IS and NFO are improvements required in the area of risk management, internal control and internal audit. The IBAN recommends as a matter of priority that the IS comply with all requirements of the NFR and Financial Rules and Procedures (FRP) namely on risk management and internal control. Last year COSO² was approved as the framework to be implemented and in December 2019 the IS established a high-level risk register which synthesised the strategic risks facing the organisation. The recently established Office of Internal Audit and Risk Management will continue the implementation efforts. The Board agrees that this observation is of particular concern and is encouraged with the progress made by the IS in establishing an entity wide high-level risk register. In light of the progress made to date, the Board encourages the recently established Office of Internal Audit and Risk Management to assess the system of internal control and risk management. In the case of NFO, the Board acknowledges that the effort to resolve this observation should be commensurate with its size and scale of activities.
- 7. Post-employment liabilities. IBAN raises a common issue for NATO as a whole to disclose post-employment liabilities to comply with the NATO Accounting Framework (IPSAS 39). These observations have been raised in respect of NCPS and RMCF financial statements but are related to a wider common issue for NATO where the combined EUR 11.1 billion post-employment liability for NCPS and RMCF and associated disclosures are not included in any of the financial statements of NATO bodies or schemes. In the absence of an adaptation within the NATO Accounting Framework, IBAN recommends the Financial Controller of NCPS and RMCF to provide a clear definition of the criteria to recognise the post-employment liabilities in line with IPSAS 39 (employee benefits). The Board acknowledges the IBAN recommendation and agrees that a clarification at the level of the NATO Accounting Framework is sought during its planned review in 2021.

¹ This also includes the MSIAC Reporting Entity covered under RPPB report AC_335-N(2020)0024 (INV)

² Committee of Sponsoring Organisations of the Treadway Commission

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- 8. <u>Inadequate level of RMCF net assets.</u> In 2012, the IBAN found that there are insufficient funds available to enable NATO to meet its future obligations. 2019 marked the first year where the expenses exceeded the yearly contributions into the RMCF fund and if this trend remains unchanged the fund would be depleted in 2040.³ The Board urges the RMCF Supervisory Committee to discuss and agree the remedial actions and strategic approach for the long term sustainability of the fund.
- 9. <u>Financial reporting.</u> The Board notes common issues of insufficient control over financial reporting for NCPS and NFO and notes the progress made by DCPS in regards to this IBAN observation. The Board further notes that both governing bodies have agreed to implement the recommendations of IBAN.
- 10. The Board notes that the IBAN recommends improvements in disclosures to the cash flow statement where the observation remains open because movements were described incorrectly. The Board also notes that the IS have agreed to document the confirmation of outstanding asset and liability balances it has with other NATO Reporting Entities as part of the preparation of the financial statements.

CONCLUSIONS

- 11. The Board is pleased that 2018 marks the first year in which the IS financial statements have received an unqualified opinion. The Board welcomes the continued progress to reduce the number of audit observations but encourages the closure of the remaining observation for IS in relation to timely issuance of the financial statements and supporting information to IBAN. Furthermore the Board acknowledges the efforts of NCPS and NFO to resolve the common observation of insufficient control over financial reporting.
- 12. The Board notes NPF and NSC will no longer produce financial statements and moving forwards the latter will be included within the reporting of the IS financial statements.
- 13. The Board notes the need for IS and NFO to make improvements in the areas of risk management, internal control and internal audit. The Board looks forward to the assessment of the system of internal control and risk management by the recently established Office of Internal Auditors and Risk Management and acknowledges for NFO, the effort to resolve should be commensurate with its size and scale of activities.
- 14. The Board acknowledges the wider common issue for NATO where the combined EUR 11.1 billion post-employment liability for NCPS and RMCF are not included in any of the financial statements of NATO bodies or schemes. The Board agrees that a clarification at the level of the NATO Accounting Framework is sought during its review in 2021.
- 15. The Board urges the RMCF Supervisory Committee to discuss and agree the remedial actions and strategic approach for the long term sustainability of the RMCF fund. Furthermore the Board notes the progress IS have made to address their remaining prior year observations.

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³ BC-D(2017)0287

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RECOMMENDATIONS

- 16. The Resource Policy and Planning Board recommends that the Council:
- 16.1. note this report and the IBAN Auditor's Reports at reference A, B, C, D, E, F, G, H;
- 16.2. agree the conclusions at paragraphs 11 to 15; and
- 16.3. agree to the public disclosure of the 2018 financial statements, the associated IBAN Auditor's Reports (reference A to H) and this report in line with agreed policy at reference J.



NORTH ATLANTIC TREATY ORGANIZATION ORGANISATION DU TRAITÉ DE L'ATLANTIQUE NORD

International Board of Auditors for NATO Collège international des Auditeurs externes de l'Otan

NATO UNCLASSIFIED



Enclosure to

IBA-A(2019)0144 29 November 2019

To: Secretary General

(Attn: Director of the Private Office)

Cc: Assistant Secretary General, Executive Management Division

Financial Controller, International Staff (IS)

Chairman, Resource Policy & Planning Board (RPPB)

Branch Head, Secretariat and Finance Branch, NATO Office of Resources (NOR)

Private Office Registry

Subject: International Board of Auditors for NATO (IBAN) Auditor's Report and

Letter of Observations and Recommendations on the audit of the NATO Defined Contribution Pension Scheme (DCPS) Financial Statements for

the year ended 31 December 2018 - IBA-AR(2019)0027

IBAN submits herewith its approved Auditor's Report (Annex 2) and Letter of Observations and Recommendations (Annex 3) with a Summary Note for distribution to the Council (Annex 1).

The IBAN report sets out an unqualified opinion on the financial statements of the NATO DCPS and an unqualified opinion on compliance for financial year 2018.

Yours sincerely,

Daniela Morgante

Chairman

Attachments: As stated above.

ANNEX 1

Summary Note for Council
by the International Board of Auditors for NATO
on the audit of the financial statements of the
NATO Defined Contribution Pension Scheme (DCPS)
for the year ended 31 December 2018

The International Board of Auditors for NATO (IBAN) audited the NATO Defined Contribution Pension Scheme (DCPS), which is a money purchase pension scheme that includes contributions from staff recruited on or after 1 July 2005 as well as employer contributions from NATO. The value of the NATO DCPS's net assets available for benefits at 31 December 2018 was EUR 408.4 million. The DCPS had 3,974 members at 31 December 2018.

IBAN issued an unqualified opinion on the 2018 financial statements and an unqualified opinion on compliance for the year ended 31 December 2018.

During the audit, IBAN made no observations.

IBAN also followed up on the status of observations from previous years' audit reports and found that two observations were closed and two observations were in progress.

The Auditor's Report (Annex 2) and the Letter of Observations and Recommendations (Annex 3) were issued to the International Staff who replied that they had no specific formal comments.

ANNEX 2 IBA-AR(2019)0027

29 November 2019

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF

THE NATO DEFINED CONTRIBUTION PENSION SCHEME

(NATO DCPS)

FOR THE YEAR ENDED 31 DECEMBER 2018

ANNEX 2 IBA-AR(2019)0027

INDEPENDENT AUDITOR'S REPORT TO THE NORTH ATLANTIC COUNCIL

Report on the Audit of the Financial Statements

Opinion on the Financial Statements

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of the NATO Defined Contribution Pension Scheme for the 12 month period ended 31 December 2018, issued and submitted to IBAN on 31 march 2019. These Financial Statements comprise the Statement of Net Assets Available for Benefits as at 31 December 2018, the Statement of Changes in Net Assets Available for Benefits and the Explanatory Notes, including a summary of significant accounting policies.

In our opinion, the Financial Statements give a true and fair view of the statement of Net Assets Available for Benefits of the NATO Defined Contribution Pension Scheme as at 31 December 2018, and of its statement of Changes in Net Assets Available for Benefits ended 31 December 2018, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework and International Accounting Standard (IAS) 26, Accounting and Reporting by Retirement Benefit Plans.

Basis for Opinion on the Financial Statements

In accordance with the NATO Financial Regulations (NFRs), external audit of the NATO bodies pursuant to the North Atlantic Treaty shall be performed by IBAN.

We have conducted our audit in accordance with the International Standards of Supreme Audit Institutions (ISSAIs 1000-1810) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

We are independent in accordance with the INTOSAI Code of Ethics and we have fulfilled our other ethical responsibilities in accordance with these requirements. The responsibilities of the members of IBAN are more extensively described in the section «Auditor's Responsibilities for the Audit of the Financial Statements» and in our Charter. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Management's Responsibility for the Financial Statements

Management's responsibility for the financial statements is laid down in the NFRs. The Financial Statements of NATO Defined Contribution Pension Scheme are drawn up in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework as approved by the Council and International Accounting Standard (IAS) 26, Accounting and Reporting by Retirement Benefit Plans. The Financial Controller is responsible for submitting the Financial Statements for audit to IBAN not later than 31st March following the end of the financial year.

The Financial Statements are signed by the Head of the NATO body and the Financial Controller. In signing the Financial Statements, the Head of NATO body and the Financial Control confirm the establishment and maintenance of financial governance, resource management practices, internal controls and financial information systems to achieve the efficient and effective use of resources.

This confirmation covers the design, implementation and maintenance of internal controls relevant to the preparation and presentation of financial statements that are auditable and free from material misstatement, whether due to fraud or error. This also covers reporting on the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there are plans to liquidate the entity or to cease its operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

The objectives of the audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes an opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgement and maintain professional scepticism throughout the planning and performance of the audit. This involves taking into account Considerations Specific to Public Sector Entities. We also:

• Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures

ANNEX 2 IBA-AR(2019)0027

responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We are required to communicate with the bodies charged with governance, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our Independent External Auditor's Report is prepared to assist North Atlantic Council in carrying out its role. We are therefore responsible solely to the North Atlantic Council for our work and the opinion we have formed.

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Report on Compliance

Opinion on Compliance on Compliance

Based on the procedures we performed, nothing has come to our attention, as part of our audit of the Financial Statements that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations.

Basis for Opinion on Compliance

We have conducted our compliance audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 4000) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

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

Management's Responsibility for Compliance

All NATO staff, military and civilian, are obligated to comply with the NATO Financial Regulations, associated Financial Rules and Procedures and internal implementing directives. These include the NATO Civilian Personnel Regulations.

The Secretary General is responsible and accountable for sound financial management. The financial administration of NATO bodies must incorporate the principles of propriety, sound governance, accountability, transparency, risk management and internal control, internal audit, external audit, and fraud prevention and detection.

Auditor's Responsibilities for Compliance

In addition to the responsibility to provide reasonable assurance about whether the financial statements as a whole are free from material misstatement, the IBAN Charter requires IBAN to provide independent assurance and report annually to the North Atlantic Council about whether funds have been properly used for the settlement of authorised expenditure (propriety) and are in compliance with the regulations in force (regularity). Propriety relates to the observance of the general principles governing sound financial management and the conduct of public officials. Regularity concerns the adherence to formal criteria such as relevant regulations, rules and procedures.

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This responsibility includes performing procedures to obtain independent assurance about whether funds have been properly used for the settlement of authorized expenditure and whether they have been used in compliance with the regulations in force. Such procedures include consideration of the risks of material non-compliance.

Brussels, 29 November 2019

Daniela Morgante Chairman

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29 November 2019

INTERNATIONAL BOARD OF AUDITORS FOR NATO

LETTER OF OBSERVATIONS AND RECOMMENDATIONS

FOR THE NATO DEFINED CONTRIBUTION PENSION SCHEME

(NATO DCPS)

FOR THE YEAR ENDED 31 DECEMBER 2018

ANNEX 3 IBA-AR(2019)0027

Introduction

The International Board of Auditors for NATO (IBAN) audited the NATO Defined Contribution Pension Scheme Financial Statements for the year ended 31 December 2018, and issued an unqualified opinion on the financial statements and an unqualified opinion on compliance.

Observations and Recommendations

During the audit, IBAN made no observations.

IBAN followed up on the status of the observations from previous years' audits and found that two recommendations are closed and two recommendations are in progress.

ANNEX 3 IBA-AR(2019)0027

FOLLOW-UP OF PREVIOUS YEAR'S OBSERVATIONS

IBAN followed up on the status of observations from the previous years' audit. The observations, actions taken by the auditee as reviewed by IBAN, and their status are summarised in the table below.

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
(1) NATO DCPS FY 2016 IBA-AR(2017)30, paragraph 1		
INSUFFICIENT CONTROLS OVER FINANCIAL REPORTING		Observation Closed.
 The preparer of the financial statements should keep detailed supporting working papers in order to be able to support any balance presented or information disclosed in the financial statements. Moreover, the IS must be able to provide details for each ERP asset / liability account in order to allow proper follow-up of the balances. The Board recommends recording income and expense transactions, different by nature, in separate accounts, such as: gain/loss from foreign currency purchases; bank charges; other types of income/expense. The Board recommends improving the transparency and availability of the accounting data. Where technically possible and practicable, the Board recommends linking transactions in ERP to the specific counterparty in order to be able to trace changes in respective balances receivable and/or payable to these counterparties. Using standard ERP workflows instead of manual adjustments is encouraged. In situations when aggregated data is entered in the accounting program, underlying supporting details (summaries, listings, calculations, etc.) should be available within the ERP and should be subject to proper verification and approval within the system. 	IBAN has noted the progress and improvements made on: - the presentation and detailed documentation from the ERP system provided to support balance and information disclosed in the DCPS Financial Statements for the year ended 31 December 2018; - the recording in separate accounts of income and expenses transactions that are different by nature; - the verifications and controls done over the financial reporting process for the year 2018; - the formal process of reconciling interentity accounts; - Additional account dimensions in the ERP system for the investment management and retirement and invalidity segments. A separate set of books (SOB) 310 was created in the ERP for the DCPS benefit payments.	

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OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
The Board recommends strengthening the multi-level financial statements review process in order to improve the overall quality of the produced financial statements and their compliance with applicable reporting frameworks.		
The Board recommends performing, at least annually, formal inter-entity balance confirmations between all entities who have financial statements prepared by the IS Office of Financial Control.		
 The Board recommends implementing additional account dimensions in the ERP system for the Investment management and Retirement and Invalidity segments. (2) NATO DCPS FY 2015 IBA-AR(2016)28, paragraph 3 		
INSUFFICIENT EVIDENCE TO SUPPORT A RECEIVABLE AND PROVISION IN THE FINANCIAL STATEMENTS		Observation In progress.
Board's Recommendation The Board recommends the Secretary General, responsible for the administration and management of the DCPS, review this situation as soon as possible in order to clarify NATO's agreement to this proposed compensation, which NATO reporting entity has the right to it, and, if received, who the funds should ultimately be returned to (e.g. nations, DCPS participants, etc.).	On 22 June 2017, the Insurer informed the IS financial Controller that they are in position to accept the proposed amount of EUR 6 million as a NATO compensation. In December 2018, the Secretary General has recommended that one third of the compensatory payment should be distributed to those affiliates who actively contributed to the major risk insurance between 1 January 2012 and 31 December 2015. The total amount to be distributed to the affiliates is EUR 1.726 million. This amount has been paid in May 2019 by the Insurer. In the Financial Statements, this amount has been presented as a payable. The EUR 6 million has also been presented as a receivable as the compensation had not been received during the year 2018. There is no decision yet regarding the remaining amount of EUR 4.273 million, which has been recorded as a provision in the Financial Statements for the year 2018.	

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OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
(3) NATO DCPS FY 2015 IBA-AR(2016)28, paragraph 7		
UNCLEAR FOREIGN CURRENCY CONVERSION POLICY		Observation In progress.
Board's Recommendation The Board recommends developing and implementing a comprehensive policy on the accounting and reporting of transactions, stated in foreign currencies.	The formal policy on the accounting and reporting of transactions and balances stated in foreign currencies has not been implemented. No material issues or findings in the year end revaluations of balances stated in foreign currency have been found by IBAN during the audit of the financial statements for the year 2018.	
(4) NATO DCPS FY 2009 IBA-AR(2011)09, paragraph 5.1		
WEAKNESSES IN THE PREPARATION OF PENSION BENEFIT PAYMENTS		Observation Closed.
Board's Recommendation The Board recommends that the IS ensures the proper preparation to deal with the expected increase in numbers of pension benefit payments of the DCPS, i.e., the application of the IT system for the DCPS benefit payments, the selection of the pension provider(s), the timely collection of amounts needed for the benefit payments from the insurance company and the pension provider(s), and to discontinue the borrowing from the Coordinated Pension Scheme.	 At the end of the year 2017, IBAN has noted the following actions: The DCPS paid back the amount borrowed from the Coordinated Pension Scheme and solved the liquidity problem with an internal transfer of funds within the DCPS. A separate set of books (SOB) 310 was created in the ERP for DCPS benefit payments. The small number of benefit payments allows sufficient control over the payments and the requirements of the future ERP system contain this function. No issues have been found related to the preparation of benefit payments during the audit 2018. A procurement procedure of an annuity provider was completed but did not deliver the expected results and thus a pension provider has not yet been selected. 	

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The Open status is used for recommendations that are open and for which no notable progress has been achieved to date. The In-progress status is used for open recommendations when the NATO Body has started to implement the recommendation or when some (but not all) sub-recommendations are closed. The Closed status is used for recommendations that are closed because they have been implemented, are superseded, or have lapsed.

FC(2019)0047

NATO DEFINED CONTRIBUTION PENSION SCHEME FINANCIAL STATEMENTS

For the year ended 31 December 2018

Annexes	
1	Statement of Net Assets Available for Benefits
2	Statement of Changes in Net Assets Available for Benefits
3	Notes to the Financial Statements

Jens STOLTENBERG Secretary General

Stephane CHAGNOT Financial Controller

NATO DEFINED CONTRIBUTION PENSION SCHEME Statement of Net Assets Available for Benefits

	Notes		Current Year			Prior Year	
		Investment Management	Benefits	Total	Investment Management	Benefits	Total
			31-Dec-18			31-Dec-17	
Assets							
Cash Investments at market value Accounts receivable Other receivables	w 4 ro	5,514,746.32 403,243,016.32 6,000,000.00	222,528.31 110,424 <u>.</u> 28	5,737,274.63 403,243,016.32 6,110,424.28	5,105,638.11 373,126,531.89 6,000,000.13	6,883.87 249,126.97 1.26	5,112,521.98 373,126,531.89 6,249,127.10 1.26
Total Assets		414,757,762.64	332,952.59	415.090.715.23	384 232 470 42		
Liabilities						01.210,462	384,488,182.23
Provisions claims and disputes Payable Other payables Surplies invocated as in a contract of the contract of t	16	(4,273,893.91) (2,017,815.31)	(320,793.73)	(4,273,893.91) (2,338,609.04) (10,101.16)	(6,000,000.00)	(206,193.73)	(6,000,000.00) (618,794.35)
Current year surplus financial results		(80,016.59)	(2,057.70)	(80,016.59) (837.83)	(80,016.59)	(5,374.85)	(44,443.52) (80,016.59) (14,055.41)
Total Liabilities		(6,370,505.94)	(332,952.59)	(6,703,458.53)	(6,501,297.77)	(256,012.10)	(6.757.309.87)
Net assets available for benefits		408,387,256.70		408 387 255 70	277 720 072 776		

NATO DEFINED CONTRIBUTION PENSION SCHEME

Statement of Changes in Net Assets Available for Benefits

(All amounts in EUR)	Notes		Current Year			Prior Year	
			31-Dec-18			31-Dec-17	
	T	Investments	Benefits	Total	Investments	Benefits	Total
Increase in net assets Net unrealized gain in market value of investments Contributions Inward transfer of pension rights Transfers from Insurer Transfers from Annuity Provider Contribution for Tax Adjustments Due Miscellaneous receipts	4 & 6 6 6 7 7 5	57,342,204.50 656,828.06 1,726,106.09	763,593.03 104,916.46 95,008.26 1,962.85	57,342,204.50 656,828.06 763,593.03 104,916.46 95,008.26	10,319,589,82 52,202,642.04 611,554.36	598,421.41 90,832.67 65,212.92 10,820.00	10,319,589.82 52,202,642.04 611,554.36 598,421.41 90,832.67 65,212.92 10,820.00
Total increase in net assets available for benefits		59,725,138.65	965,480.60	60,690,619.25	63,133,786.22	765.287.00	63.899.073.22
Decrease in net assets Net unrealized loss in market value of investments Accounts closed (Staff) Outward transfer of pension rights Transfers to insurance and annuity providers Pension Benefits Invalidity, Survivor and Dependant Benefits Invalidity, Survivor and Dependant Benefits Tax Adjustment Paid to Beneficiaries Employer Contributions to DCPS Miscellaneous Expenses Total decrease in net assets available for benefits Net increase for the year	4 5 5 5 5 5 5 5 5 5 5 5 5 5 5 5 5 5 5 5	6,066,404,72 21,048,500.07 227,743.43 1,726,106.09 29,068,754.31 30,656,384.34 377,730,872.36	105,372.80 688,146.35 95,008.26 75,344.62 1,608.57	6,066,404.72 21,048,500.07 227,743.43 0.00 105,372.80 688,146.35 95,008.26 75,344.62 1,727,714.66 30,034,234.91 30,656,384.34	20,736,205,48 163,519,58 508,500.00 21,408,225,06 41,725,561.16 336,005,311,20	90,859.38 536,463.93 65,212.92 59,498.52 13,252.25 765,287.00	0.00 20,736,205,48 163,519,58 508,500.00 90,859.38 536,463.93 65,212.92 59,498.52 13,252.25 22,173,512.06 41,725,561.16
Net assets available for benefits, end of year		408,387,256.70		408,387,256.70	377,730,872.36	0.00	377.730.872.36

EXPLANATORY NOTES NATO DEFINED CONTRIBUTION PENSION SCHEME

NOTE 1: GENERAL INFORMATION

Description of the Fund

The NATO Defined Contribution Pension Scheme (DCPS) was implemented with effect from 1 July 2005 based on Council's approval of C-M(2000)53 and C-M(2005)0057. The DCPS aims to provide retirement benefits for NATO staff who are employed for the minimum six-year vesting period and to make cash payments to staff who leave before satisfying the vesting requirement. All new entrants recruited on or after 1 July 2005 are compulsorily affiliated to the NATO DCPS.

The DCPS is a cash purchase pension scheme. Both staff and NATO contribute to the Scheme. There is no long term liability for NATO related to the DCPS.

An account is opened for each member of the Scheme. Contributions are invested according to the member's instructions within the eleven funds currently available, described below. Members can check the status of their accounts and give instructions via a secure web portal.

Upon departure, the member's account is disinvested. Until 20 December 2012, the effective date of changes to related NATO Civilian Personnel Regulations (CPR), if the member had vested in the Scheme and was at least 50 years old, the member could take up to 25% of the proceeds as a cash lump sum and the balance had to be applied to the purchase of a retirement pension from a commercial provider. In 2009, the vesting period was five years; in 2010 the vesting period was increased to six years. Members who leave the NATO employer prior to vesting withdraw the entire proceeds as a cash lump sum.

On 20 December 2012 the NATO Council approved a number of changes to the rules which provide more choice and flexibility for affiliates regarding their retirement benefits. The upper and lower limits on ages at which affiliates could take benefits were abolished. The lump sum is no longer restricted to those aged 50 or over and is no longer limited to 25%. Affiliates leaving the DCPS may take any percentage of their holdings in cash. Affiliates' accounts no longer have to be closed when they reach 65. Affiliates may remain indefinitely as passive investors, with no further investments or switches until full disinvestment, beyond the age of 65.

As at 31 December 2018, there were 3,974 NATO DCPS affiliates (members). Note 21 provides a summary of the evolution of the membership since inception.

Financing

Staff make a compulsory contribution of 8% of basic salary to the Scheme. Staff may make additional voluntary contributions to the Scheme up to 5% of basic salary. NATO pays employer contributions of 12% of basic salary of each active scheme member. Contributions to the DCPS are part of pay and are made monthly.

Scheme members may, under certain circumstances, transfer into their DCPS account any amounts corresponding to pension rights accrued under the pension scheme to which they were previously affiliated.

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Governance

The DCPS is administered in accordance with NATO Civilian Personnel Regulations (CPRs), Annex VI, governing the DCPS approved by the Council under C-M(2005)0057.

The Secretary General is responsible for the administration and management of the Scheme, assisted by a consultative committee, the DCPS Management Board, whose Chairman is appointed by the Secretary General.

The committee also includes: seven representatives of the Administrative Services for the International Staff, the International Military Staff, the NATO Standardization Agency and the NATO Defence College, the Assistant Secretary General (ASG) Executive Management and the Financial Controller of the International Staff or their representatives; two representatives of the Administrative Services for the NATO Production and Logistics Organisations and other bodies not listed above; a representative from SHAPE J1 Manpower and Personnel, and the Financial Controller, Allied Command Operations, or their representatives; one representative from the Administrative Services of a NATO military body in Allied Command Transformation; six representatives nominated by the Confederation of NATO Civilian Staff Committees from among the members of the Scheme. At least one representative shall be a member of the NATO International Staff; one representative of retired NATO staff nominated by the Confederation of NATO Retired Civilian Staff Associations.

The Assistant Secretary General for Executive Management was appointed Chairperson of the DCPS Management Board in late 2010.

The members of the DCPS Management Board, who are also NATO staff members, receive no additional remuneration or benefits in return for their participation.

Investments

The Management Board oversees the investment options of the Scheme.

Members of the NATO DCPS invest in their choice of several funds, consisting of equity, bond and cash funds. Investments are made in units in the respective funds; the unit price fluctuates according to its market value. Four additional investment funds, passively-managed (indexed) funds offered by Vanguard were selected by the NATO Contract Awards Committee in consultation with the DCPS Management Board in November 2013 and became available to DCPS affiliates in February 2014.

The funds are available in EUR and/or in USD as follows:

Equity Funds:	ISIN
Mellon Global Equity Portfolio EUR C	IE00B82M6789
Mellon Global Equity Portfolio USD C	IE00B7X4LZ98
Vanguard Global Stock Index Fund	IE00B03HD191
Vanguard Global Stock Index Fund	IE00B03HD209
Bond Funds:	ISIN
Mellon Global Bond Portfolio EUR C	IE0003932385
Mellon Global Bond Portfolio USD C	IE0003932492
Mellon Euroland Bond Portfolio EUR C	IE0032722484
Vanguard Global Bond Index Fund USD	IE00B18GCB14
Vanguard Euro Government Bond	IE0007472990
Cash Funds:	ISIN
Mellon Universal Liquidity Funds -	IE0032713202
BNP Paribas InstiCash Fund – EUR	LU0094219127

NATO shall not be held responsible for any losses on investments incurred by movement in the investment markets (Annex VI, Article 10.3 of the NATO Civilian Personnel Regulations).

Benefits

Benefits are paid for retirement, survivor and invalidity pensions. They are paid at the end of each month. The following table gives the number of beneficiaries per category of benefits.

at year end	Retirement	Survivor	Invalidity	Total
2013	4	3	3	10
2014	8	4	6	18
2015	8	5	7	20
2016	9	12	9	30
2017	10	12	10	32
2018	10	12	12	34

Retirement annuities received from commercial pension providers pending augmentation by the adjustment related to income tax and further transfer to the retired beneficiary are held in a separate bank account separate from that of the Investment element of the DCPS. The benefits received from the insurer pending augmentation by the adjustment related to income tax and further transfer to the survivor or disabled beneficiary.

Contributions, in the case of invalidity, are made to the DCPS and invested, until the beneficiary reaches retirement age. In the case of invalidity, contributions for medical insurance are also paid as required.

Transfers are made to the pension provider in order to purchase the annuity for members who leave the DCPS and take a DCPS retirement pension. This was also the case, until 1 July 2017, where funds were transferred to the insurance company for staff who died in service.

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Pension Adjustment

The Scheme is not subject to income tax under the terms of Articles IX and X of the Agreement on the Status of the North Atlantic Treaty Organization signed in Ottawa on 20 September 1951 (the Ottawa Treaty).

In accordance with Annex VI, Article 15 of the CPRs, beneficiaries are subject to tax by national authorities on their annuity receipts and receive an adjustment equivalent to 50% of the amount by which the recipient's pension would theoretically need to be increased, were the balance remaining after deduction of the amount of national income tax or taxes on the total to correspond to the amount of the pension calculated in accordance with the CPRs. This adjustment is paid out of the DCPS Retirement Pensions and Invalidity accounts (Annexes 3 and 4) and is funded by specific calls for contributions handled in the NATO Coordinated Pension Scheme accounts. Related information is disclosed in the Financial Statements of the NATO Coordinated Pension Scheme.

Amounts paid are disclosed in the Statement of Change in Net Assets.

Management of the DCPS

Previnet SPA (Italy) was selected as the Third Party Administrator of the DCPS at the introduction of the Scheme in July 2005, and has been administering the scheme on behalf of NATO since that date. Previnet is responsible for the individual accounts administration, benefit administration, reporting, customer services and maintenance of the DCPS web site with online facilities for the scheme members.

Previnet tracks contributions and individual holdings of scheme members. It also provides aggregate accounting data and investment instructions destined for NATO-IS and the Investment Managers.

NATO-IS Office of Financial Control (OFC) receives the monthly contributions from the various NATO body payroll centres in a custodial bank account and its bank converts the funds, based on the instructions prepared by the Scheme Administrator, into EUR or USD, as required, for the investment accounts. The OFC is responsible for transfer of the funds from the relevant bank account to the appropriate accounts with the Investment Managers, BNY Mellon, Vanguard and BNP Paribas, based on the Scheme Administrator's reconciliation of the global amount and validation of the amounts to be invested for each staff member.

NATO-IS Executive Management Human Resources Pensions Unit reconciles the number of units per member received from the Scheme Administrator against the leaving scheme members' accounts on the website. OFC then transfers the redemption/lump sum amounts according to the bank instructions provided by the leaving scheme members.

DCPS amounts redeemed for the purchase of pension annuities and amounts due from an outside insurer for invalidity pensions of former DCPS members are administered by the OFC. The member's holdings are transferred to the relevant pension provider when a leaving DCPS member has instructed NATO to purchase an annuity. OFC also transfers monthly invalidity pensions and the adjustments related to income tax to former DCPS members who qualify.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

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

Declaration of conformity

The financial statements of the NATO DCPS have been prepared in accordance with the NATO Financial Regulations and International Accounting Standard 26, "Accounting and Reporting by Retirement Benefit Plans". The NATO Accounting Framework, which is an adapted version of the International Public Sector Accounting Standards (IPSAS), does not have a specific standard for accounting and reporting by retirement benefit plans.

The accounting system currently used by the NATO DCPS is accrual based.

Basis of presentation

The financial statements have been prepared on a going-concern basis: the DCPS will continue in operation for the foreseeable future.

The amounts shown in these financial statements are presented in EUR.

Changes in accounting policy - Reclassification of financial statements of previous years

None in 2018.

Restatement of financial statements of previous years

None in 2018.

Use of estimates

In the application of accounting policies, described below, management is required to make judgments, estimates and assumptions about carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Foreign currency transactions

Contributions are made in the currency of the respective payroll centre. Investments are made in USD and in EUR as chosen by the scheme member. NATO Parity Rates do not apply to purchases or sales in the DCPS. All bank transactions are processed at the market rate. Contributions received in currencies other than EUR and USD are converted in the latter at investment dates and payments to the Investment Managers are made in EUR and USD. Balance sheet amounts at year-end are reported using the NATO Parity Rates in effect on 31 December.

Cash and Cash Equivalents

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

Investments

Investments reported under these DCPS financial statements consist of equity funds, bond funds and cash funds. These investments are non-current assets with respect to the purpose of the DCPS.

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Investments are recorded at market value on the reporting date.

Receivables

Receivables are stated at net realisable value. No allowance for loss is recorded for receivables relating to NATO bodies' statutory contributions.

Payables

Payables are amounts due to third parties based on services provided that remain unpaid. This includes, as required, an estimate of accrued obligation for services provided but not yet invoiced.

Net Assets

The net assets available at year-end correspond to investments at market value plus receivables and contributions awaiting investment less payables. Also included are interest earned on the custodial bank account, surpluses gained on transactions with the insurance company and miscellaneous gains and losses related to corrective transactions

Financial Risks

The DCPS uses only non-derivative financial instruments as part as its normal operations. These financial elements include cash, investment funds, bank accounts and accounts receivable.

All financial instruments are recognised in the statement of financial position at their fair value.

The DCPS is exposed to a variety of financial risks, including credit risk, market (price) risk and liquidity risk. The maximum exposure as at year end is equal to the total amount of bank balances and receivables. NATO shall not be held responsible for any losses on investments incurred by movement in the investment markets (Annex VI, Article 10.3 of the NATO Civilian Personnel Regulations).

Credit risk

The DCPS incurs credit risks from cash and cash equivalent held with banks and receivables. There is very limited credit risk associated with the realization of these elements.

Concerning cash and cash equivalent the DCPS 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 01/03/2019

ING Bank	Fitch	Moody's	S&P
Short term	F1	P1	A-1

Concerning receivables, the credit risk is managed by maintaining control procedures over receivables. These consist essentially of contributions due by NATO bodies' payroll centres. This risk is considered limited since these bodies are primarily funded by member nations which are considered creditworthy.

Price risk

The DCPS individual member holdings are exposed to equity and bond securities market risk. NATO shall not be held responsible for any losses on investments incurred by movement in the investment markets (Annex VI, Article 10.3 of the NATO Civilian Personnel Regulations).

In cases of death in service, the insurance company who will provide the survivor's annuity has a claim on the proceeds of the redemption of the affected member's holdings in an amount equal to the lesser of the member's holdings on 31 October of the previous year or the insurer's previously established cost of that annuity. While there have been no shortfalls to date, there is a risk that the value of available holdings on the date of transfer to the insurance company could be less than that of the preceding 31 October. This resulted in the available amounts being higher. The surplus is kept on a suspense account and forms part of the net assets. This provision in the insurance contract was deleted with effect as from 1 July 2017 and therefore this risk which existed in the course of the year no longer exist from that date that date. The proceedings are paid to the person designated by the staff member.

Currency risk

The DCPS is exposed to a limited foreign currency exchange risk arising from fluctuations in currency rates. The contributions received in various currencies are converted into EUR or USD as required by the members' investment decisions. The converted amounts are invested in funds held in EUR or USD accordingly. With regards to benefits there is a limited currency risk since payments are sometimes made in another currency than the amounts received from the insurer or the annuity provider.

Liquidity risk

A liquidity risk could arise from a short term liquidity requirement in relation to amounts due to departing staff. There is a very limited exposure to liquidity risk because the amounts due to departing staff are equal to their holdings, and because amounts transferred to the investment manager are equal to the contributions received from the payroll centres of NATO bodies which receive resources from member states funding the related budgets, or income from their customers which generally are other NATO bodies funded through their approved budgets.

There is a limited liquidity risk in relation to the payment of annuities to eligible members. These transactions are handled on bank accounts separate from those used for investments and disinvestments. Amounts due by the insurers arrive later than when annuities are due to members. Pension Adjustment is paid in advance from contributions due by the Coordinated Pension Scheme. This situation is managed through cash advances from the NATO International Staff (EUR 200,000 end 2017, EUR 320,000 end 2018).

Interest rate risk

The DCPS is restricted from entering into borrowings.

A portion of DCPS is invested in bond funds. The market value of bonds fluctuates according to market perception of the issuer's creditworthiness and to projected interest rates. The value of DCPS individual member accounts is therefore subject to some interest rate risk.

NOTE 3: CASH AND CASH EQUIVALENTS

The various NATO entities pay their contributions into a custodial account. This account serves to effect the transfer of funds to be invested by the Investment Manager and to receive

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redemptions for departing staff. The total mainly corresponds to contributions received in December and awaiting transfer to the Investment Managers.

Separate bank accounts are held for transactions relating to the payment of pension and invalidity benefits.

NOTE 4: FUNDS HELD BY THE INVESTMENT MANAGER

BNY Mellon is the Investment Manager first six funds listed below; BNP Paribas Investment Partners manages the BNP Paribas InstiCash Fund in Euro; Vanguard Asset Management manages the four index funds.

NATO DCPS holdings at market value		NPR at 31 12.2018=	1.1538	
		203	18	2017
Equity Funds:	ISIN	EUR or EUR equivalent of USD	USĐ	EUR
Mellon Global Equity Portfolio EUR C	IE00B82M6789	187,417,725.62		191,933,102.34
Mellon Global Equity Portfolio USD C	IE00B7X4LZ98	16,992,660.25	19,606,131.40	
Vanguard Global Stock Index Fund EUR	E00B03HD191	28,735,381.03	15,000,131.40	21,363,661.21
Vanguard Global Stock Index Fund USD	IE00B03HD209	9,858,996.95	11,375,310.68	7,812,590.19
Bond Funds:				
Mellon Global Bond Portfolio EUR C	IE0003932385	24,166,759.34		21,875,553.40
Mellon Global Bond Portfolio USD C	IE0003932492	4,090,688.14	4,719,835.98	3,686,442.72
Mellon Euroland Bond Portfolio EUR C	IE0032722484	12,066,192.23		12,427,228.25
Vanquard Global Bond Index Fund USD	IE00B18GCB14	3,349,191.08	3,864,296.67	2,232,949.64
Vanguard Euro Government Bond Index Fund EUR	IE0007472990	8,347,949.08		5,821,423.35
Cash Funds:				
Mellon Universal Liquidity Funds – Liquidity Plus USD	IE0032713202	F 024 FOF 07	6.043.675.00	
BNP Paribas InstiCash Fund – EUR	LU0094219127	5,931,595.87	6,843,875.32	3,807,905.67
	20000-218121	102,285,876.73		85,405,325.27
TOTAL		403,243,016.33		373,126,531.89

Unrealized Gain/Loss in Market Value of Investments

Unrealized gains and losses in the market value of investments vary according to the volume of contributions invested, redemptions, currency fluctuations, and changes in the unit prices of the investment funds.

Unit Price per Fund

New investments and redemptions may take place between the funds twice per month and the unit price for each fund fluctuates continuously. Income is therefore not reported by fund in absolute terms. The appropriate performance measure per fund is the unit price. The unit prices for each of the funds at year-end and the resulting annualized income per unit were as follows:

Unit Price per Fund as of 31 December				
		2018	2017	Annualized
Equity Funds:	ISIN			income
				per unit
Mellon Global Equity Portfolio EUR C	IE00B82M6789	1.078300	1.099100	-0.02
Mellon Global Equity Portfolio USD C	IE00B7X4LZ98	1.098200	1.171800	-0.07
Vanguard Global Stock Index Fund EUR	IE00B03HD191	21.790100	22.758800	-0.97
Vanguard Global Stock Index Fund USD	IE00B03HD209	25.025300	27.456100	-2.43
Bond Funds:				territoria de la composição de la compos
Mellon Global Bond Portfolio EUR C	IE0003932385	1.846900	1.788600	0.06
Melion Global Bond Portfolio USD C	IE0003932492	2.356000	2.388600	-0.03
Mellon Euroland Bond Portfolio EUR C	IE0032722484	1.122300	1.143500	-0.02
Vanguard Global Bond Index Fund USD	IE00B18GCB14	147.470400	145.308200	2.16
Vanguard Euro Government Bond Index Fund EUR	IE0007472990	223.692200	221.992700	1.70
Cash Funds:				
Mellon Universal Liquidity Funds – Liquidity Plus USD	IE0032713202	1,231496	1.208670	0.02
BNP Paribas InstiCash Fund – EUR	LU0094219127	139.290300	139.933000	-0.64

NOTE 5: RECEIVABLES

Receivables	1						
amounts in EUR		2018			2017		
	Investments	Benefits	Total	Investments	Benefits	Tota!	
Contributions from NATO bodies		•	-	0.10		0.10	
Reimbursement of Tax Adjustment Paid	-	95,008.26	95,008.26	-	212,426.37	212,426.37	
Insurer	6,000,000.00	13,272.29	6,013,272.29	6,000,000.00	29,156.87	6,029,156,87	
Beneficiaries		2,143.73	2,143.73		7,543.73	7,543.73	
Others			-	0.03	1.26	1.29	
Total	6,000,000.00	110,424.28	6,110,424.28	6,000,000.13	249,128.23	6,249,128.36	

Contributions for further investment are paid on a monthly basis by NATO bodies to the DCPS account. The process normally results in no such contributions receivable, or of limited amount, at year-end. Some transactions may still be pending regularisation.

An amount of EUR 6,000,000 is receivable from the insurance company further to an analysis covering the last years of the history of death in service risks in relation to premiums paid by the Organisation (see Note on Related Parties for details concerning the insurance premiums). For presentation purposes it has been attributed to the "Investments" segment. Concerning the future use of these funds, see Notes 6 and 16.

Tax adjustment payments are made to beneficiaries from the DCPS Benefits (Retirement, Invalidity and Survivor) accounts as an advance to be settled by the NATO Coordinated Pension Scheme budget which handles all tax adjustment operations NATO-wide and calls the related contributions by the nations concerned (i.e. in which the beneficiaries paid their income taxes). This resulted in amounts receivable from the NATO Coordinated Pension Scheme.

Amounts receivable from the insurer and the pension provider relate to individual cases to be settled.

Amounts receivable from beneficiaries relate to overpayment of specific allowances attached to their monthly benefits.

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NOTE 6: PAYABLES

Payables and Other Pa						
amounts in EUR	2018		2017			
	Investments	Benefits	Total	Investments	Benefits	Total
NATO International Staff		320,000.00	320,000.00		200,000.00	200,000.00
Departing Staff	291,709.22		291,709.22	412,600,62	,	412,600.62
Insurer		1,250.09	1,250.09	,	6,193.73	6,193.73
Others	1,726,106.09	9,644.80	1,735,750.89		44,443.52	44,443.52
Total	2,017,815.31	330,894.89	2,348,710.20	412,600.62	250,637.25	663,237.87

Payables to the IS correspond to cash advances made by NATO International Staff to allow for the timely payment of pension and invalidity benefits and tax adjustments. The outstanding amount of these advances at 2018 year end was EUR 320,000 (EUR 200,000 end 2017).

Payables to Departing Staff are transactions pending final payment.

In cases where overpayments were made to beneficiaries, these need to be reimbursed to the insurer.

Further to an analysis covering the last years of the history of death in service risks in relation to premiums paid by the Organisation during 2012-2015, a compensation of EUR 6 million at the NATO-wide level was agreed by the insurance company. End 2018, the NATO Secretary General decided that a fraction of this amount (EUR 1,726,106.09 presented in the table above as "Others") should be paid to NATO staff who were members of the DCPS during the period 2012-2015 in proportion to the contributions they made to the DCPS. Staff employed by NATO bodies and affiliated to the DCPS during the period 2012-2015 are therefore entitled to a payment to be made from the NATO DCPS accounts. Payment is planned to take place during 2019. A decision still has to be taken concerning the remaining amount of the compensation (See Note on Provisions).

Other payables and other current liabilities are essentially transactions to be regularised.

NOTE 7: SURPLUS

The custodial account also receives the proceeds of redeemed holdings of deceased DCPS affiliates. Until 1 July 2017, the insurance contract gave the insurer a claim on the proceeds of the redemption of the deceased member's holdings in an amount equal to the lesser of the member's holdings on 31 October of the previous year or the insurer's previously established cost of that annuity. To date, holdings on the date of transfer to the insurance company have been higher than the amount recorded as of the preceding 31 October, and the corresponding amount of EUR 80,016.59 (same as end 2017) kept on a suspense account. As from 1 July 2017, the related contract clause with the insurance company no longer applies.

There is also a surplus element resulting from cumulated interest earned on the custodial bank account, bank charges, from miscellaneous gains and losses on exchange rates and corrective investments effected by the third party administrator at the end of 2018 it amounted to EUR 138,912.69 (EUR 106,953.12 end 2017).

This surplus element has on occasion been used as a reserve to cover shortfalls of the sort described in Note 2 (Price Risk) or other miscellaneous expenses.

There is also an unrealised loss on exchange rates of EUR 138,074.86 (EUR 92,897.71 end 2017). Therefore the final surplus amount is EUR 837.83 (EUR 14,055.41 end 2017).

NOTE 8: CONTRIBUTIONS

A minimum of 8% is deducted from staff emoluments monthly and transferred to DCPS together with the NATO employers' contributions of 12% of emoluments. Staff may make additional voluntary contributions.

The increase in contributions is due to the combined effect of increasing membership and salary adjustments.

There is also an employer contribution to the DCPS, paid by the insurance company, for the cases of invalidity benefits.

NOTE 9: INWARD/OUTWARD TRANSFERS OF PENSION RIGHTS

The NATO Civilian Personnel Regulations (Annex VI, Article 6) provide that staff may, under certain circumstances, arrange for payment to the Organisation of any amounts corresponding to the retirement pension rights accrued under the pension scheme to which the staff member was previously affiliated in so far as that scheme allows such a transfer. These payments are called inward transfers.

Outward transfers are also allowed, in which cases the proceeds of ex-DCPS member's closed account are paid to the eligible pension scheme (CPR Annex VI, Article 11).

NOTE 10: TRANSFERS FROM INSURER AND ANNUITY PROVIDER

Transfers are received from the insurer in relation to amounts due to staff entitled to invalidity survivors' benefits (spouses and dependent children of serving staff who are DCPS members who die in service). As from 1 July 2017, the holdings of deceased DCPS members are no longer used to finance related insurance premiums.

NOTE 11: PENSION ADJUSTMENT

The Scheme is not subject to income tax under the terms of Articles IX and X of the Agreement on the Status of the North Atlantic Treaty Organization signed in Ottawa on 20 September 1951 (the Ottawa Treaty).

In accordance with Annex VI, Article 15 of the CPRs, beneficiaries are subject to tax by national authorities on their annuity receipts and receive an adjustment equivalent to 50% of the amount by which the recipient's pension would theoretically need to be increased, were the balance remaining after deduction of the amount of national income tax or taxes on the total to correspond to the amount of the pension calculated in accordance with the CPRs. This adjustment is paid out of the DCPS Benefits (Retirement Pensions, Invalidity and Survivor Benefits) account and is funded by one of two specific budgets approved by the North Atlantic Council, one from the Civil Budget and the other from the Military Budget. Related information is disclosed in the Financial Statements of the NATO Coordinated Pension Scheme.

NOTE 12: STAFF ACCOUNTS CLOSED

These correspond to accounts of former staff members leaving DCPS that are closed and the proceeds paid in whole or in part either to the former staff member or to an outside pension scheme.

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NOTE 13: TRANSFERS TO INSURER OR ANNUITY PROVIDER

These correspond to staff holdings transferred to the pension provider in order to purchase the annuity for members who leave the DCPS and take a DCPS retirement pension, or transferred to the insurer in case of death in service (this provision no longer applies as from 1 July 2017).

NOTE 14: PENSION, INVALIDITY and SURVIVOR BENEFITS

Benefits are paid for retirement, survivor and invalidity pensions. They are paid at the end of each month. The following table gives the number of beneficiaries per category of benefits.

at year end	Retirement	Survivor	Invalidity	Total
2013	4	3	3	10
2014	8	4	6	18
2015	8	5	7	20
2016	9	12	9	30
2017	10	12	10	32
2018	10	12	12	34

In case of invalidity an employer contribution is made to the DCPS holdings of the individual concerned.

NOTE 15: MISCELLANEOUS RECEIPTS AND EXPENSES

Miscellaneous receipts and payments correspond essentially to regularisations. For 2018, the payment to former DCPS affiliates during 2012-2015 in relation to the compensation described under Note 16 was booked under these items.

NOTE 16: PROVISION

Further to an analysis covering the last years of the history of death in service risks in relation to premiums paid by the Organisation during 2012-2015, a compensation of EUR 6 million at the NATO-wide level was agreed by the insurance company (See Note on Receivables). This was the original amount of the provision. End 2018, the NATO Secretary General decided that a fraction of this amount (circa EUR 1,7 million – see Note on Payables) should be paid to NATO staff who were members of the DCPS during the period 2012-2015 in proportion to the contributions they made to the DCPS. Staff employed by NATO bodies and affiliated to the DCPS during the period 2012-2015 are therefore entitled to a payment to be made from the NATO DCPS accounts. A decision still has to be taken concerning the amount remaining from the compensation (EUR 4,273,893.91), which is therefore stays recognised as a provision.

NOTE 17: CONTINGENT LIABILITIES

There are no material contingent liabilities arising from legal actions and claims that are likely to result in significant liability to the DCPS.

Adjustments related to income tax may be due to certain annuity recipients. The amounts are yet to be determined but the total of possible obligations relating to this item is not expected to be material.

NOTE 18: CONTINGENT ASSETS

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None to report.

NOTE 19: RELATED PARTY TRANSACTIONS

Members of the DCPS Management Board receive no additional remuneration or benefits in return for their participation. The Chairman of the Management Board is the ASG for Executive Management. The NATO-IS Financial Controller is a member of the Management Board.

NATO-International Staff, in particular Executive Management and the Office of Financial Control, are responsible for the day-to-day management of the DCPS. No management fees corresponding to the related costs are charged to the DCPS. In the global framework of the Administrative Support process, the NATO bodies are charged by the IS on a pro rata basis for these costs, including the fees paid to the Third Party Administrator. The related income of approximately EUR 360,000 per year reduces the contributions due from Nations to fund the NATO Civil Budget.

In 2016, additional cash advances were made by NATO International Staff to allow for the timely payment of pension and invalidity benefits, bringing the total amount advanced at 2018 year end to EUR 320,000 (EUR 200,000 end 2017).

Conversely, tax adjustment payments are made to beneficiaries from the DCPS Retirement and Invalidity accounts as an advance to be settled by the Defined Benefit Pension Scheme budget which handles all tax adjustment operations NATO-wide. This resulted in amounts receivable from the latter.

As provided for by the CPRs (Annex VI, articles 13 and 14), survivors' benefits for the surviving spouses and dependent children of serving staff who die in service and invalidity benefits to serving staff are funded (partially for survivor benefits, totally for invalidity benefits) through the payment of insurance premiums which are paid directly by the NATO bodies to the insurance company and are not accounted for in the present financial statements. Insurance premiums paid for death in service benefits were EUR 3,664,782.27 (EUR 3,474,786.34 in 2017); insurance premiums paid for invalidity benefits were EUR 4,031,263.48 (EUR 3,822,430.78 in 2017).

The Scheme does not hold any securities of the employer sponsor or, directly, of its related parties.

NOTE 20: KEY MANAGEMENT PERSONNEL

For the purposes of these financial statements, Key Management Personnel are considered to be the NATO-IS Assistant Secretary General for Executive Management and the Financial Controller. Their remuneration is totally covered by the NATO International Staff.

Members of the DCPS Management Board do not receive any additional remuneration or benefits in return for their responsibilities. The Management Board is chaired by the Assistant Secretary General for Executive Management. The IS Financial Controller is a member of the Board.

NOTE 21: STATISTICAL INFORMATION

Ev		OCPS membershi	р
year-en	(number of	Affiliates)	
your on	2005	Joined	274
	2005	Exited	
year-end		Affiliates	274
your on	2006	Joined	527
	2006	Exited	-6
year-end		Affiliates	795
7	2007	Joined	501
-	2007	Exited	-23
year-end		Affiliates	1,273
	2008	Joined	511
	2008	Exited	-43
year-end	2008	Affiliates	1,741
	2009	Joined	443
	2009	Exited	-71
year-end	2009	Affiliates	2,113
	2010	Joined	477
	2010	Exited	-208
year-end	2010	Affiliates	2,382
	2011	Joined	454
	2011	Exited	-260
year-end	2011	Affiliates	2,576
	2012	Joined	274
	2012	Exited	-188
year-end	2012	Affiliates	2,662
	2013	Joined	310
	2013	Exited	-190
year-end	2013	Affiliates	2,782
	2014	Joined	433
	2014	Exited	-214
year-end	2014	Affiliates	3,001
	2015	Joined	345
	2015	Exited	-174
year-end	2015	Affiliates	3,172
	2016	Joined	454
	2016	Exited	-207
year-end	2016	Affiliates	3,419
	2017	Joined	469
	2017	Exited	-220
year-end	2017	Affiliates	3,668
	2018	Joined	547
	2018	Exited	-241
	2018	Affiliates	3,974
			3,517



NORTH ATLANTIC TREATY ORGANIZATION ORGANISATION DU TRAITÉ DE L'ATLANTIQUE NORD

INTERNATIONAL BOARD OF AUDITORS FOR NATO COLLÈGE INTERNATIONAL DES AUDITEURS EXTERNES DE L'OTAN



NATO UNCLASSIFIED

IBA-A(2019)0101-REV1 13 September 2019

To:

Secretary General

(Attn: Director of the Private Office)

Cc:

Financial Controller, International Staff

Chairman, Resource Policy & Planning Board

Branch Head, Secretariat and Finance Branch, NATO Office of Resources

Private Office Registry

Subject:

International Board of Auditors for NATO (IBAN) Auditor's Report and Letter of Observations and Recommendations on the audit of the Financial Statements of the International Staff (IS) for the year ended 31 December 2018 - IBA-AR(2019)0020-REV1

IBAN submits herewith its approved Auditor's Report (Annex 2) and Letter of Observations and Recommendations (Annex 3) with a Summary Note for distribution to the Council (Annex 1).

IBAN's report sets out an unqualified opinion on the Financial Statements of the International Staff and on compliance for financial year 2018.

Yours sincerely,

Dr. Hans Leijtens

Chairman

Attachments: As stated above.

ANNEX 1 IBA-AR(2019)0020-REV1

Summary Note for Council by the International Board of Auditors for NATO (IBAN) on the audit of the Financial Statements of the International Staff (IS) for the year ended 31 December 2018

The International Staff (IS) supports the work of the North Atlantic Council and its Committees. The total budgetary spend disclosed in the 2018 Financial Statements was EUR 208 million.

IBAN issued an unqualified opinion on the financial statements and an unqualified opinion on compliance. In addition, IBAN raised an Other Matter on Compliance disclosure.

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

The main findings are listed below.

- 1. Improvements required in the area of Risk Management, Internal Controls and Internal Audit.
- 2. Improvements needed in the Statement of Internal Control.
- 3. Year-end confirmations between NATO entities.

IBAN also followed up on the status of observations from previous years' audit and noted that ten were closed and three are still open.

The Auditor's report (Annex 2) and the Letter of Observations and Recommendations (Annex 3) were issued to the IS whose comments have been included, see the Appendix 2 to Annex 3.

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13 September 2019

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF

THE INTERNATIONAL STAFF (IS)

FOR THE YEAR ENDED 31 DECEMBER 2018

ANNEX 2 IBA-AR(2019)0020-REV1

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

Report on the Financial Statements

Opinion on Financial Statements

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of the International Staff (IS), for the 12 month period ended 31 December 2018. These Financial Statements comprise the Statement of Financial Position as at 31 December 2018, the Statement of Financial Performance, the Statement of Changes in Net Assets/Equity and the Statement of Cash Flow, for the 12 month period ended 31 December 2018, including a summary of significant accounting policies and other explanatory notes. In addition, the Financial Statements include a budget execution report for the 12 month period ended 31 December 2018.

In our opinion, the Financial Statements give a true and fair view of the financial position of IS as at 31 December 2018, and of its financial performance, its cash flows and budget execution for the 12 month period ended 31 December 2018, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework.

Basis for Opinion on the Financial Statements

In accordance with the NATO Financial Regulations (NFRs), external audit of the NATO bodies pursuant to the North Atlantic Treaty shall be performed by IBAN.

We have conducted our audit in accordance with the International Standards of Supreme Audit Institutions (ISSAIs 1000-1810) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

We are independent in accordance with the INTOSAI Code of Ethics and we have fulfilled our other ethical responsibilities in accordance with these requirements. The responsibilities of the members of IBAN are more extensively described in the section «Auditor's Responsibilities for the Audit of the Financial Statements» and in our Charter. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's Responsibility for the Financial Statements

Management's responsibility for the financial statements is laid down in the NFRs. The Financial Statements of IS are drawn up in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework as approved by the Council. The Financial Controller is responsible for submitting the Financial Statements for audit to IBAN not later than 31st March following the end of the financial year.

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The Financial Statements are signed by the Head of the NATO body and the Financial Controller. In signing the Financial Statements, the Head of NATO body and the Financial Control confirm the establishment and maintenance of financial governance, resource management practices, internal controls and financial information systems to achieve the efficient and effective use of resources.

This confirmation covers the design, implementation and maintenance of internal controls relevant to the preparation and presentation of financial statements that are auditable and free from material misstatement, whether due to fraud or error. This also covers reporting on the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there are plans to liquidate the entity or to cease its operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

The objectives of the audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes an opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgement and maintain professional scepticism throughout the planning and performance of the audit. This involves taking into account Considerations Specific to Public Sector Entities. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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- Conclude on the appropriateness of the use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We are required to communicate with the bodies charged with governance, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our Independent External Auditor's Report is prepared to assist North Atlantic Council in carrying out its role. We are therefore responsible solely to the North Atlantic Council for our work and the opinion we have formed.

Report on Compliance

Opinion on Compliance

Based on the procedures we performed nothing has come to our attention, as part of our audit of the Financial Statements that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations.

Other Matter on Compliance

We draw attention to the fact that the IS is not fully compliant with the revised NATO Financial Regulations (NFRs), which were approved by NATO Council in 2015, nor with the Financial Rules and Procedures (FRPs) approved by the Budget Committee. These instances of non-compliance were raised during the audit of Financial Year 2018 and the audit of Financial Year 2017 (ref. IBA-AR(2018)0028), relating to risk management, internal control and internal audit. The requirements of the NFRs and FRPs related to risk management and internal control cover all parts of IS's operations, including but without clearly distinguishing, financial and budgetary matters related to the financial statements and whether funds have been properly used. This was not fully reflected in IS's Statement of Internal Control. Our opinion is not modified in respect of this matter.

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Basis for Opinion on Compliance

We have conducted our compliance audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 4000) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

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

Management's Responsibility for Compliance

All NATO staff, military and civilian, are obligated to comply with the NATO Financial Regulations, associated Financial Rules and Procedures and internal implementing directives. These include the NATO Civilian Personnel Regulations.

The Secretary General is responsible and accountable for sound financial management. The financial administration of NATO bodies must incorporate the principles of propriety, sound governance, accountability, transparency, risk management and internal control, internal audit, external audit, and fraud prevention and detection.

Auditor's Responsibilities for Compliance

IBAN's responsibility is to provide reasonable assurance about whether the financial statements as a whole are free from material misstatement. Additionally our Charter requires us to provide independent assurance and report annually to the North Atlantic Council about whether funds have been properly used for the settlement of authorised expenditure (propriety) and whether funds are spent in compliance with the regulations in force (regularity). Propriety relates to the observance of the general principles governing sound financial management and the conduct of public officials. Regularity concerns the adherence to formal criteria such as relevant regulations, rules and procedures.

This responsibility includes performing procedures to obtain independent assurance about whether funds have been properly used for the settlement of authorised expenditure and whether they have been used in compliance with the regulations in force. Such procedures include consideration of the risks of material non-compliance.

Brussels, 13 September 2019

Dr. Hans Leijtens Chairman

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13 September 2019

INTERNATIONAL BOARD OF AUDITORS FOR NATO

LETTER OF OBSERVATIONS AND RECOMMENDATIONS

FOR THE INTERNATIONAL STAFF (IS)

FOR THE YEAR ENDED 31 DECEMBER 2018

ANNEX 3 IBA-AR(2019)0020-REV1

Introduction

The International Board of Auditors for NATO (IBAN) audited the International Staff (IS) Financial Statements for the year ended 31 December 2018, and issued an unqualified opinion on the financial statements and an unqualified opinion on compliance. In addition, IBAN raised an Other Matter on Compliance disclosure.

Observations and Recommendations

IBAN's audit resulted in three observations and recommendations that do not impact the audit opinion.

- 1. Improvements required in the area of Risk Management, Internal Controls and Internal Audit.
- 2. Improvements needed in the Statement of Internal Control.
- 3. Year-end confirmations between NATO entities.

IBAN also followed up on the status of thirteen observations from previous years' audits and noted that ten were closed and three were still open.

IBAN also issued a Management Letter (reference IBA-AML(2019)0014) to the Head of the Private Office of the IS with eight observations for management's attention.

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OBSERVATIONS AND RECOMMENDATIONS

1. IMPROVEMENTS REQUIRED IN THE AREA OF RISK MANAGEMENT, INTERNAL CONTROL AND INTERNAL AUDIT

Reasoning

- 1.1 According to Article 11 of the NATO Financial Regulations (NFRs), the Heads of NATO bodies shall ensure that effective, efficient and economical risk management procedures are in place to support the achievement of objectives as set by the Nations. Risks to the achievement of these objectives shall be identified, assessed and mitigated.
- 1.2 Article XI of the Financial Rules and Procedures (FRPs) states that "the Head of the NATO Body shall ensure commitment to overall risk management and that all staff divisions are able to identify the key risks, evaluate the nature and extent of those risks and implement controls to mitigate the risks. The Financial Controller is responsible for financial risk management standards and an appropriate Internal Control Framework to be reviewed by the Internal Control Officer."
- 1.3 The NFRs Article 12 requires that the Heads of NATO bodies ensure that the necessary internal management functions are in place to support effective internal control. Internal control activities shall include periodic assessments and reviews of risks and the sound functioning of the internal control system. In order to meet the desired internal control standards the Financial Controller shall establish a system of internal financial and budgetary control, embracing all aspects of financial management.
- 1.4 According to paragraph 13.1 of the NFRs, all NATO bodies shall undertake internal audit activities in order to evaluate risk exposures and the effectiveness of internal controls in managing risk within the organisation's governance, operations and information systems.

Observations

- 1.5 We found that the IS has not fully implemented the new NFRs and FRPs. Considerable work has been done in terms of the identification of risks and in developing procedures to assess and mitigate those risks (Article 11) yet in certain areas there is still work in progress. This work started in 2016, but although separate risk registers have been developed for different areas these have not been consolidated yet. Therefore the risks at IS level cannot be fully assessed due to potential cross-functional interdependencies.
- 1.6 We acknowledge that improvements have been made regarding compliance with Article 12 of the NFRs on internal controls. The weaknesses that existed relating to controls to ensure the accuracy and reliability of accounting data were largely resolved. In addition, audit trails and the documentation supporting the disclosures in the financial statements have been developed although there are still improvements to be made.

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- 1.7 IBAN notes that the IS is in the process of adopting COSO principles as an Internal Control framework to assess its system of internal control against the requirements of FRP 12. The adoption of a specific framework is an important step forward and is essential in order to ensure and to clearly demonstrate to others that a complete system of internal control and risk management is in place. However, this framework has not been implemented yet.
- 1.8 Furthermore, because the IS has not fully implemented the new NFRs and FRPs in respect to risk management and internal control, the Internal Audit Service of the IS is not in position to evaluate, throughout the IS, the risk exposures and the effectiveness of internal controls in managing risk within the governance, operations and information systems as required by Article 13. In our opinion, these instances of non-compliance with the NFRs and the FRPs impact the user expectations related to accountability of IS.

Recommendation

- 1.9 IBAN recommends that, as a matter of priority, the IS ensure that it complies with all the requirements of the new NFRs and FRPs, namely on Risk Management and Internal Control. This should include, but not be limited to:
 - Completing the entity-wide risk management policy throughout the IS and developing a consolidated risk register covering all cross-functional interdependencies.
 - Assessing and documenting the system of internal control and risk management to support compliance with the NFRs and FRPs.
 - Performing audits by the Internal Audit Service in view of evaluating the appropriateness, quality and effectiveness of internal control and risk management throughout the IS.

2. IMPROVEMENTS NEEDED IN THE STATEMENT OF INTERNAL CONTROL

Reasoning

- 2.1 In accordance with Article 3.1 of the NFRs, Heads of NATO bodies are responsible and accountable for sound financial management and shall put in place the necessary governance arrangements to ensure and maintain this. This shall include, but is not limited to, the establishment and maintenance of financial governance, resource management practices, internal controls and financial information systems to achieve the efficient and effective use of resources.
- 2.2 Article 3.2 of the NFRs states that "The adherence to article 3.1 is confirmed annually by signature of the Financial Statements and Statements of Internal Control. Both documents should be signed by the Head of the NATO body and the Financial

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Controller."

- 2.3 The Statement on Internal Control is the means by which Management asserts its approach to, and responsibility for, risk management, internal control and corporate governance. It is also the vehicle for highlighting weaknesses which exist in the internal control system within the organisation. NATO bodies must provide assurance that they are appropriately managing and controlling the resources for which they are responsible. The SIC is an important accountability document in communicating these assurances to stakeholders. IBAN reviews the Statement on Internal Control to ensure that it is consistent with the auditors' knowledge of the entity.
- 2.4 According to Article 12 of the FRPs, the Statement of Internal Control shall include the following items:
 - a) Confirmation that an effective system of internal control is maintained and operated by the NATO entity;
 - b) Confirmation that the system of internal control provides reasonable assurance of the achievement of the following objectives: effectiveness and efficiency operations, reliability of financial information, and compliance with applicable rules and regulations;
 - c) Confirmation with regard to safeguarding of assets;
 - d) An evaluation as to the adequacy of the system of Internal Control in place;
 - e) Reference to the Internal Control framework used by the NATO entity for the assessment:
 - f) A summary of the review of the effectiveness of the system of internal control and on what information the assessment is based:
 - g) Areas of improvement of the system of Internal Control and an assessment of the possible impact of these weaknesses.

Observations

- 2.5 The NATO IS Statement on Internal Control (Appendix 1 to this Letter of Observations and Recommendations) includes the following:
 - Scope of responsibility;
 - Purpose of system of internal control;
 - Internal control framework;
 - Review of effectiveness;
 - Area of improvement.

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- 2.6 Under the heading Purpose of system of internal control, the Statement on Internal Control states that "a system of internal control was partially in place for the financial year ended 31 December 2018, and up to the date of the issuance of the Financial Statements". Under the heading Area of improvement, the Statement on Internal Control states that "the internal control system still relies greatly on the control environment, in particular on knowledge acquired and values shared by staff. In this context any existing point of failure could become an issue". These two statements do not provide a confirmation as required by article 12 of the FRPs or explicitly indicate when this is not possible.
- 2.7 The NATO IS Statement on Internal Control includes a confirmation that "the financial statements provide a true and fair value of the financial activities of NATO-IS for 2018". It also includes a confirmation that "Funds and assets held on behalf of Nations, in particular cash holdings, are preserved". Finally, this document states that "based on the information from these sources, Internal Control over financial reporting is adequate". However, IBAN considers that the content of the Statement on Internal Control does not comply with Article 12 of the FRPs because it does not fully cover the following items:
 - a) Confirmation that an effective system of internal control is maintained and operated by the NATO entity;
 - b) Confirmation that the system of internal control provides reasonable assurance of the achievement of the following objectives: effectiveness and efficiency operations, reliability of financial information, and compliance with applicable rules and regulations;
 - c) Confirmation with regard to safeguarding of assets;
 - d) An evaluation as to the adequacy of the system of Internal Control in place.
- 2.8 The Statement on Internal Control is a primary accountability document and a mandatory disclosure for all NATO entities in order to comply with the NFRs and FRPs.

Recommendation

2.9 IBAN recommends that NATO IS improve the Statement of Internal Control by ensuring that that it covers in a comprehensive manner all requirements of Article 12 of the Financial Rules of Procedures and explicitly discloses when a confirmation is not possible.

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3. YEAR-END CONFIRMATIONS BETWEEN NATO ENTITIES

Reasoning

- 3.1 NATO bodies have significant transactions with other NATO entities. For example, NCIA or NSPA provide various services to IS and IS provides services to the IMS, delegations and other NATO bodies.
- 3.2 As a result of these transactions there are assets and liabilities outstanding between the NATO bodies at year end. These assets and liabilities are recorded in the respective NATO bodies' financial statements.

Observation

3.3 The IS seeks confirmation of specific end of year outstanding balances with other major NATO Bodies through meetings. However, IBAN found that the IS does not comprehensively and formally document the confirmation of outstanding year end assets and liability balances between the IS and other NATO bodies (NCIA, NSPA, IMS, etc.). Therefore, there is no certainty that the other NATO body will confirm the amount of outstanding balances.

Recommendation

3.4 IBAN recommends that the IS formalise effective procedures in order to document the confirmation of outstanding asset and liability balances it has with other NATO bodies as part of the preparation of the financial statements. In case of discrepancies, the IS should organise a reconciliation meeting with other NATO Bodies, in order to clarify any outstanding items.

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FOLLOW-UP OF PREVIOUS YEAR'S OBSERVATIONS

IBAN followed up on the status of observations from the previous years' audit. The observations, actions taken by the auditee as reviewed by IBAN, and their status are summarised in the table below.

OBSERVATION/RECOMMENDATION	ACTION	STATUS
(1) IS FY 2017 IBA-AR(2018)0028, paragraph 1.4		
NO RESTATEMENT OF COMPARATIVE 2016 FIGURES		Observation Closed.
Board's Recommendation The Board did not provide any recommendation following this observation but this led the Board to issue a qualified opinion on compliance.	No restatements were done in 2018.	
(2) IS FY 2017 IBA-AR(2018)0028, paragraph 2.3		
LATE ISSUANCE OF FINANCIAL STATEMENTS		Observation Open .
Board's Recommendation The late issuance of the financial statements resulted in a qualification on compliance for the 2017 IS Financial Statements.	The signed 2018 IS Financial Statements were not received by IBAN until 17 April 2019.	
(3) IS FY 2017 IBA-AR(2018)0028, paragraph 3.4		
RESIDUAL UNRECONCILED CASH BALANCE		Observation Closed.
Board's Recommendation The Board recommends that the IS identifies the cause of the discrepancy in the Cash and Cash Equivalents disclosed and take the necessary corrective actions prior to production of the 2018 Financial Statements. However, if the IS determine and document that it not possible to identify the transactions that led to the discrepancy, the Board recommends that the IS write- off the residual unreconciled cash balance in accordance with the NFRs.	Residual Cash balance was written off.	
(4) IS FY 2017 IBA-AR(2018)0028, paragraph 4.6		
PROCUREMENTS CARRIED OUT BY UNAUTHORISED STAFF		Observation Closed.
Board's Recommendation The Board recommends the IS ensure that unauthorised purchases are avoided in future, for	No incidences found in 2018.	

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OBSERVATION/RECOMMENDATION	ACTION	STATUS
example by issuing a reminder to all staff that only authorised staff members may carry out procurement functions.		
(5) IS FY 2017 IBA-AR(2018)0028, paragraph 5.9		
IMPROVEMENTS REQUIRED in the AREA OF RISK MANAGEMENT, INTERNAL CONTROL AND INTERNAL AUDIT		Observation Closed.
Board's Recommendation The Board recommends that, as a matter of priority, the IS ensure that it complies with all the requirements of the new NFRs and FRPs. This should include, but not be limited to:	Observation superseded by current year Observation 1.	
a) Preparing an entity-wide risk management policy throughout the IS and developing risk registers throughout all IS divisions.		
 b) Assessing and documenting the system of internal control and risk management to support compliance with the NFRs, FRPs and the internal control framework that the IS chooses. 		
c) Choose a specific internal control framework that the IS will use to assess its system of internal control.		
The Internal Audit Service of the IS perform activities that fully evaluate internal control and risk management throughout the IS, and that this work be clearly documented so as to be able to conclude as to the IS's compliance against the new NFRs and FRPs.		
(6) IS FY 2016 IBA-AR(2018)40, paragraph 2.2		
ERRORS IN THE CASH FLOW STATEMENT		Observation Open.
Board's Recommendation The Board recommends that the IS ensure that the Cash Flow Statements is arithmetically correct, complies with IPSAS 2, and can be reconciled to movements on the Statements of Financial Position and Performance.	The cash flow statement was arithmetically correct and was fully reconciled to the statements of Financial Position and Performance. However, some of the disclosures relating to movements on the Statement of Financial Position were described incorrectly.	

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OBSERVATION/RECOMMENDATION	ACTION	STATUS
(7) IS FY 2016 IBA-AR(2017)40, paragraph 3.7		
INCOMPLETE RECONCILIATION OF COMMITMENTS CARRIED FORWARD		Observation Closed.
Board's Recommendation The Board recommends that the IS provide an explanation for the difference between the carry forwards of commitments from 2015 into 2016. In addition, the Board recommends that the IS ensure its 2017 Financial Statements disclose commitments carried forward correctly.	The difference between the carry forwards of commitments from 2015 into 2016 was not explained, but this has no impact on the 2018 Financial Statements. No significant differences were found related to amounts carried forward and their disclosure in the 2018 Financial Statements and 2017 comparative figures.	
(8) IS FY 2015 IBA-AR(2017)04, paragraph 4.3		
CARRY FORWARD OF COMMITMENTS BASED ON PURCHASE REQUISITIONS INCREASES THE RISK OF NON-COMPLIANCE AND OF MISSTATEMENT		Observation Closed.
Board's Recommendation The OFC examine, with the programmes, the implementation of future work flows that ensure that the norm is to use POs to create liabilities and form the basis of carry forwards so that the use of PRs is strictly limited to cases where there is an operational necessity. In cases where PRs are carried forward, controls, including monitoring, should be put in place and clearly documented.	The OFC has coordinated with the programmes in order to limit the use of Purchase Requisitions to cases where there is a documented operational necessity. Further to that, no significant cases of undocumented Purchase Requisitions were found as a basis for creating a liability.	
(9) IS FY 2015 IBA-AR(2017)04, paragraph 4.4		
MATCHING INVOICES TO PURCHASE ORDERS AND THE DELIVERY OF GOODS AND SERVICES		Observation Closed.
Board's Recommendation Similar to the recommendation on PR approval, the Board Recommended that implementation of future work flows ensure that the norm is to use POs to create liabilities and to restrict the use of PRs to those cases where it is absolutely necessary. In addition, OFC should use three-way matching wherever possible and practical, and the situations where two-way matching is permissible	The OFC uses three-way matching as a principle. When two-way matching occurs, this is identified by the OFC, communicated to the department concerned and monitored accordingly.	

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OBSERVATION/RECOMMENDATION	ACTION	STATUS
should be identified and documented, and subsequently monitored.		
(10) IS FY 2015 IBA-AR(2017)04, paragraph 5.2		
LACK OF PERIODIC REVIEW OF USER ACCESS RIGHTS		Observation Closed.
Board's Recommendation The IS develop documented procedures that set up formal channels of communication to ensure the CC is aware of staff members who have transferred between departments. In addition, a periodic review of users and their responsibilities should be set up to ensure the appropriate roles and responsibilities are assigned to the correct staff. Further, users should have access end dates assigned according to the duration of their contract.	Every month, a report of staff movements is prepared by Human Resources and communicated to all concerned departments. In the case where a staff member leaves or transfers to a different division, IS is therefore aware of these changes, and updated user access rights are then recorded in the ERP. User access rights are not assigned according to the duration of a staff contract. However, when a staff leaves or transfers to another division, access rights are systematically updated.	
(11) IS FY 2015 IBA-AR(2017)04, paragraph 5.3		
THE USE OF THE 'SWITCH USER' FUNCTION NEEDS TO BE MONITORED		Observation Closed.
Board's Recommendation The IS put controls in place to ensure that the use of the 'switch user' function is strictly controlled and monitored to ensure that it is only ever used in the appropriate circumstances. This could take the form of a periodic report that shows clearly who has used it, when it was used and for what purpose. The limitations on the use of the 'switch user' function, and the related controls, should be clearly documented.		

ANNEX 3 IBA-AR(2019)0020-REV1

OBSERVATION/RECOMMENDATION	ACTION	STATUS
(12) IS FY 2013 IBA-AR(2014)19, paragraph 6		
CONFIRMATION OF YEAR-END ASSETS AND LIABILITIES OUTSTANDING BETWEEN NATO ENTITIES		Observation Closed.
Board's Recommendation The Board recommended that the IS, as from 2014, to confirm outstanding asset and liability balances it has with other NATO bodies as part of the preparation of the financial statements.	The IS did not confirm outstanding year-end asset and liability balances with all other NATO entities as part of its preparation of its 2018 financial statements. However, balances were confirmed with NCIA with whom the IS does a significant amount of business. Observation superseded by current year Observation 6.	
(13) IS FY 2010 IBA-AR(2012)08, Paragraph 5.2		
ACCOUNTING FOR FUNDS RELATING TO THE FORMER NATO HAWK PRODUCTION AND LOGISTICS ORGANIZATION		Observation Open.
Board's Recommendation The Board recommends that the IS determine the best method to account and disclose the assets and liabilities and movement of funds during the year of the former NHMO.	The amounts to be settled with the Nations were established and are disclosed within the IS accounting system. However, formal final financial statements have yet to be produced so that the amounts owed to Nations can finally be settled.	

The Open status is used for recommendations that are open and for which no notable progress has been achieved to date. The In-progress status is used for open recommendations when the NATO Body has started to implement the recommendation or when some (but not all) sub-recommendations are closed. The Closed status is used for recommendations that are closed because they have been implemented, are superseded, or have lapsed.

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International Staff
Office of Financial Control

Secrétariat International Bureau du Contrôle financier

NATO UNCLASSIFIED

9 April 2019 FC(2019)0054

From:

NATO Secretary General

Financial Controller, NATO International Staff

Subject:

Statement on Internal Control NATO International Staff 2018

Scope of responsibility

Attached are the un-audited NATO International Staff (NATO-IS) financial statements for 2018 which have been prepared under our responsibility.

In accordance with the new NATO Financial Regulations, the present Statement on Internal Control accompanies the NATO International Staff (NATO-IS) financial statements for 2018.

As NATO Secretary General, I am responsible for administration of a system of internal control that contributes to the objective of effective and efficient operations in support of the NATO-IS mission.

As Financial Controller, I have responsibility for administration of the financial control system that supports the achievement of the NATO-IS' mission. I am personally responsible for the correct use of all international appropriated funds made available to the Organization.

It is our responsibility to ensure that an effective system of internal control is maintained and operated by NATO International Staff (IS). The system is applied to several NATO budgets and entities for which the IS manages the budget and financial operations and in particular for the NATO-IS.

The NATO-IS internal control system is designed to manage rather than eliminate the risk of failure to achieve the Organisation's mission; it can therefore only provide reasonable and not absolute assurance of effectiveness.

Purpose of the system of internal control

The system of internal control is designed to support the NATO-IS mission by providing reasonable assurance of the achievement of objectives in terms of: the effectiveness and efficiency operations, the reliability of financial information, and compliance with applicable rules and regulations. This includes safeguarding the Organisation's funds and assets.

The system of internal control is an ongoing process designed to identify the principal risks to the achievement of the NATO-IS mission, to evaluate the nature and extent of those risks, and to manage them efficiently, effectively and economically. This process was partially in place for the financial year ended 31 December 2018 (see below), and up to the date of the issuance of the Financial Statements.

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Internal control framework

The key elements of the internal control system include:

- NATO Financial Regulations and the Financial Rules and Procedures for the International Staff,
- Civilian Personnel Regulations,
- the NATO Code of Conduct,
- the Objective Based Budgeting system for the Civil Budget,
- the Civil Budget Medium Term Financial Plan,
- the International Staff Procurement Manual,
- the NATO International Staff IT financial and budgeting systems,
- segregation of duties between the functions of budget holder, approving officer, accountant and treasurer; and between requestors and procurement officers,
- management supervision and a system of delegation,
- · an internal audit function,
- annual accounts and budget reporting.

Review of effectiveness

Our review of the effectiveness of the system of internal control over financial reporting is informed by the work of the Office's internal auditors, by the executive managers within the Organization who have responsibility for the development and maintenance of the internal control framework, and by the decisions and recommendations of the Budget Committee, as well as the Resource Policy and Planning Board. Our review is also informed by the activity of the Contracts Awards Committee and feedback from the managers in the Office of Financial Control in charge of control functions.

It also relies on observations made by the external auditors in their reports, not only relative to the NATO International Staff but also to other entities for which the IS Office of Financial Control exercises similar functions.

Observations made by IBAN up until the last audited financial statements have been taken into account. IBAN observations on other financial statements issued by the IS OFC are taken into account because the related internal control system is very similar.

The review also relies on the set of risk assessments conducted for miscellaneous projects and activities. Although this cannot be considered as an enterprise risk management framework, it introduces an increasing degree of management control over important projects conducted by the NATO International Staff.

Based on the information from these sources, internal control over financial reporting is adequate. There is however an issue which needs to be addressed.

Area for improvement

The issues raised in the previous Statements of Internal Control relating to the implementing issues of the Enterprise Resource Planning (ERP) system have largely been resolved. Issues encountered have been identified and most have been settled during 2017 and 2018. It is considered that the ERP has now reached a stable and reliable point and that staff can use the system in an effective way. The ERP has allowed for a substantial improvement in terms of segregation of duties. Further developments are in progress in particular in the area of Programme and Extra-Budgetary Funds management and of Human Resources.

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These financial statements are based on transactions recorded in the ERP. Significant improvements were achieved regarding accruals, cut-off, reconciliations, monthly closures, detailed reports and timelines for the issuance of the financial statements. The 2018 financial statements were issued in a timelier manner and cut-off issues are considered to be minimized, although this is an area where some progress still remains to be made at the level of funds managers. Data comparison between 2018 and 2017 should not be materially affected.

The internal control system still 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.

Our assessment is therefore that the internal control system over financial reporting in place during 2018 has continued to improve.

Any remaining issues had no material impact on the budgetary contributions called from Nations to fund the NATO Civil Budget. Funds and assets held on behalf of Nations, in particular cash holdings, are preserved.

In our opinion these financial statements provide a true and fair value of the financial activities of NATO-IS for 2018,

Jens STOLTENBER Secretary General Stéphane CHAGNOT Financial Controller

APPENDIX 2 ANNEX 3 IBA-AR(2019)0020-REV1

INTERNATIONAL STAFF (IS) FORMAL COMMENTS ON THE LETTER OF OBSERVATIONS AND RECOMMENDATIONS AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS

OBSERVATION 1:

IMPROVEMENTS REQUIRED IN THE AREA OF RISK MANAGEMENT, INTERNAL CONTROL AND INTERNAL AUDIT

International Staff's Formal Comments

The recommendation is agreed. The need for risk management at the IS enterprise level has been fully recognized by, and addressed in, the Functional Review (see PO(2018)0491 for instance). NATO-IS is in the process of establishing a High Level Risk Register at the enterprise level for review by senior management. Also an Office of Internal Audit and Risk Management was established as from January 2019 and an Internal Control Officer post created in the IS OFC.

OBSERVATION 2: IMPROVEMENTS NEEDED IN THE STATEMENT OF INTERNAL CONTROL

International Staff's Formal Comments

The NATO IS Statement of Internal Control attached to the financial statements is focused on the financial reporting process and safeguard of assets. In this respect the IS shares similar concerns as IBAN reported in IBA-M(2019)0001-REV1 paragraph 3.16. The recommendation is agreed.

OBSERVATION 3: YEAR-END CONFIRMATIONS BETWEEN NATO ENTITIES

International Staff's Formal Comments

The IS does seek confirmation of end of year outstanding balances concerning actuals with its major NATO interlocutors (NSPA, ACO and NCIA). Meetings are held and any differences assessed. IS agrees that this process is not totally documented and that it could be expanded to encumbrances, but there is a process in place. Presumably this recommendation would apply conversely to the other NATO bodies with whom the reconciliation of IS accounts is not done.

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NATO INTERNATIONAL STAFF FINANCIAL STATEMENTS

For the year ended 31 December 2018

Annexes	
1	Statement of financial position
2	Statement of financial performance
3	Cash flow statement
4	Changes in Net Assets
5	Budgetary execution statements
6	Explanatory notes to the financial statements

Jens STOLTENBERG Secretary General

Stephane CHAGNOT Financial Controller

ANNEX 1 to FC(2019)0053

NATO INTERNATIONAL STAFF Statement of financial position As at 31 December 2018

(All amounts in EUR)

	Notes	2018	2017
Assets			
Current assets			
Cash and cash equivalents	3	48,479,952.66	68,127,881.72
Short term investments Receivables	4	60,780,056.22	46,501,325.02
Prepayments	5 6	50,424,592.50 4,335,733.07	32,257,679,05
Other current assets	7	3,176,785.87	4,032,132.44 2,506,594.59
Inventories	8	360,288.07	426,745.39
	Ū	167,557,408.39	153,852,358.21
Non-current assets			
Receivables	9	0.00	0.00
Property, plant & equipment	10	938,775,632.90	1,581,046.01
Intangible assets	11	6,277,754.78	14,763,958.37
Other non-current assets	12	9,787,308.00	0.00
		954,840,695.68	16,345,004.38
Total assets		1,122,398,104.07	170,197,362.59
Liabilities			
Current liabilities			
Payables	13	31,549,390.01	24,740,862.72
Deferred revenue	14	66,476,633.99	51,381,017.24
Advances	15	55,855,550.79	53,188,515.08
		0.00	33,733,073.00
Short term provisions	16	68,692.00	0,00
Other current liabilities	17	22,533,263.67	23,984,283.52
		176,483,530.46	153,294,678.56
Non-current liabilities			
Payables	18	0.00	
Long term provisions	18	0.00	
Deferred revenue	19	945,053,387.68	16,345,004.38
Other non-current liabilities	20	0.00	0,00
		945,053,387.68	16,345,004.38
Total liabilities		1,121,536,918.14	169,639,682.94
Net assets	21		
Capital assets		0.00	
Reserves		0.00	
Current year Surplus / (Deficits)		303,506.28	298,672.87
		303,300.20	290,072.07
Accumulated surpluses / (deficits) prior year		557,679.65	259,006.78
Total net assets/ equity		861,185.93	557,679.65
		4011100.00	551,615.00
		 .	

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NATO INTERNATIONAL STAFF Statement of financial performance

As at 31 December 2018
(All amounts in EUR)

	Notes	2018	2017
Revenue			
Non exchange revenue	22	249,181,944.26	193,692,091.59
Exchange revenue	23	15,899,501.86	13,096,952.87
Other revenue	24	1,368,520.99	988,747.31
Financial revenue	25	398,177.18	399,290.73
Total revenue		266,848,144.29	208,177,082.50
Expenses			
Personnel	26	123,205,006.76	118,696,606.86
Contractual supplies and services	26	103,369,685.87	84,422,428.68
Depreciation and amortization	26	37,523,699.60	2,541,483.55
Impairment	26	5,251.84	24,070.42
Provisions	26	68,693.68	
Other expenses	26	1,978,249.59	1,814,363.87
Finance costs	25	394,050.67	379,456.25
Total expenses		266,544,638.01	207,878,409.63
Surplus/(Deficit) for the period	27	303,506.28	298,672.87

ANNEX 3 to FC(2019)0053

NATO INTERNATIONAL STAFF Statement of Cash Flow

As at 31 December 2018 (All amounts in EUR)

	Notes	2018	2017
One by State of State			
Cash flow from operating activities	28		
Surplus/(Deficit)		303,506.28	298,672.87
Non-cash movements		303,506.28	298,672.87
Depreciation/ Amortisation		37,523,699.60	2,541,483.55
Impairment			
Increase /(decrease) in payables		24,571,179.75	(7,733,314.46)
Increase/ (decrease) in other current liabilities		927,257,363.45	(10,426,950.00)
Increase/ (decrease) in provisions		68,692.00	(418,077.20)
(Gains)/losses on sale of property, plant and equipment			
Decrease/ (Increase) in other current assets		926,238,213.22	11,350,465.15
Decrease/ (Increase) in receivables		(18,404,056.76)	9,721,188.18
Decrease/ (Increase) in other non current assets		(938,495,691.30)	905,746.83
Net cash flow from operating activities		958,759,399.96	5,940,542.05
Cash flow from investing activities			
Purchase of property plant and equipment / Intangible assets		(964,432,104.14)	(1,550,639.40)
Proceeds from sale of property plant and equipment			
Net cash flow from investing activities		(964,432,104.14)	(1,550,639.40)
Cash flow from financing activities		**	-
Net cash flow from financing activities			
Net increase/(decrease) in cash and cash equivalents		(5,369,197.90)	4,688,575.52
		, , , , , , , , , , , , , , , , , , ,	.,,
Cash and cash equivalent at the beginning of the period	_	114,629,206.74	109,940,631.22
Cash and cash equivalent at the end of the period	-	109,260,008.88	114,629,206,74
	_		,

ANNEX 4 to FC(2019)0053

NATO INTERNATIONAL STAFF Statement of Changes in Net Assets/Equity

As at 31 December 2018

	(in EUR)
Balance at the beginning of the period 2017	259,006.78
Changes in accounting policy	
Restated balance	
Net (gains)/losses recognised directly in net assets/equity	
Exchange difference on translating foreign operations	
Gain on property revaluation	
Surplus/(deficit) for the period	298,672.87
Change in net assets/equity for the year ended 2017	298,672.87
Balance at the end of the period 2017	557,679.65
Balance at the beginning of the period 2018	557,679.65
Changes in accounting policy	
Restated balance	
Net (gains)/losses recognised directly in net assets/equity	
Exchange difference on translating foreign operations	
Gain on property revaluation	
Surplus/(deficit) for the period	303,506,28
Change in net assets/equity for the year ended 2018	303,506.28
Balance at the end of the period 2018	861,185.93

INTERNATIONAL STAFF Statement of Budget Execution as at 31 December 2018

(amounts in euro)	Initial Budget	Increase / Decrease	Revised Budget	Transfers	Frozen Budget	Final budget	Commitments	Expenses	Total spent	Carry forward	Special carry forward	Lapsed
CIVIL BUDGET												
Chapter 1	127,879,384.42	1,198,476.27	129,077,860.69	147,581.00	•	129,225,441.69	339,015.30	127,534,426.86	127,873,442.16	339,015,30	249.985.00	1.102.014 53
Chapter 2	68,480,609.00	(131,375.85)	68,349,233.15	(620,113.00)	•	67,729,120.15	1,830,852.84	55,247,923.44	57,078,776.28	1,830,852.84	4.127.699.76	6.522.644.11
Chapter 3	2,106,787.00	1,720,169.00	3,826,956.00	435,032.00	•	4,261,988.00	95,097.60	1,357,581.24	1,452,678.84	95,097.60	2,556,408.00	252,901,16
Chapter 4	23,822,210.00	(325,269.32)	23,496,940.68	37,500.00	•	23,534,440.68	3,056,625.10	18,823,383.85	21,880,008.95	3,056,625,10	543,200,00	1.111.231.73
Total FY 2018	222,288,990.42	2,462,000.10	224,750,990.52	•		224,750,990.52	5,321,590.84	202,963,315.39	208,284,906.23	5,321,590.84	7,477,292.76	8,988,791.53
CIVIL BUDGET												
Chapter 1	851,819,37		851,819.37	1	1	851,819.37	22,175.99	63,248,46	85,424,45	22.175.99	•	766 394 92
Chapter 2	1,742,098.92	•	1,742,098.92	•	•	1,742,098.92	46,954.25	245,194,79	292,149,04	46.954.25		1 449 949 BB
Chapter 3	654,148.01	•	654,148.01	3		654,148.01	154,351,55	491,880.76	646,232,31	154.351.55	2 1	7 915 70
Chapter 4	5,728,382.89	• :	5,728,382.89		1725	5,728,382,89	1,250,196,71	3,762,516,71	5,012,713,42	1,250,196,71	•	715 669 47
Total FY 2017	8,976,449.19	٠	8,976,449.19	•		8,976,449.19	1,473,678.50	4,562,840.72	6,036,519.22	1,473,678.50		2,939,929.97
CIVIL BUDGET												
Chapter 1	127,376.16	•	127,376.16	•	٠	127,376.16	•	59.02	59.02	1		127.317.14
Chapter 2	144,509.42	1	144,509.42	•	•	144,509.42	•	21,901.89	21,901.89	,		122,607,53
Chapter 3	15,046.19	•	15,046.19	•	•	15,046.19	•	•	•	•	1	15,046,19
Chapter 4	1,203,562.66	•	1,203,562.66	,		1,203,562.66	•	696,211.23	696,211.23			507,351.43
Total FY 2016	1,490,494.43		1,490,494.43			1,490,494.43	•	718,172.14	718,172.14	•		772,322.29
SPECIAL CARRY FORWARDS												
Chapter 1	3,014,312.15	•	3,014,312.15	•	,	3,014,312.15	83,207.10	1,687,864.84	1,771,071,94	83.207.10	778.354.00	464 RBG 21
Chapter 2	3,690,815.16		3,690,815.16	•	•	3,690,815.16	187,043.85	2,645,766.29	2.832.810.14	187.043.85	565.638.09	292,366,93
Chapter 3	6,778,535.88	•	6,778,535.88	•	٠	6,778,535.88	21,752,30	2.005,903,34	2.027.655.64	21 752 30	4 409 638 00	341 242 24
Chapter 4	732,813.43	•	732,813.43	•	•	732,813.43	8,399,99	641,913,06	650,313,05	8.399.99	75.586.00	6 914 38
Total SPECIAL CARRY FORWARDS	14,216,476.62	•	14,216,476.62			14,216,476.62	300,403.24	6,981,447.53	7.281.850.77	300,403,24	5.829.216.09	1.105.409.76

13,306,508.85 13,806,453.55

249,434,410.76 7,095,672.58 215,225,775,78 222,321,448.36 7,095,672.58

246,972,410.66 2,462,000.10 249,434,410.76

NATO INTERNATIONAL STAFF Statement of Budget Execution as at 31 December 2017

CIVIL BUDGET	Initial Budget	Increase / Decrease	Revised Budget	Transfers	Frozen Budget	Final budget	Commitments	Expenses	Total spent	Carry forward	Special carry forward	Lapsed
Chapter 1	126,686,242.54	(451,532.42)	126,234,710.12	(162,388.55)	•	126,072,321.57	851,819.37	123,103,284.64	123,955,104.01	851,819.37	736,338.00	1,380,879,56
Chapter 2	49,173,678.00	7,131,838.92	56,305,516.92	301,069.00	100,000.00	56,706,585.92	1,742,098.92	43,880,455.60	45,622,554.52	1,742,098.92	2,523,039,00	8,560,992.40
Chapter 3	4,325,596.00	673,690.13	4,999,286.13	(133,444.00)	•	4,865,842.13	654,148.01	660,180.58	1,314,328.59	654,148,01	3.429.110.00	122,403,54
Chapter 4	23,488,812.00	(585,394,46)	22,903,417.54	(5,236.45)		22,898,181.09	5,728,382.89	15,737,506.48	21,465,889.37	5,728,382.89	716,586.00	715.705.72
Total FY 2017	203,674,328.54	6,768,602.17	210,442,930.71	00.00	100,000.00	210,542,930.71	8,976,449.19	183,381,427.30	192,357,876.49	8,976,449.19	7,405,073.00	10,779,981.22
CIVIL BUDGET												
Chapter 1	586,661.08	•	586,661.08	1	*	586,661.08	127,376.16	210,693,62	338,069,78	127.376.16	•	248 591 30
Chapter 2	4,710,115.14		4,710,115.14	•		4,710,115.14	144,509.42	2,551,624,58	2.696,134,00	144,509.42		2 013 981 14
Chapter 3	1,023,195.92	•	1,023,195.92	•	•	1,023,195.92	15,046.19	863,729,99	878.776.18	15.046.19	•	144 419 74
Chapter 4	1,591,447.20	-	1,591,447.20	•	•	1,591,447.20	1,203,562,66	(455,928,92)	747,633,74	1.203.562.66	•	843.813.46
Total FY 2016	7,911,419.34	•	7,911,419.34	•		7,911,419.34	1,490,494,43	3,170,119.27	4,660,613.70	1,490,494.43		3,250,805.64
CIVIL BUDGET												
Chapter 1	249,760.61	•	249,760.61		•	249,760.61	24,892.66	49,917.03	74,809,69	24,892.66	•	174.950.92
Chapter 2	654,614.50	•	654,614.50	•	•	654,614.50	22,020,59	99,041.30	121,061,89	22,020,59	9.	533,552,61
Chapter 3	185,371.34	•	185,371,34	6	•	185,371,34	133,180,77	(21,819.65)	111,361.12	133,180,77		74 010 22
Chapter 4	129,447.28	•	129,447.28			129,447.28	4,749.25	(237,670.00)	(232,920,75)	4,749.25	•	362,368,03
Total FY 2015	1,219,193.73		1,219,193.73	•	•	1,219,193.73	184,843.27	(110,531.32)	74,311.95	184,843.27		1,144,881.78
SPECIAL CARRY FORWARDS												
Chapter 1	4,510,049.78	•	4,510,049.78	٠	•	4,510,049.78	3,720.49	2.011.433.30	2.015.153.79	3,720,49	2 249 360 55	245 535 44
Chapter 2	2,059,652.56		2,059,652.56	•	•	2,059,652,56	605,343.57	585,276.51	1,190,620,08	605.343.57	540.412.00	328 620 48
Chapter 3	5,091,667.57	•	5,091,667.57		•	5,091,667.57	1,656,453.11	819,725.99	2,476,179.10	1.656.453.11	1,559,792.00	1.055.696.47
Chapter 4	16,453,58		16,453,58	2		16,453.58	11,478.18	(14,237.09)	(2,758.91)	11,478.18	3	19.212.49
Total SPECIAL CARRY FORWARDS	11,677,823.49	,	11,677,823.49	•	•	11,677,823.49	2,276,995.35	3,402,198.71	5,679,194.06	2,276,995.35	4,349,564.55	1,649,064,88

16,824,733.52

11,754,637,55

224,482,765.10 6,768,602.17 231,251,367.27 0.00 100,000.00 231,351,367.27 12,928,782.24 189,843,213.96 202,771,996.20 12,928,782.24

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NATO PMIS Statement of Budget Execution As at 31 December 2018

Initial budget Transfers	ransfers	BA2	Transfers	BA3	Transfers	Transfers Final budget	Actuals	Carry forward	Lapsed
192,700	•	192,700	•	192,700	ı	192,700	185,956	•	6.744
302,179	1	302,179	•	302,179	1	302,179	275,477	1	26,702
	1		•	1	ı	•		ı	ı
494,879		494,879	•	494,879	В	494,879	461,433	,	33,446
ı	ı	•	•	•	•	1	1	,	•
1	ı	1	1	1	•	•	1	•	,
	,	1	-	-	1	1	•	1	•
	•	•	•		r			•	1
•	•	1	•	ı	1	:	1	1	,
1	•	1	t	ı	1	1	1	•	
	'	1	-	•	1	1	1	•	•
1	1	•	B			1	· 	•	1
494,879	1	494,879	•	494,879	-	494.879	461.433	•	33.446

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NATO PMIS Statement of Budget Execution As at 31 December 2017

(amounts in euro)	Initial budget	Transfers	BA2	Transfers	BA3	Transfers	Transfers Final budget	Actuals	Carry forward	Lapsed
PMIS										
Chapter 1	180,355	•	180,355	•	180,355	1	180,355	161,366	1	18,989
Chapter 2	258,693	,	258,693	1	258,693	•	258,693	233,443	•	25,250
Chapter 3	•		1	•	2	•	1		•	•
Total FY 2017	439,048	•	439,048		439,048		439,048	394,810		44,239
PMIS										
Chapter 1	£	1	•	•	31	•		•	C	
Chapter 2	X.16.7C	1	Е	•	•	ī	1	1	1	1
Chapter 3	-				'	-	•	ı	1	•
Total FY 2016						•	•	'	•	'
PMIS										
Chapter 1	ı	ı	•	,	•	1	1	,	,	1
Chapter 2	•	•	1	1	1	1	•	1	t	1
Chapter 3	•	1	,	1	ı	ı	•	1	•	•
Total FY 2015					1		1		•	1
Total all budgets	439 048		439 048		430 048		420 040	204 040		30077

NATO OSS Statement of Budget Execution As at 31 December 2018

Lapsed	50,141	50,141	492,202	492,202		1 1	1 1	EA2 242
Carry forward	1		•			1 1		
Actuals	351,859	351,859	,		,	1		351 859
Final budget	402,000	402,000	492,202	492,202	,	•		894.202
Transfers Frozen Budget Final budget	4 1				,	ı		•
Transfers			1 1		'	1 1		1
BA3	402,000	402,000	492,202	492,202	•	1 1	9	894,202
Transfers		1 1	1 1		1	1 1		
BA2	402,000	402,000	492,202	492,202	1	1 1		894,202
ncrease	1 1		1 1		1	ŧ 1	2	4
Initial budget Increase	402,000	402,000	492,202	492,202	1			894,202
(amounts in euro)	OSS Chapter 1 Chapter 2	Chapter 3 Total FY 2018	OSS Chapter 1 Chapter 2	lapter 3 tal FY 2017	OSS Chapter 1	apter 2 apter 3	tal FY 2016	Total all budgets

NATO OSS Statement of Budget Execution As at 31 December 2017

Transfers Frozen Budget Final budget Actuals Carry forward	000'006 000'006 -	000'006 000'006 -	492,202 993,369 450,898	492,202 993,369 450,898		1 1	1	492 202 1 893 369 1 350 898
BA3	900,006	000'006	501,167	501,167	,	1 1	8	1.401.167
BA2 Transfers	000'006	000'006	501,167	501,167		1 1		1.401.167
Initial budget Increase	000'006	000,006	501,167	501,167		1 1	8	1.401.167
Ini (amounts in euro)	OSS Chapter 1	Chapter 2 Chapter 3 Total FY 2017	OSS Chapter 1 Chapter 2	Chapter 3 Total FY 2016	OSS Chapter 1	Chapter 2 Chapter 3	Total FY 2015	Total all budgets

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EXPLANATORY NOTES TO NATO INTERNATIONAL STAFF 2018 FINANCIAL STATEMENTS

NOTE 1: GENERAL INFORMATION

NATO's essential purpose is to safeguard the freedom and security of its members through political and military means. Politically, NATO promotes democratic values and encourages consultation and cooperation on defence and security issues to build trust and, in the long run, prevent conflict. Militarily, NATO is committed to the peaceful resolution of disputes. If diplomatic efforts fail, it has the military capacity needed to undertake crisis-management operations. These are carried out under Article 5 of the Washington Treaty - NATO's founding treaty - or under a United Nations mandate, alone or in cooperation with other countries and international organizations.

The International Staff was created in 1951 to support the North Atlantic Council (NAC) (Council resolution D-D(51)30). The "Agreement on the Status of the North Atlantic Treaty Organization" defined its status, which National Representative and International Staff negotiated and signed in September of 1951.

The IS is an advisory and administrative body whose primary role is to support the national delegations of the 29 member states at NATO Headquarters. It produces policy papers, background notes and reports on issues relevant to NATO's political and military agenda and, in doing so, supports the process of consensus building and decision-making in the Alliance. The IS then helps to implement the decisions taken in NATO's committees and liaises closely with the nations and NATO's International Military Staff (IMS).

Headed by the Secretary General, the IS includes eight divisions, each headed by an Assistant Secretary General and a number of Independent Offices headed by Directors. Some 1,000 civilians work within the IS at NATO Headquarters in Brussels, Belgium. They owe their allegiance to the Alliance throughout the period of their appointment. They are either recruited directly by the Organization or seconded by their governments and each appointment is approved by the Secretary General.

The financial statements cover the budgetary and financial operations relating to the NATO International Staff (IS) budgeted and non-budgeted functions and programs.

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 which adapts a small number of IPSAS standards to better suit the specific requirements of the Alliance (as originally approved by nations under C-M(2013)0039 on 26 July 2013 and revised under C-M(2016)0023 on 29 April 2016) and with the NATO Financial Regulations (NFR) and respective Financial Rules and Procedures (FRP).

Basis of preparation

The financial statements have been prepared on a going-concern basis: NATO-IS will continue in operation for the foreseeable future.

The amounts shown in these financial statements are presented in EUR

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 2018 financial statements of the NATO-IS: IPSAS 5: Borrowing Costs

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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

Concerning IPSAS 6: Consolidated and Separate Financial Statements, the transactions concerning the NATO Staff Centre as it was managed on the premises of the previous NATO HQ up until August 2018 are not consolidated with those of the International Staff, as the IPSAS 6 "Consolidated and Separate Financial Statements" would require, but are reported separately in accordance with a specific NAC decision taken under C-M(20103)0054. The new management model adopted by Nations concerning Morale and Welfare Actitivies, in place from September 2018 further to the move to the new premises, requires consolidation within the NATO International Staff accounts.

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. To this end, the following segments have been adopted: Civil Budget, Reimbursable Expenses, Personnel Management Information System, Office of Shared Services, Extra-Budgetary Funds, Partners' Accommodation, Refurbishment of Building Z and, since September 2018, the Morale and Welfare Recreational Activities (MWR) (see above).

Changes in Accounting Policy

None to report.

Reclassification of Financial Statements of Previous Years

None to report. It should be noted, however, that a number of regularisations of transactions pertaining to previous years were done during 2018 to correct issues related to the first period of use of the new EPR system early in 2015, however this should not affect the comparability of information between financial years.

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. The same situation prevails for the other entities which are budget driven such as the Personnel Management Information System and the Office of Shared Services. 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 of the fiscal year.

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 limited in consideration of the level of the aggregated amount held in these accounts.

The maximum exposure as at year end 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 principally with ING Bank (Belgium) which has the following short term credit ratings:

Credit Ratings as at 01/03/2019

Short Term	Fitch	Moody's	S&P
ING Bank - Short term	F1	P1	A-1
Monte Paschi	В	Not rated	Not rated
Wells Fargo	F1	P1	A-2

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.

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This includes funds managed on behalf of third parties which are held in cash and are presented as a liability. They are accounted for when cash is effectively received.

b. 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.

c. 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. This item may include advances made to NATO staff in accordance with Civilian Personnel Regulations (such as advances on salaries or on education allowance).

d. Other Current Assets

Other Current Assets correspond to miscellaneous amounts due to NATO IS such as accrued income, rent related deposits, and other assets that do not result from the standard order to cash process, such as the counterpart of untaken leave, miscellaneous transactions to be regularized, including between entities managed by the IS Office of Financial Control, and advances made to non-consolidated NATO entities, generally in order to ease their treasury situation.

e. Inventories

As mentioned above, NATO's adaptations of IPSAS are spelled out in C-M(2016)0023 of April 2016, which included IPSAS 12 Inventories. Furthermore, C-M(2017)0043 of September 2017 approved the NATO Accounting Policy for Inventory.

When it comes to assessing the control of NATO Inventory, these documents define a set of 10 criteria to be used in assessing the level of control of an Inventory 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 capitalisation threshold. This is applied from January, 2013, under the initial NATO Accounting Framework C-M(2013)0039 of July 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.

Capitalisation thresholds relevant to the financial statement are as follow:

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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.

NATO IS may consider inventory acquired prior to 1 January 2013 as fully expensed. For inventory held prior to 1 January 2013, and not previously recognized as an asset, NATO IS will provide a brief description of inventory held within their inventory recording systems in the notes to the financial statements. Such disclosure will include as a minimum the types of inventories held, locations where inventories are held and the approximate number of items held per asset category. Where this adaptation conflicts with another requirement of IPSAS this adaptation shall apply. For the remainder, IPSAS 12 shall apply.

NATO IS assesses inventories under IPSAS 12. The outcome of this assessment is that the value of the inventories is immaterial both in value and in terms of the nature of the items held. Consequently, inventory is fully expensed on receipt. The materiality will be assessed each year.

Inventories relate to those across the IS HQ. Inventories in external offices abroad are not considered to be material.

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

a. Property, Plant & Equipment

As mentioned above NATO's adaptation of IPSAS are spelled out in C M(2016)0023 of April 2016 among which were specific items addressing IPSAS 17 PPE. Furthermore, C-M(2017)0022(INV) approved the NATO accounting policy for Property, Plant and Equipment.

When it comes to assessing the control of NATO over PPE these documents define a set of 10 criteria to be used in assessing the level of control of a tangible 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 capitalisation threshold. This is applied from January 2013, under the initial NATO Accounting Framework C-M(2013)0039 of July 2013

Capitalization thresholds relevant to the financial statement are as follow:

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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 move to the New NATO HQ in 2018, it has been decided, in general, that core PPE relating to the previous HQ and Building Z will be fully expensed as will any fixed equipment and furniture that is not to be transferred to the current HQ. Only movable items purchased with a view to being used again in the current HQ/Building Z environment will be capitalized.

Early 2019, the Budget Committee approved the write-off of all IS and IMS Furniture, Fixtures and Equipment left in the previous HQ further to the move to the new site (BC-D(20019)0034 (INV)).

Where and as appropriate, the value of 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 would not survive the move to the current NATO HQ in 2018, 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 are spelled out in C-M(2017)0023 of April 2013, which included IPSAS 31 Intangible Assets. Furthermore, C-M(2017)0044 approved the NATO accounting policy for intangible assets.

When it comes to assessing the control of NATO over Intangible Assets, these documents define a set of 10 criteria to be used in assessing the level of control of an Intangible 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 capitalisation threshold. This is applied from January 2013, under the initial NATO Accounting Framework C-M(2013)0039 of July 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

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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 and implementation, and can include both software and hardware elements. But NATO-IS will not capitalise the following types of intangible assets in its 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 assets held, locations where they 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. Pavables

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 need because NATO-IS has no capital that would allow it to prefinance 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. Advances made by contributing nations outside of the call for contributions process are recorded when cash is received.

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c. Other Current Liabilities

Amounts corresponding to the current year budgetary surplus (lapsed credits + net interest + miscellaneous income) are considered a liability towards the contributing nations. The settlement does not follow the normal accounts payable process, since the standard approach is to return them to contributing nations via a deduction of the following year's call for budget contributions. This liability is therefore classified under Other Current Liabilities.

This item may include other liabilities that do not result from the standard procure to pay process, such as miscellaneous transactions to be regularized between entities managed by the IS Office of Financial Control.

This item also includes the valuation of staff untaken leave.

Non-Current Liabilities

The long term unearned revenue is unearned revenue in relation to net carrying amounts of property, plant and equipment and intangible assets. Revenue is recognised over the estimated life cycle of the property, plant and equipment and the intangible assets.

Net Assets

Net Assets correspond to cumulative surpluses/deficits of non-budgetary activities such as Partner Accommodation where income follows a process that is relatively independent from the actual level of expenses, and does not automatically balance expenses as in the standard NATO budget process. For such activities, the yearly execution results in a surplus or a deficit.

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 from non-exchange transactions comprises contributions from Participating Nations when they are based on officially approved cost shares or on a voluntary basis that are not approximately equal to the proportion of value received. This applies to all budget driven segments or entities (Civil Budget, Office of Shared Services) and to Extra Budgetary Funds.

Civil Budget 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.

Voluntary contributions such as pledges in relation to Extra Budgetary 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.

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, Refundable Expenses, PMIS and Partners' Accommodation costs.

c. 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.

NOTE 3: CASH AND CASH EQUIVALENTS

The current bank accounts at NATO HQ are held in EUR, CAD, CHF, DKK, GBP, NOK and USD. Deposits are held in bank current accounts that are immediately available.

NATO-IS has information and liaison offices in Moscow, Kyiv, Tbilisi and Chisinau. Current accounts of these offices are held with local banks.

Cash is also held for Extra Budgetary Funds for which NATO-IS is the executing agent and therefore acts as the principal, or for which NATO-IS acts as Treasurer. These projects are not financed by the common funding principle. These Extra Budgetary 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 the case of an anticipated contribution, they are accounted for when cash is effectively received. The corresponding amounts are presented as a current liability.

NATO Reimbursable Expenses, Partners' Accommodation and Building Z Refurbishment use the same bank account as NATO IS. The breakdown provided below corresponds to their implicit position which may be positive or negative (in case they find themselves in a cash shortage position such as Partners' Accommodation because of the prepayments to be made in relation to leases of related buildings).

Cash and cash equivalent (amounts in EUR)	2018	2017
NATO IS HQ Civil Budget	33,163,660.98	48,435,310.56
NATO IS External Offices	586,742.36	460,187.19
NATO IS Petty Cash	7,964.51	3,998.83
NATO IS HQ Reimbursable Expenses	(1,504,337.10)	(145,814.73)
PMIS	(157,838.58)	145,460.07
Office of Shared Services	942,678.71	1,145,436.09
Extra Budgetary Funds	13,439,184.32	16,647,919.60
Partners' Accomodation	(470,356.88)	(670,749.04)
Refurbishment of Building Z	2,137,025.48	2,106,133.15
Morale and Welfare Recreational Activities (Staff Centre)	335,228.86	n.a.
Total	48,479,952.66	68,127,881.72

There was a discrepancy, end 2017, between the general ledger and cash on the bank statements. The Budget Committe approved the write-off of the remaing amount of EUR 53,316.95 corresponding to this imbalance (BC-DS(2019)011(INV)).

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NOTE 4: SHORT TERM INVESTMENTS

Short term investments are made in highly liquid and high quality paper in consideration of the situation of interest rates. For practical reasons all funds are placed from the IS bank accounts including amounts originating from another segment. The table below indicates the origin of the funds subject to short term investments.

Short Term Investments (amounts in EUR)	2018	2017
NATO IS HQ Civil Budget	50,000,025.02	35,001,325.02
NATO IS HQ Reimbursable Expenses)	_	-
NATO IS External Offices	-	-
PMIS	_]	-
Office of Shared Services	-	1,500,000.00
Extra Budgetary Funds	10,780,031.20	10,000,000.00
Partners' Accomodation	-	-
Refurbishment of Building Z	-	-
Total	60,780,056.22	46,501,325.02

NOTE 5: CURRENT ASSETS: ACCOUNTS RECEIVABLE

Accounts receivable are mainly outstanding contributions for the NATO Civil Budget related to the call issued at the end of the year and amounts due by other bodies and member Nations for services rendered by the International Staff (Common Operating Costs and Administrative Support).

Contributions receivable from NATO member Nations are essentially funds requested from the Nations to finance the Civil Budget and the advances called in relation to the following year Civil Budget that remain unpaid at year end. In accordance with the standard procedure, one advance for the following year's budget is called at the end of the current year and two calls for contributions are issued during year, usually in February and in November. Other receivables from NATO member Nations correspond mainly to amounts due in relation to common operating costs, administrative support and rental of office accommodation.

Receivables from Member or Partner Nations 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, contributions to the Von Karman Institute etc. They also correspond to outstanding amounts in relation to the funding of specific national requirements concerning the refurbishment of Building Z.

Receivables from staff correspond to miscellaneous services (e.g. use of telephone for private purposes). This item also includes amounts due from the insurer to compensate for salary costs of staff on long term sick leave.

NOTE 6: PREPAYMENTS

Prepayments to suppliers relate mostly to rental fees for the year to come, which have to be paid in advance, and to advances to the Belgian Ministry of Defence in relation to minor works to be done in the current NATO HQ.

Prepayments to staff members correspond to advances to be regularised (mainly education allowances for the following year but also travel on duty, and loans, as provided by the CPRs).

	2018		
Prepayments (in EUR)	IS	Partners' Accomodation	Total
Suppliers	1,708,311.69	1,290,043.89	2,998,355.58
Staff	1,337,379.09	-	1,337,379.09
Others	-		_
TOTAL	3,045,690.78	1,290,043.89	4,335,734.67

2017							
Prepayments (in EUR)	IS	Partners' Accomodation	Total				
Suppliers	1,442,193.43	1,283,123.82	2,725,317.25				
Staff	1,306,815.19	-	1,306,815.19				
Others	-	-	-				
TOTAL	2,749,008.62	1,283,123.82	4,032,132.44				

NOTE 7: OTHER CURRENT ASSETS

These consist essentially of the counterpart of the valuation of untaken leave (EUR 1,966,535.32) and advances to non-consolidated NATO entities (EUR 1.137 million).

The counterpart of untaken leave is a valuation of the potential budgetary contribution that would be required if this untaken leave were to be paid. However as indicated in the note on Employee Disclosure, untaken leave is normally never paid.

Advances to the Post Employment Benefit Schemes are cash advances to the Defined Contribution Pension Scheme to ease the payment of invalidity and retirement annuities (EUR 320,000 end 2018; EUR 200,000 end 2017). Advances were also done towards the previous NATO Staff Centre to ease its liquidity situation up until its financial closure (EUR 817,898.75 end 2018; EUR 261,898.75 end 2017).

NOTE 8: INVENTORIES

The table below provides a breakdown of inventories.

Description	Stock Value as of 31D	ec17	2018	Issues	2018	Purchases	Stock Valu	e as of 31Dec18
Office Supplies	€ 212	2,070.24	€	96,291.12	€	114,120,59	€	229,899,71
Buildings & Infrastructure Supplies	€ 170	,563.09	€	244,730.11	€	142,967,99	€	68.800.97
TV Studio Supplies	€	-	€	-	€	-	€	-
Vaccines & Medicines	€ 4	,578.06	€	9,188.82	€	10,115.55	€	5,504,79
NOS Consumables	€ 39	534.00	€	35,174.40	€	51,723.00	€	56,082.60
Total	€ 426	745.39	€	385,384.45	€	318,927.13	€	360,288.07

NOTE 9: NON CURRENT ASSETS: RECEIVABLES

Nothing to report.

NOTE 10: PROPERTY, PLANT AND EQUIPMENT

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.

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This consists principally of costs related to the Network Realignment and Robustness (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 previous Headquarters. This element delivered a hardware and software upgrade to the physical infrastructure for which the bulk was delivered prior to the close of 2012.

Land and buildings

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

Concerning the current NATO HQ:

During the first half of 2018, NATO moved to its new premises further to the handover from the Host Nations (Belgium and NCIA) to NATO of the all of the main elements of the projects that enabled operations in the new building. As a consequence, and as per the provisions of the NATO Accounting Framework (C-M(2016)0023), all assets that were recorded as work in progress in the "New NATO HQ" financial statements have been transferred to the NATO International Staff, or the NCIA (for the IT assets).

The value of the current HQ building includes items considered as Common Funded and items considered as Nationally Funded. The reasoning stems from a number of factors. The current HQ building constitutes a coherent and global building whose purpose is to bring together member nations in order to enable an efficient and effective consultation process. This situation whereby dedicated National Representations are present on site is very specific to NATO and does not always exist in other comparable international organizations. The member nations are not considered, from a legal perspective, as having direct property rights on the parts of the building corresponding to their own delegation premises, but rather having an exclusive right of use. In this respect the different funding mechanisms cannot be deemed a factor justifying a specific accounting treatment. The situation also carries certain restrictions, such as the inability to execute works affecting or altering the basic structure of the building, or to use the premises for purposes different than housing their national delegation to NATO, or to independently sell their premises. Additionally, it is difficult to accurately distinguish the value between these common and nationally funded elements. Their inclusion provides useful and clear information which contributes to financial transparency. Common funded and nationally funded construction works were managed as a single project. The economic benefit or the service potential is measured by the contribution to consensus building and therefore it cannot be separated from NATO's purpose. Therefore, this would not justify a separate accounting treatment.

It should be noted that this approach does not apply to the national fit-out segment, for which four nations decided to act separately.

There are no longer any PPE or IT assets appearing on the statement of financial position of the current NATO HQ.

Although parts of the building and its systems had been handed over from the PMT to NATO International Staff during 2017, the handover process was not complete by end 2017; elements still remained in the hands of the PMT and of the NCIA. NATO International Staff did not yet benefit from the service potential of the building at year end 2017.

Concerning the previous NATO HQ:

Belgium granted to NATO by way of concession a plot of land on which NATO was 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.

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The original buildings of the previous 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 move to new premises in 2018.

Items purchased prior to 1 January 2013:

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.

The table below concerns the IS for its Civil Budget segment.

(amounts in EUR)	Carrying Amount end 2017	Corrections related to PPE IT module	Additions	Disposals	Depreciation	Reclass	Impairment	Carrying Amount end 2018
COMMON FUNDED								
Land & Building			666,899,391.64	0	(9,726,497.30)		0	657,172,894.34
Installed equipment	49,779.75		294,627,717.55	0	(17,232,973)	694,282	Ô	278,138,805.98
Machinery	206,501.49	331,700.00		0	(66,014)		0	472,187.57
Transportation Equipment	154,035.19	1,798.00	189,106.35	(5,871)	(90,087)		0	248,981.76
Communications	54,050.75			0	(45,430)		0	8,620.93
IT Equipment	373,700.00	(331,700.40)	220,027.57	0	(70,844)		0	191,183.61
Intangible assets	5,920,553.94	417,590.40	21,097.01		(10,711,243)	8,470,684		4,118,682.51
Intangible assets under development	8,843,309.24		2,480,634.81			(9,164,966)		2,158,978.16
TOTAL	15,601,930.36	419,388.00	964,437,974.93	(5,870.79)	(37,943,087.64)	-	-	942,510,334.86

Corrections had to be done further to an analysis of the depreciation durations applied to certain items capitalized prior to 2018 resulting in an increase of EUR 419,388, which was balanced by an equivalent adjustment to Long Term Unearned Revenue.

(amounts in EUR)	Carrying Amount end 2016	Corrections related to PPE module	Additions 2017	Disposals 2017	Depreciation 2017	Reclass 2017	Impairment 2017	Carrying Amount end 2017
COMMON FUNDED								
Automated Information Systems	45,229.33				(45,229.04)			0.30
Installed equipment	55,636.12				(5,856)			49,779.75
Machinery	65,860.00		156,420.50		(15,779)			206,501.49
Transportation Equipment	125,539.28		79,813.73		(51,318)			154,035.19
Communications	331,891.73				(277,841)			54,050.75
IT Equipment	628,684.68				(9,405)	(245,580)		373,700.00
Intangible assets	5,628,657.53		941,780.17		(2,136,055)	1,486,172		5,920,553.94
Intangible assets under development	9,711,276.22		372,625.00			(1,240,592)		8,843,309.24
TOTAL	16,592,774.89	-	1,550,639.40	-	(2,541,483.64)	-	-	15,601,930.66

There is also PPE under construction related to the refurbishment of Building Z in the amount of EUR 2,542,957.6 (EUR 742,978.80 end 2017).

NOTE 11: 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 continue to be used in the current HQ. They are as follows:

- Digital Assets Management System (DAMS) this is a Public Diplomacy tool that makes 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 enables 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).

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- 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 updates and improves the web based content management system for the public 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 provides 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 in keeping with those stated in the 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.

NOTE 12: OTHER NON-CURRENT ASSETS

An amount of EUR 9.787 million corresponds to the pre-financing of the cost of refurbishment and reinvestment works in Building Z. It is equal to the funding that would have been called from NATO member nations, if the standard budgetary funding principles had been followed. This amount is based on current estimates and it will be adjusted when final costs are known. Occupancy fees to be charged to future occupants including the NATO International Staff will offset this amount.

NOTE 13: PAYABLES

Payables and accrued expenses may be to commercial suppliers, staff, Member Nations, other NATO bodies and Partner Nations.

Payable to suppliers

Payable to suppliers relates to goods and services for which an invoice has been received, checked, and queued for payment but for which payment was still pending at year-end.

Payable to personnel

Payable to personnel relates to amounts due to staff in relation to travel expenses and hospitalities.

Payable to Nations

There is a payable in relation to the reimbursable salaries due to certain countries (United States, Norway and the Netherlands) for civilian staff members who are paid directly by their governments. This amount payable can used by the nations in question applying it against their annual project contribution.

Payable to other NATO bodies

This includes amounts received from NATO bodies in support of projects funded by the Civil Budget.

Accruals

Accrued expenses correspond to the estimated obligation to third parties for goods and services received but not yet invoiced.

The table below corresponds to the IS only.

Payables (in EUR)	2018	2017
Suppliers	4,047,547.10	3,860,011.47
Personnel Related	1,165,049.75	54,123.71
Member Nations	3,544,243.39	6,705,501.16
Accruals	19,232,424.96	8,411,147.49
Others		36,417.99
Total	27,989,265.20	19,067,201.82

NOTE 14: DEFERRED/UNEARNED REVENUE

Civil Budget:

Unearned revenue corresponds to contributions called for the current or previous years that NATO IS plans to use as originally intended, but for which corresponding expenses will be incurred after the reporting date of 31 December 2018.

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. If the funds are not spent by the end of the second year following the year for which they were approved, these funds will lapse unless a specific decision is taken by member nations for a further carry-forward.

Extra Budgetary Funds:

Unearned Revenue corresponds essentially to contributions received in relation to Trust Funds for which the related project activities are not yet completed. These amounts should be spent in future years as the projects evolve.

NOTE 15: ADVANCES

The standard call for budget contributions process includes an advance on the following year's budget. Advances called amounting to EUR 52,000,000 relate to funding the 2018 Civil Budget (compared to EUR 51,000,000 previous year).

In addition, some Nations made ad hoc voluntary advance budget contributions in the net amount of EUR 3,432,530. (EUR 1.779 million end 2017).

NOTE 16: SHORT TERM PROVISIONS

There is a provision of EUR 68,692.00 in relation to a claim by the HQ catering services concessionnaire concerning the situation under which it had to operate during the first months of activity in the new site.

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NOTE 17: OTHER CURRENT LIABILITIES:

(in EUR)	2018	2017
Current Year Surplus	13,725,854.29	18,377,825.81
Closed Operations (Trust Funds, Projects or Entities)	2,052,698.88	2,305,335.14
Untaken Leave	1,966,535.32	1,786,579.40
Stikker Fund	95,774.61	95,774.61
Interentity Liability	10,000,000.00	11,955,046.87
Other	272,412.12	321,313.24
Overcall	3,916,859.84	-
Total Other Current Liabilities	32,030,135.06	34,841,875.07

Other Current Liabilities Linked to the Budget Process

Amounts corresponding to the current year budgetary surplus (lapsed credits + net interest + miscellaneous income) are considered a liability towards the contributing nations. The settlement does not follow the normal accounts payable process, since the standard approach is to return them to contributing nations via a deduction of the following year's call for budget contributions. Nations may also decide that part or all of the budgetary surplus is made available for use in future years (see Note on Budget Information).

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. For the PMIS, lapsed credits are deducted from the amounts due by the NATO participating entities for the following year. This principle does not apply to the Office of Shared Services, as exceptionally agreed by the Budget Committee. The other activities do not follow the standard budget process.

For the Civil Budget, receipts linked to interest, foreign exchange difference gains and bank charges 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.

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.

There can occasionally be an under-call or over-call of contributions. This was the case in 2018 since the information related to operations and maintenance amounts to be called from occupants of the HQ building was not complete or available at the moment of the issuance of the last call for budget contributions. Amounts concerned are regularised with the following calls for contributions.

Civil Budget Surplus (in EUR)	2018	2017
Lapsed Appropriations	13,806,453.55	16,824,733.52
Miscellaneous Income	(84,467.69)	1,556,869.33
Net Financial Income	3,868.43	(3,777.04)
Total: Current Year Surplus	13,725,854.29	18,377,825.81
Under-Call (Over-Call)	(3,916,859.84)	-
Total	17,642,714.13	18,377,825.81

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Other Current Liabilities linked to closed or ad-hoc projects

Other Current Liabilities consist of monies initially contributed by Nations relating to balances of closed Trusts Funds for which NATO-IS is awaiting instructions on the redistribution of funds, to the settlement of the closure of former NATO entities (HAWK Agency) and AGS Support Staff Cell and to ad-hoc contributions by some Nations to specific projects.

Untaken Leave

Included at year end 2018 is the valuation of Untaken Leave (which has no impact on the current budgets) in the amount of EUR 1,966,535.32 (EUR 1,786,579.40 end 2017).

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 (EUR 95,774.61 unchanged between 2017 and 2018).

NOTE 18: NON-CURRENT LIABILITIES: LONG TERM PROVISIONS

Nothing to report.

NOTE 19: NON-CURRENT LIABILITIES: DEFERRED REVENUE

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 20: OTHER NON-CURRENT LIABILITIES

Nothing to report.

NOTE 21: NET ASSETS

Corresponds to miscellaneous accumulated surpluses/deficits generated outside of the budget execution context, essentially Partners Accommodation.

When the funding policy for Partners Accommodation (referred to as "Annex IV") was established in 1997 (BC-DS(97)18 Revised), Annex IV had budgetary credits authorised to provide for Partner accommodation 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. Over time, this process resulted in surpluses.

NOTE 22: REVENUE FROM NON-EXCHANGE TRANSACTIONS

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.

The total revenue from non-exchange transactions is essentially related to budget (or equivalent) driven segments, and in particular NATO-IS, the Office of Shared Services and Extra Budgetary Funds. Budget 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. For Extra Budgetary Funds: revenue is matched to the costs of activities undertaken.

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NOTE 23: REVENUE FROM EXCHANGE TRANSACTIONS

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.

The total revenue from exchange transactions is broken down as follows. For the IS: revenue in relation to the reimbursement to the Civil Budget of administrative support and common operating costs, revenue received from concessions, miscellaneous income. For the PMIS: contributions from other NATO bodies to cover the expenses of the PMIS system according to their proportion of established posts. For Partners' Accommodation: rent charged principally to Partner Countries for office space at NATO HQ (Buildings V/VA/Wörner).

NOTE 24: OTHER REVENUE

In the case of the Building Z Refurbishment, Other Revenue is the balancing element in order to capitalize all expenses related to this project.

NOTE 25: FINANCIAL REVENUE AND COSTS

Financial revenue (principally from the Civil Budget) is measured at fair value received or receivable for interest and foreign exchange gains. This source of revenue is impacted by the current context where negative interest rates apply to EUR short term cash investments.

NOTE 26: 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. This item includes expenses classified as Capital expenditure from a budget perspective (to include items such as IT, security, television and radio studios etc.) but that did not qualify as capital from an IPSAS perspective.

Programmes and grants

The majority of grants are considered expended upon notification to the beneficiary of the decision to attribute the grant/award. 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 External Offices in Russia, Ukraine, Georgia, Moldova and New York.

Programmes and grants expenses include advances paid to beneficiaries of grants.

Depreciation and amortization

Depreciation and amortization expenses are not budgeted for.

Financial costs

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

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Other expenses

Other expenses include revenue received from concessions and transferred to the Staff Centre and summer camps. They also include the amount of net interest revenue and miscellaneous income that will be returned to the Nations and are booked as Other Current Liability in the Statement of Financial Position.

NOTE 27: RESULT OF THE PERIOD (SURPLUS/DEFICIT)

The surplus/deficit is realised from the activities in support of Partner accommodation.

NOTE 28: CASH FLOW STATEMENT

In accordance with the new NATO Accounting Framework, the cash flow statement is presented based on the indirect method.

NOTE 29: BUDGET INFORMATION

Presentation of budget information in the financial statements

For the purposes of these financial statements, the term "budget" is understood as corresponding to a formal approval of expense limits by the North Atlantic Council or the Budget Committee. It does not correspond to situations where the term "budget" may be used for more managerial purposes and/or is used to forecast expenditure rather than limit its allocations.

From a budget perspective, the International Staff Financial Statements include the budget transactions of the following budget entities: the NATO Civil Budget (i.e. that of the NATO Headquarters in Brussels, essentially but not exclusively the International Staff), the NATO Wide PMIS (with the NATO Talent Acquisition Platform) and the Office of Shared Services.

Presently, none of these budgets is publicly available.

The actual amounts referred to by IPSAS 24 ("amounts that result from execution of the budget") are considered to be the actuals and the commitment of appropriations when the corresponding services or goods could not be received in the course of the year.

Budget Execution Rules and Principles

The following comments relate to the Civil Budget since it is the most important entity. The analysis and processes apply to a very large extent to the other two budget entities.

The initial approved budget corresponds to total appropriations 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 appropriations' 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 budgets are prepared for the same period (1 January to 31 December) and encompass the same entities (NATO International Staff, the NATO Wide PMIS, Office of Shared Services, NATO Talent Acquisition Platform) as these financial statements but the basis is different.

Changes to the budgetary regulations were introduced by the North Atlantic Council in 2015 in approving a new set of NATO Financial Regulations. The new NATO Financial Regulations were made applicable to the 2015 budget year as from 1 May 2015. They have in particular instilled an accruals based approach to budget preparation and budget execution, whereas before the approach was largely commitment and cash based.

Despite a stronger emphasis on the principle of annual budgets, the approved and executed budget cannot be considered as fully accruals-based, since the new regulations allow for a number of

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exceptions, such as carrying forward commitments for goods and services that were expected to be delivered in the course of the year but for various reasons were not, or authority given to the member Nations to allow for special carry forward of appropriations unused at year-end or a further carry-forward of commitments not expended after having been carried-forward twice.

The Civil Budget is prepared and executed as follows:

- 1) The commitment of appropriations is the advance acceptance and recording of the financial consequence resulting from a legal obligation incurred during the financial year. As a consequence appropriations are allocated, and commitments are approved, for goods, services and works to be delivered at a later stage. Commitments are settled when the service is rendered or goods delivered as is the case for expenses under accrual accounting.
- 2) 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. Under the new regulations they correspond to services not received or goods not delivered, at year-end, for specific circumstances. Outstanding commitments can be carried forward for two years. As a consequence, the services or goods received may relate to a commitment of appropriations from previous years' budgets. The carry-forward should be justified by a reason for which the services or goods could not be received in the course of the year. In addition, in accordance with Financial Regulations, member Nations may agree to a further carry-forward of commitments that were already carried forward twice.
- 3) 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 appropriations eventually lapsing.
- 4) Commitments are only made in respect of expenses 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 appropriations for non-cash transactions such as capital depreciation or provisions which would normally appear in the Statement of Financial Performance under accounting.
- 5) On an exceptional basis, the NATO member Nations may approve the special carry-forward of appropriations 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.
- 6) The balance of unused budgetary appropriations (not committed) lapses and is returned to Member Nations at year-end. Lapses may include cases where a project was eventually not completed or started, and therefore led to no expense.

The NATO Civil Budget

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:

- Crisis Management & Operations
- Collective Defence
- Cooperative Security
- Public Relations
- Consultation Process
- Operational Environment of the Headquarters Site

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- Governance and Regulation
- 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 expenses are tracked according to a classification by Objective and by Resource Pool.

Initial Civil Budget - Revised Civil Budget

In December 2017, the Council approved the 2018 initial Civil Budget of EUR 207,926,257 (C-M(2017)0064). This amount includes contributions to the Defined Contribution Pension Scheme (DCPS). In November 2018, the Budget Committee approved the revised 2018 Civil Budget in the same amount of EUR 207,926,257 (BC-D(2018)0221-REV2).

The appropriations of EUR 2.462 million, initially frozen, were all unfrozen during the financial year.

With C-M(2017)0064, the Council also approved to special carry-forward all lapsable appropriations from 2015, 2016 and 2017. The total special carry-forward of lapsable appropriations was EUR 16,824,734 (as identified in the 2017 IS Financial Statements).

Council approved a total of EUR 14,020,670 of special and further carry- forward of appropriations into financial year 2019 (C-M(2018)0066). In addition, the Budget Committee approved the additional special carry-forward of all lapsable appropriations from 2018 and prior years.

Appropriations are transferred under the authority delegated to the NATO-IS Financial Controller by the NATO Financial Regulations and Financial Rules and Procedures.

An analysis of budget execution for the NATO Civil Budget is provided at Annex 5.

Reconciliation between Budget Execution and Statement of Financial Performance

For 2018

		Amounts
Budget Execution Statement Total Costs		215,225,775.78
Depreciation & Amortisation Charges + PP&E Recognition	+	34,667,758.50
Impairments PP&E, Intangible Assets and Stock	+	
Impairments Receivables	+	
Stock Variation	+	66,457.32
NBV Fixed Assets Losses	+	
Financial Costs	+	323,872.83
Non-Budgetary Provisions	+	1,966,535.32
Other Non-Budgetary Costs	+	
Statement of Financial Performance Costs		252,250,399.75

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For 2017

		Amounts
Budget Execution Statement Total Costs		189,843,213.96
Depreciation & Amotisation Charges	+	990,844.15
Impairments PP&E, Intangible Assets and Stocks	+	17,051.84
Impairments Receivables	+	
Stock Variation	+	294,272.57
Net Book Value Fixed Assets Losses	+	
PP&E Recognition		
Financial Costs	+	217,284.88
Non-Budgetary Provisions	+	1,786,579.40
Other Non-Budgetary Costs	+	
Statement of Financial Performance Costs		193,149,246.80

Human Resources Shared Services

The NATO IS Executive Management Human Resources was appointed as the provider of NATO-wide Human Resources Shared Services. In this context, a wide variety of services will be provided over time. During 2018 in addition to extant services related to the Integrated Payroll Personnel Management Information System (PMIS), operations related to the NATO Talent Acquisition Platform (NTAP) were put in place. In terms of financial reporting, both categories of services are now recorded in this HR Shared Services segment which until 2016 was limited to the provision of payroll services (PMIS).

The budgetary figures for these two special purpose budgets are the following:

- NATO-wide Payroll Management and Information System 2018 budget of EUR 221,730 through references BC-D(2018)0055 and BC-DS(2018)0019.
- NATO Talent Acquisition Platform 2018 budget of EUR 273,149 through references BC-D(2018)0186 and BC-DS(2018)0051.

Funding is provided through contributions by the NATO bodies in proportion to their staffing levels for PMIS and in proportion of hires per annum for NTAP. Invoices are reduced by the amount of previous year's surplus.

A budget execution statement is provided at Annex 5.

Shared Services Initiative 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 2016 Shared Services Initiative initial budget covered the operations of the Shared Services Office until it was disbanded in the course of the year and an annual tranche related to the implementation of Phase I of General Procurement Shared Services. The 2016 budget was agreed in the amount of EUR 1,214,000, of which 70% of the EUR 900,000 allocation related to General Procurement Shared Services was frozen (EUR 630,000). In addition, 50% of the EUR 314,000 personnel expenses appropriations were also frozen (EUR 157,000) awaiting clarification on the status of the OSS beyond the first six months of the year further to the assessment and approach to Finance and Accounting Shared Services. Subsequently the BC decided a partial unfreeze (EUR 218,000) of the allocation related to General Procurement Shared Services. This left an amount of frozen appropriations of EUR 569,000 (EUR 412,000 and EUR 157,000). Further to the submission of the 2nd budget execution report

the BC agreed to unfreeze EUR 73,213 in the Personnel Chapter and EUR 3,584 in the O&M Chapter. As a consequence, frozen appropriations eventually amounted to EUR 492,202. The portion of frozen funds related to the Office of Shared Services amounted to EUR 80,202. The portion related to the General Procurement Shared Services initiative by NSPA amounted to EUR 412,000 and the Budget Committee noted that this amount is available for use by the Committee for the intended purpose of the MEUR 5.8 (C-M(2011)0067) foreseen for the initial Agency Reform transition costs (BC-DS(2016)0017, III). The Budget Committee agreed that available funds from the 2015 General Procurement Shared Services allocation (EUR 359,258) could be used for 2016 (BC-DS(2016)0017, III).

The 2017 Shared Services Initiative initial budget was approved in the amount of EUR 900,000 (C-M(2016)0077(INV)). This amount was not revised in the course of the year. Further to the closure of the Office of Shared Services during 2016, the budget allocation is limited to the NSPA requirements to operate the General Procurement Shared Services. Frozen funds from 2016 related to the Office of Shared Services (EUR 80,202) were lapsed at the end of 2017. Funds available concerning GPSS at year end were used in 2018.

Eventually there is an overall surplus of EUR 942,678.71 for the whole of the Shared Services Initiative, including the GPSS, the Office of Shared Services and Agency Reform transition costs.

A budget execution statement is provided at Annex 5.

NOTE 30: SEGMENTS

The tables below provide segment information for financial performance and financial position statements for 2017 and 2018. The following segments have been adopted: Civil Budget, Reimbursable Expenses, Personnel Management Information System, Office of Shared Services, Extra-Budgetary Funds, Partners' Accommodation, Refurbishment of Building Z and, since September 2018, the Morale and Welfare Recreational Activities (MWR).

	Notes	IS	Refundable Expenses	PMIS	oss	Extra Budgetary Funds	PARTNER ACCOMODATION	BUILDING Z REFURBISHMENT	MWR	Neutralisation of Internal Transactions	2018
Assets											
Current assets											
Cash and cash equivalents	3	33,758,367.85	-1,504,337,10	-157,838.58	942 578 71	13,439,184.32		2,137,025.48	335,228 86		48,479,952,66
Short term investments	4	50,000,025 02				10,780,031,20					50,780,056.22
Receivables	5	45,258,241,35	1,884,192.47	346,056.21	0.00				793,245.67		50,424,592.50
Prepayments	6	3,045,689 18				0.00					4,335,733.07
Other current assets	7	3,521,006.75	10,367,46	33,078.66	0.00					10,387,667.00	3,176,785.87
Inventories	8	360,288.07				0.00					360,288,07
		135,943,618.22	390,222.83	221,298.29	942,678.71	36,168,192.24	948,117.09	2,202,475.48	1,128,474.53	10,387,667.00	187,557,408.39
Non-current assets											
Receivables	9					0.00					0.00
Property, plant & equipment	10	936,232,675 30				0.00		2,542,957.60			938,775,632,90
Intangible assets	11	6,277,754.78				0.00					6,277,754.78
Other non-current assets	12	9,787,308.00				0.00		9,787,308.00		9,787,308.00	9,787,308,00
		952,297,738.08	0.00	0.00	0.00	0.00	0.00	12,330,265,60	0.00	9,787,308.00	954,840,695.68
Total assets		1,088,241,356,30	100 222 22	221,296.29	042 676 74	36,168,192,24	948,117,09	44 550 744 80			
TOTAL BOOKS		1,000,241,200,20	380,444.03	221,280.28	342,0(0./)	36,168,182.24	946,117,09	14,532,741.08	1,128,474.53	20,174,975.00	1,122,398,104.07
Liabilities Current Sabilities											
Payables	13	27,989,265.20	86,244.68	42,435.65	942,678.71	353,872.30	79,188,45	1,519,575,16	923,796.86	387,667,00	31,549,390.01
Deferred revenue	14	20,394,995.80				35,702,466.79		10,379,171.40			66,476,633,99
Advences	15	55,460,530 16	303,978.15			0.00			91,042,48		55 855 550 79
						0.00					0.00
Short term provisions	16	68,692.00									68.692.00
Other current liabilities	17	32,030,135.06		178,860.64		111,853.15		91,036.92	113,635.19	10,000,000.00	22,533,263.67
		135,943,618.22	390,222.83	221,298.29	942,678.71	36,168,192.24	86,931.16	11,989,783.48	1,128,474.53	10,387,667.00	176,483,530,48
Non-current liabilities											
Payables	18					0.00					0.00
Long term provisions	18					0.00					0,00
Deferred revenue	19	942,510,430.08				0.00		2.542.957.60			945,053,387,68
Other non-current liabilities	20	9,787,308.00				0.00		2,542,857.00		9,787,308.00	0.00
		952,297,738.08	0.00	0.00	0.00		0.00	2,542,957.60	0.00	9,787,308.00	945,053,387,68
Total liabilities		1,088,241,356.30	390,222.83	221,298.29	942,678.71	36,168,192.24	86,931,16	14,532,741.08	1,128,474.53	20,174,975.00	1,121,536,915.14
Net assets	21										
Capital assets Reserves											0.00
	i)						303,506.28				303,506,28
Current year Surplus / (Deficits											
Accumulated surpluses / (defic		or year					557,679.65				557,679.65

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	Notes	19	Refundable Expenses	PMIS	OSS	Extra Budgetary Funds	PARTNER ACCOMODATION	BUILDING Z REFURBISHMENT	Neutralisation of Internal Transactions	2017
Assets										
Current assets										
Cash and cash equivalents	3	48,899 496 58	-145,814 73	145,460 07	1,145,436 09	18.647.919.60	-870 749 04	2.105.133.15		88 127,881 72
Short term investments	4	46,501,325 02			.,,	0.00		-		48,501,325 02
Receivables	5	30,396,174 56	663,955 12	50,100 89	0.00	603,908 40	148 195 08	397.345.00		32,257,679 05
Prepayments	6	2,749,008 62				0.00	1,253 123 82			4.032.132.44
Other current assets	7	2,387,326 01		233,523 15	1,500,290 43	10,004,419.79			11,618,984 79	2,506,594 59
Inventories	8	428,745 39				0.00				426,745 39
		131,360,076.18	518,140.39	429,084.11	2,645,728.52	27,258,247.79	758,569.86	2,503,478.15	11,518,964.79	153,852,358.21
Non-current as sets										
Receivables	9					0.00				0 00
Property, plant & equipment	10	838,067.21				0.00		742 978 80		1,581,046.01
Intangible assets	11	14,763,958 37				0.00				14,763,958 37
Other non-current assets	12					0.00				0.00
		15,602,025.58	00.0	0.00	0.00	00.0	0.00	742,978.80	0.00	16,345,004.38
Total assets		146,962,101.76	518,140.39	429,084.11	2,645,726.52	27,258,247.79	758,569.86	3,246,456,95	11,618,964.79	170,197,362.59
Liabilities										
Current Sabilities										
Payables	13	19,087,201,82	258,944.62	1,368 31	2,645,726 52	431,599 54	146,663 71	2.189.358.20		24,740,882,72
Deferred revenue	14	24,671,679.98				26,709,337.26	,			51,381,017,24
Advances	15	52,779,319.31	259 195 77	150,000.00		0.00				53,168,515 08
						0.00				
Short term provisions	18									0 00
Other current liabilities	17	34,841,875.07		277,715 80		115,310,99	54,226 50	314 119 95	11,618,964.79	23,984,283 52
		131,360,076.18	518,140,39	429,084.11	2,845,726,52	27,256,247.78	200,890.21	2,503,478.15	11,618,964.79	153,294,678,56
Non-current Rabilities										
Payables	18					0.00				0 00
Long term provisions	18					0.00				0 00
Deferred revenue	19	15,602,025 58				0.00		742.978 50		16 3 45 00 4 35
Other non-current liabilities	20							0.654 0.5		0 00
		15,602,025.58	0.00	0.00	0.00	00.0	00,0	742,978.60	00,0	16,345,004.38
Total liabilities		146,982,101.76	518,140.39	429,084.11	2,645,726.52	27,256,247.79	200,890.21	3,246,456.95	11,618,964.79	169,639,682,94
Not assets	21									
Capital assets										0.00
Reserves										0.00
Current year Surplus / (Deficits)							298,672.67			298,672 87
Accumulated surpluses / (deficit	a) prior year						259,008 78			259,006 78
Total net assets/ equity		0.00	0.00	0.00	0.00	0.00	557,679.65	0.00	0.00	557,679.85

Eliminations correspond essentially to cash movements between segments related to the fact that short term investments, for practical reasons, are done from the IS bank accounts.

Refurbishment works in Building Z are planned in conjunction with the move to the current NATO Headquarters. Partner nations have been asked to pay in advance for the works corresponding to their specific requests (Optional Program) in addition to the basic refurbishment, in the amount of EUR 2,934,037. NATO member nations agreed that the rest of the works estimated MEUR 9.787 would be prefinanced by the IS treasury. All expenses are capitalized.

	Notes	Iŝ	Refundable Expenses	PMIS	oss	Extra Budgetary Funds	Partner Accommodation	Building Z Refurbishment	Staff Center	Neutralisation of Internal Transactions	2018	2017
Revenue												
Non exchange revenue	22	243,173,718 41			351,859 20	5.154.685.33			501.683.32		249 181 944 26	193,692,091.59
Exchange revenue	23	8 418 859 84	4.477,764.60	201 369 34		200,310,29	2.619.775.00		371,089 79	387,667.00	15.899.501.88	13,096 psz.67
Other revenue	24	331.436 79	.,,.	475 723 22		200,01042	0.00	324.263.61			1.368.520.99	988.747.31
Financial revenue	25	328,386 71		4,730.97		65,059 19		524,200.01	0.31		398,177,18	399,290 73
Total revenue		252,250,399.75	4,477,764.60	681,823.53	351,859.20	5,420,054.81	2,619,775.00	324,263.81	1,109,870.59	387,667.00	266,848,144.29	208,177,082.50
Expenses												
Personnel	26	122,124,682.55	170,317.26	185,955 56		640,705.88		83,345 51			123,205,006 76	118,696,505.66
Contractual supplies and services	26	90,234,192 11	4,307,447.34	495,213.79	349,222 92	4,711,169 15	2,316,268 72	240,918 30	715,253 54		103,369,685.87	84,422,428.68
Depreciation and amortization	26	37,523,699 60									37,523,699.60	2,541,483 55
Im pairm ent	26								5,251.84		5,251.84	24,070 42
Provisions	26	68,692.00				1.68					58,593.58	
Other expenses	26	1,975,260.68				2,988.93			387,667.00	387,587.00	1,978,249.59	1,814,363.87
Finance costs	25	323,872.83		654 18	2,636 28	65,189 17			1,698 21		394,050.67	379 458 25
Total expenses		252,250,399.75	4,477,784.60	681,823.53	351,859.20	5,420,054.81	2,316,268,72	324,263.81	1,109,870.59	387,667.00	266,544,638.01	207,878,409.63
Surplus/(Deficit) for the period	27	0.00	0.00	0.00	0.00	0.00	303,506.28	0.00	0.00	0.00	303,506.28	296,672.67

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	Notes	15	Refundable Expenses	PMIS	oss	Extra Budgetary Funds	Partner Accommodation	Building Z Refurbishment -	2017
Revenue									
Non exchange revenue	22	182 217 639.26			1,360,902 30	10,113,550.03			193,692,091.59
Exchange revenue	23	9,687,449,19	334,049.85	394,809.83			2,680,644.00		13.096.952.87
Other revenue	24	900,821.80	25,125.79				858.40	62 141.32	988 747 31
Financial revenue	25	343,338.55				55,954.18			399,290.73
Total revenue		193,149,246.80	359,175.64	394,809.83	1,360,902.30	10,169,504.21	2,681,302.40	62,141.32	208,177,082.50
Expenses									
Personnel	26	118,133,213.05		161,366.40		391,556.39		10.471.02	118,898,608.86
Contractual supplies and services	26	70,438,372.51	356,469 47	233,443.43	1,350,898.18	9,608,945.26	2,382,629.53	51,670.30	84,422,428.68
Depreciation and amortization	26	2,541,483.55							2,541,483,55
Impairment	28	24,070 42							24,070.42
Provisions	26	1,786,579.40							1.788,579.40
Other expenses	26	8,242.99			10,004.12	9,537.36			27,784.47
Finance costs	25	217,284.88	2,706.17			159,465.20			379 456 25
Total expenses		193,149,246.80	359,175,64	394,809,83	1,360,902.30	10,169,504.21	2,382,629.53	62,141.32	207,878,409.63
Surplus/(Deficit) for the period	27	0.00	0,00	0,00	0.00	0.00	298,672.87	0.00	298,672.87

NOTE 31: 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 porta cabins for temporary accommodation (e.g. Buildings V, VA) and the Manfred Wörner building. However, in consideration of the fact that NATO-IS moved to new premises in 2018, 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 (previous HQ). 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: temporary offices, transport equipment and photocopiers. The reduction in leases for offices is linked to the move to the current NATO HQ where there is no such requirement.

Asset Leased	Amount paid in	Amount paid in	Amont to pay in	Amount to pay after
A33Ct Eca3ed	2018	2019	2020-2023	2023
Copiers	275,380.34	265,207.79	826,234.00	,
Vehicles	230,217.12	220,542.94	208,980.90	-
Buildings	11,392,803.66	1,943,794.42	5,670.00	0.00
Total	11,898,401.12	2,429,545.15	1,040,884.90	0.00

Belgium has granted to NATO by way of concession a plot of land on which NATO has been authorized to erect all necessary buildings and facilities related to the NATO New Headquarters Project. The annual fee is EUR 250. NATO is the full owner of all constructions made. Belgium remains the sole and full owner of the land, which is military public domain. The concession ends 180 days after NATO has left the buildings and facilities. In such case, if Belgium would decide to use the building and facilities, it shall pay a fair indemnity to NATO. If Belgium should decide to demolish them, it will not be obliged to pay an indemnity to NATO neither will NATO have to contribute to demolition costs. At the end of the concession, there would 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.

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NOTE 32: RESTRICTIONS ON FIXED ASSETS

There are no restrictions on fixed assets.

NOTE 33: 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 34: WRITE OFF

The table below summarizes the write-off procedures for IS equipment in 2018.

		,	1	IS 2018 WRITE-	OFF REPORT			
Serial	Dossier	Date	Location	Type of Items	Acquisition Value	Net Book Value	Reason for Write-off	Disposal Method
	1 001-2018	18/1/2018	IS HQ	Audio-Visual, Telecommunication and IT Equipment	133,140.00		Unserviceable, Obsolete	Waste/Recycle
	2 002-2018	18/1/2018	IS HQ	Furniture, Lightning and small office equipment	55,966.00	-	Unserviceable, Obsolete	Waste/Recycle
	003-2018	15/5/2018	IS HQ	Audio-Visual, Telecommunication and IT Equipment	67,130.00	•	Unserviceable, Obsolete	Waste/Recycle
	004-2018	15/5/2018	IS HQ	Audio-Visual, Telecommunication and IT Equipment	42,446.00	-	Unserviceable, Obsolete	Waste/Recycle
	005-2018	15/5/2018	IS HQ	Furniture, Lightning and small office equipment	147,868.00		Unserviceable, Obsolete	Waste/Recycle
	006-2018	13/12/2018	IS HQ	Vehicle Renault Traffic	16,638.24		Unserviceable, Obsolete	Waste/Recycle
	007-2018	13/12/2018	IS HQ	Vehicle Renault Ford Tourneo	16,773.66	3,354.73	Damaged in Accident, NATO was compensated by Insurance company	Handed over to insurance company
:	009-2018	13/12/2018	IS HQ	Vehicle Renault Traffic	16,362.00		Unserviceable, Obsolete	Waste/Recycle
	s/n	31/10/2018	SCR- RSM HQ (KABUL)	Vehicle SUV Toyota LandCruiser	105,488.00		Unserviceable, Obsolete	Waste/Recycle
10	s/n	22/11/2018	SCR- NTMI (BAGDAD)	Assorted small office furniture items and small office IT equipment	3,557.95	3,557.95	End of Mission. Cost of shipping bigger than present value of the items	Disposal locally
	l s/n	19/2/2019	IS HQ	All IS and IMS Furniture, Fixtures and Equipment left in the PHQ as a result of the move to the new site -> FC(2019)0024, 20Feb19 and BC-D(20019)0034 (INV)	Not determined	Not determined	Move to new HQ and excess costs for the move/re-utilization in the NHQ	Disposal through contractor
TOTALS	1				605,369.85	6,912.68		

There was a discrepancy, end 2017, between the general ledger and cash on the bank statements. The Budget Committe approved the write-off of the remaing amount of EUR 53,316.95 corresponding to this unbalance (BC-DS(2019)011 (INV)).

NOTE 35: CONTINGENT ASSETS

Nothing to report.

NOTE 36: 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.

The tables below compare the established posts with the number of staff and compares with the previous year. Establishment changes are approved by the NAC. However, the NATO Secretary General has delegated authority in this domain. During 2018, this delegated authority was used to create 12.4 posts and delete 7 posts. In addition, the Budget Committee recommended and the NAC agreed the creation of 0 (zero) posts and deletion of 14 posts

The table below analyses the IS establishment as of 31 December 2018.

Position by HQ	NATO Civilians				
	31-12-18	31-12-17			
Total Approved PE	1112	1121			
Total Filled Positions	1037	1057			
Arrivals in the year	70	68			
Departures in the year	110	76			

Position by HQ	Total Approved PE	Total Filled Positions
Civilian (PE)	1112	1037
VNC	-	64
Short term (Temps)	-	55
Interns	-	35
Others	-	6

Also, NATO-IS receives "in kind" services provided by nationally funded personnel known as Voluntary National Contributions (VNCs). VNCs worked for the IS at HQ but also at the NATO external offices, or in support of specific projects on-site. During 2018, some 64 VNCs worked for the IS at HQ (40 in 2017).

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.

There is no longer any staff member remaining as an affiliate of the NATO Provident Fund which is a defined contribution pension scheme providing 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, were made by staff and NATO, being 7% and 14% respectively of basic salary.

618 staff members (573 end 2017) 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.

423 employees (470 end 2017) 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 Scheme. These contributions are expensed during the year in which the services are rendered and represent the total pension obligation of the entity. The funding mechanism of the DBPS provides that Nations contribute, in the course of a given year, for the difference between amounts due to pensioners and staff contributions received.

(amounts i	n EUR)	2018	2017
	Staff	-	
Provident Fund	Employer	-	-
	Total	-	_
	Staff	3,487,491.57	3,646,198.36
DBPS	Employer	-	-
	Total	3,487,491.57	3,646,198.36
	Staff	3,776,170.17	3,505,043.50
DCPS	Employer	5,343,693.78	4,932,170.09
	Total	9,119,863.95	8,437,213.59
	Staff	7,263,661.74	7,151,241.86
TOTAL	Employer	5,343,693.78	4,932,170.09
	Total	12,607,355.52	12,083,411.95

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Also, 12 staff members (9 in 2017) 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. Those individuals are paid and accrue pension rights under a United States pension scheme.

A similar agreement exists with the Netherlands but currently there are no staff under these conditions (1 in 2017). An agreement with Norway was signed in 2015 and applies to 3 staff members (3 in 2017).

Paid leave is an employee benefit and as such part of overall personnel expenses. In accordance with personnel regulations, the remaining balance at year end may be carried forward but must be taken before 30 April of the following year. It can be exceptionally extended to 31 October in accordance with Civilian Personnel Regulations art. 42.3.5 and 42.3.6. After this date it lapses and is not paid to staff. For these financial statements, untaken leave is specifically reported if its monetary value is more than 10% of the total annual leave entitlement. The cost of untaken leave days is usually absorbed during the year through the monthly salaries; leave to be taken carried forward into the next year constitutes a liability towards the future and would notionally require funding from Participating Nations.

Further to an analysis covering the last years of the history of death in service risks in relation to premiums paid by the Organisation during 2012-2015, a compensation of EUR 6 million at the NATO-wide level was agreed by the insurance company. End 2018, the NATO Secretary General decided that a fraction of this amount (circa EUR 1,7 million) should be paid to NATO staff who were members of the DCPS during the period 2012-2015 in proportion to the contributions they made to the DCPS. Staff employed by NATO-IS during the period 2012-2015 and affiliated to the DCPS are therefore entitled to a payment to be made from the NATO DCPS accounts. A decision still has to be taken concerning the remaining amount of the compensation, which may result in a proportional payment to NATO-IS.

NOTE 37: 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 eight 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 3,745,443.34 (EUR 3,986,281.42 in 2017) Number of persons: 15 (15 in 2017)

The decrease in the aggregate remuneration is essentially due to the rotation of posts during 2018 and to changes in the individual situation (e.g. family situation) of newly recruited members.

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 cost of operations and maintenance of the residence and works were EUR 339,000.00 in 2018 (EUR 239,116 in 2017). The amounts vary according to the level of annual renovation works. 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,

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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 positions 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, the eight Assistant Secretary Generals, one Deputy Assistant Secretary General, and the Spokesperson. The gross amount paid was EUR 74,387.32 (EUR 53,775 in 2017). Unused funds and disallowed expenses are returned to the Organisation.

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

There is no other remuneration or benefit 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 38: 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 it isreimbursed by Member Nations and NATO entitites. As part of the Civil Budget revenue, the IS collected for 2018: accommodation charges for NATO Member Nations and NATO entities residing in the NATO Headquarters in the amount of EUR 6,449,197.38 (EM(BPA)(2018)0019 +COR1); Charges for the NATO International Staff administrative services and Human Resources shared services of EUR 4,438,047.02 (EM(BPA)(2018)0013 +COR1).

For 2017, administrative support costs were charged in the amount of EUR 6,338,588.39 and common operating costs in the amount of EUR 3,348,860.80 in 2017

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) for which EUR 535,420.29 (EUR 531,301 in 2017) were charged by the Belgian Ministry of Defence and paid by the Civil Budget.

There are also personnel provided by nations under a reimbursable basis or as VNCs (Note 36)

Member and Partner Nations

The NATO-IS Office of Financial Control is the Treasurer for the operations related to a number of Extra Budgetary Funds. 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.

Appendixes 1 and 2 provide a breakdown of the Statements of Financial Position and of Financial Performance for Extra Budgetary Funds.

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

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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 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 NATO Staff Centre was officially closed in September 2018; it is no longer a going concern. In accordance with the Council decision on the Mandate of the NATO HQ Staff Centre, the Staff Centre had its own financial statements. Further to its financial closure on 31 December 2018 its net assets were transferred to the NATO International Staff. The settlement of the outstanding balances will be done in the course of 2019.

NATO-IS provided certain administrative support and covered some operating and maintenance services to the Staff Centre in an estimated amount of EUR 547,584.00 (EUR 1,059,327 in 2017) which were not charged. These were estimates based on physical criteria (space, number of staff served etc.) and may not correspond exactly to the value of the service received by the Staff Centre. The reason for the decrease in the support is linked to the limited period of operations of the Staff Center during 2018.

The funds required to settle the Staff Centre's negative net assets are available in the Civil Budget in the amount of 2,1 Million EUR (these appropriations were subject to a special carry-forward to 2019).

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Statement of financial position As at 31 December 2018

(All amounts in EUR)

Notes

	Von Karman Institute	Children Summer Camps	US Tramil	EW Trial Air	EW Trial Nav	Audit of Multi- Nationally Funded Bodies	TF Tajikistan II	TF Moldova III	TF Azerbaijan (PFP Proj JCP)
Assets									
Current assets Cash and cash equivalents Short term investments Receivables Prepayments Other current assets Inventories	0.00 0.00 1,822,992.99 0.00 0.00 0.00 1,822,992.99	0.00 334.32 0.00 0.00 0.00	780,031.20 0.00 0.00 0.00 0.00	267,622.66 0.00 94,000.00 0.00 0.00 0.00 361,622.66	0.00 23,058.00 0.00 0.00	94,495.31 0.00 0.00 0.00 0.00 0.00 94,495.31	0.00 0.00 0.00 0.00	792,317.03 0.00 0.00 0.00 0.00 0.00 792,317.03	107,060.57 0.00 0.00 0.00 0.00 0.00 107,060.57
Non-current assets									
Receivables Property, plant & equipment Intangible assets Other non-current assets	0.00 0.00 0.00 0.00	0.00 00.0 00.0 00.0	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 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 0.00 0.00
Total assets	1,822,992.99	24 208 00	853 290 88	361,622.66	272 043 03	94,495,31	4 25	702 247 02	107,060.57
Liabilities Current liabilities Payables Deferred revenue Advances	0.00 1,822,992.99 0.00	0.00 0.00 0.00		15,105.42 346,517,24 0.00	0.00 272,943.93 0.00	6,850.16 0.00 0.00	0.00 1.25 0.00	0.00 792,317,03 0.00	0.00 107,060.57 0.00
Short term provisions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other current liabilities	1,822,992.99		0.00 853,280.88	0.00 361,622.66	0.00 272,943.93	87,645.15 94,495.31	0.00 1.25	0.00 792,317.03	107,060.57
Non-current liabilities Payables Long term provisions Deferred revenue Other non-current liabilities	0.00 0.00 0.00 0.00	00.0 00.0 00.0 00.0	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 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 0.00
Total liabilities	1,822,992.99	24,208.00	853,280.88	361,622.66	272,943.93	94,495.31	1.25	792,317.03	107,060.57
Net assets Capital assets									
Reserves Current year Surplus / (Deficits)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Accumulated surpluses / (deficits) prior year	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total net assets/ equity	0,00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

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	TF Armenia	TF Ukraine Il Phase 2	TF Georgia IV	TF CNAD VNCF	TF Jordan III	TF Jordan IV	TF Serbia IV	TF Canada Crisis Mgmt Mauritania	Global NAF (TF APM Destruction Belarus)
Assets									
Current essets									
Cash and cash equivalents		1,653,294.26					1,238,325.81		-20,032,068,52
Short term investments Receivables	0.00	0.00	0.00	0.00 8,352.37	0,00	0.00	0.00		10,000,000.00
Prepayments	0.00	0.00	0.00	0.00		0.00	0.00		0,00
Other current assets	0.00	0.00	0.00	0.00		0.00	0.00		10,000,000,00
Inventories	0.00	0.00	0.00	0.00		0.00	0.00		0.00
	1,081,500.00	1,653,294.26	0.00	401,996.87	822,964.58	303,422.83	1,238,325.81	-5.61	-32,068.52
Non-current assets									
Receivables	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Property, plant & equipment	0.00	0.00	0.00	0.00	0.00	0.00	0.00		0.00
Intangible assets	0.00	0.00	0.00	0.00		0.00	0.00		0.00
Other non-current assets	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	0.00	0.00	0.00	0.00
Total assets	1,081,500.00	1,653,294.26	0.00	401,996.87	822,964.58	303,422.83	1,238,325.81	-5.61	-32,068.52
Llabilities									
Current liabilities									
Payables	0.00	0.00	0.00	39,437.26	0.00	0.00	0.00		0.00
Deferred revenue		1,653,294.26					1,238,325,81		-32,068.52
Advances	0.00	0,00	0.00	0.00	0,00	0.00	0.00	0.00	0,00
Short term provisions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other current liabilities	0.00	0.00	0.00	0.00		0.00	0.00		0.00
	1,081,500.00	1,653,294.26	0.00	401,996.87	822,964.58	303,422.83	1,238,325.81	-5.61	-32,068.52
Non-current liabilities									
Payables	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Long term provisions	0.00	0.00	0.00	0.00		0.00	0.00		0.00
Deferred revenue	0.00	0.00	0.00	0.00		0.00	0.00		0.00
Other non-current liabilities	0.00	0.00	0.00	0.00	0.00	0,00	0.00	0.00	0,00
Total liabilities	4 004 500 00	4.050.004.00		101 000 00					
i otal liabilities	1,081,500.00	1,653,294.26	0.00	401,996.87	822,964.58	303,422.83	1,238,325.81	-5.61	-32,068.52
Net assets									
Capital assets									
Reserves									
Current year Surplus / (Deficits)	0.00	0.00	0,00	0,00	0.00	0.00	0.00	0.00	0,00
Accumulated surpluses / (deficits) prior year	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total net assets/ equity	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

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	TF Ukraine II SALW Mun. Destr.	TF NATO DEFENCE CAPACITY BUILDING	TF JWGDR Prof Dev Pgrm	TF Mauritania II	TF Building Integrity	TF Building Integrity - Phase 4	TF Explosive Detec	TF Georgia Professional Development	
Assets									
Current assets									
Cash and cash equivalents		15,175,017.08				1,179,496.20	326,545.76	136,268.63	222,011.72
Short term investments	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Receivables Prepayments	0.00	0.00	239.04	0.00	0.00	0.00	0.00	0.00	0.00
Other current assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Inventories	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
		15,175,017.08				1,179,496.20			222,011.72
Non-current assets Receivables Property, plant & equipment	0.00	0.00	0.00	0.00	0.00	·	0.00	0.00	0.00
Intangible assets	0.00	0.00	0.00	0.00	0.00		0.00	0.00	0.00
Other non-current assets	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		0.00	0.00	0.00
Total assets	14,427.02	15,175,017.08	288,486.36	312,414.36	121,550.52	1,179,496.20	326,545.76	136,268.63	222,011.72
Liabilities Current liabilities Payables Deferred revenue Advances	0,00 14,427,02 0.00	215.82 15,174,801.26 0.00	19,900.00 268,586.36 0.00	0.00 312,414.36 0.00					16,800.00 168,131.72
Short term provisions	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	0.00	0.00	0.00	0.00	0.00
Other current liabilities	0.00 14,427.02	0.00 15,175,017.08	0.00 288,486,36	0.00 312,414.36	0,00 121,550.52	0,00 1,179,496.20	0,00 326,545.76	0,00 136,268.63	37,080,00 222,011.72
Non-current liabilities									
Payables Long term provisions	0.00	0.00	0.00	0.00	0.00		0.00	0.00	0.00
Deferred revenue	0.00	0.00	0.00	0.00	0.00		0.00	0.00	0.00
Other non-current liabilities	0.00	0.00	0.00	0.00	0.00		0.00	0.00	0.00
Total liabilities	14,427.02	15,175,017.08	288,486.36	312,414.36	121,550.52	1,179,496.20	326,545.76	136,268.63	222,011.72
Net assets									
Capital assets Reserves									
Current year Surplus / (Deficits)	0.00	0.00	0.00	0.00	0.00		0,00	0.00	0.00
Accumulated surpluses / (deficits) prior year	0.00	0.00	0,00	0.00	0.00		0.00	0,00	0.00
Total net assets/ equity	0.00	0.00	0.00	0.00	0.00		0.00	0.00	0.00

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	TF UKRAINE L&S	TF UKRAINE CYBER DEFENCE	TF UKRAINE C4	TF UKRAINE MEDICAL REHABILITATION	TF UKRAINE EOD/CIED	TF IRAQ C-IED	TF NATO Defense & Security CampaignPilot phase	M ON	ication Activities In W- Balkans
Assets									
Current assets									
Cash and cash equivalents	1,002,379.51		3,203,331.49	1,928,301.32		0.00	119,840.00	29,621.31	39,242.61
Short term investments Receivables	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Prepayments	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other current assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Inventories	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	1,002,379.51	33,064.04	3,203,331.49	1,928,301.32	538,724.44	0.00	119,840.00		39,242,61
Non-current assets									
Receivables	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Property, plant & equipment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Intangible assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other non-current assets	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	0.00	0.00	0.00	0.00	0.00
Total assets	1,002,379.51	33,064.04	3,203,331.49	1,928,301.32	538,724.44	0.00	119,840.00	29,621.31	39,242.61
Liabilities Current liabilities Payables Deferred revenue Advances	0.00 1,002,379.51 0.00	0.00 33,064.04 0.00	107,533.12 3,095,798.37 0.00	120,000.00 1,808,301.32 0.00	0.00 538,724,44 0.00	0.00	4,102,00 115,738.00		0,00 39,242,61
	0.00	0.00	0.00	0.00	0.00	0,00	0.00	0,00	0.00
Short term provisions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0,00	0,00
Other current liabilities	0.00	0.00	0.00	0.00	0.00	0.00	0,00	0,00	0,00
	1,002,379.51	33,064.04	3,203,331.49	1,928,301.32	538,724.44	0.00	119,840.00	29,621.31	39,242.61
Non-current liabilities									
Payables	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0,00	0.00
Long term provisions Deferred revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0,00
Other non-current liabilities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Osial non-current nabilities	0.00	0,00	0,00	0,00	0,00	0,00	0.00	0.00	0,00
Total liabilities	1,002,379.51	22.004.04	7 000 004 40	4,000,004,00					
Total Habilities	1,002,378.51	33,064.04	3,203,331.49	1,928,301.32	538,724.44	0.00	119,840.00	29,621.31	39,242.61
Net assets									
Capital assets									
Reserves									
Current year Surplus / (Deficits)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Accumulated surpluses / (deficits) prior year	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total net assets/ equity	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

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								_	2018	2017
	TF NRC CAI IV	TF Counter Narcotics	TF NRC Theater Missile Defence 3	TF Monteneg ro	TF UK Stratcom	TF Iraq TCB	TF MIC- SPS G5395 FR MICR IMAG CURT	Women, Peace and Security		
Assets										
Current assets Cash and cash equivalents Short term investments Receivables Prepayments Other current assets Inventories	177,132.33 0.00 0.00 0.00 0.00 0.00	138,054.83 0.00 0.00 0.00 0.00 0.00	25,213.59 0.00 0.00 0.00 0.00 0.00	167,960.16 0.00 0.00 0.00 0.00 0.00	695,306.52 0.00 0.00 0.00 0.00	00.0 00.0 00.0 00.0	0.00 0.00 0.00 0.00	432,529.60 0.00 0.00 0.00 0.00	13,439,184.32 10,780,031.20 1,948,976,72 0.00 10,000,000.00	16,647,919,60 0,00 603,908,40 0,00 10,004,419,79
niventories		138,054.83		167,960.16	695,306.52	00.0 00.0	0.00	0.00 432,529.60	0,00 36,168,192.24	27,256,247.79
Non-current assets Receivables Property, plant & equipment Intangible assets Other non-current assets	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 0.00 0.00 0.00	0.00 0.00 0.00 0.00	00.0 00.0 00.0 00.0	00,0 00,0 00,0 00,0	0.00 0.00 0.00 0.00	00.0 00.0 00.0 00.0	0,00 0,00 0,00 0,00 0,00
Total assets	177,132.33	138,054.83	25,213.59	167,960.16	695,306.52	0.00	100,000.00	432,529.60	36,168,192,24	27,256,247.79
Liabilities Current liabilities Payables Defened revenue Advances	0.00 177,132.33 0.00	0,00 138,054.83 0.00	0.00 25,213,59 0.00	0.00 167,960.16 0.00	18,949.25 676,357.27 0.00	00.0 00.0 00.0	0.00 100,000.00 0.00	1,066.69 431,462.91 0.00	353,872.30 35,702,466.79 0.00	431,599.54 26,709,337.26 0.00
Short term provisions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other current liabilities	0.00	0.00	0.00	0.00	0.00	0,00	0.00	0.00	111,853.15	115,310.99
Non-current liabilities Payables Long term provisions Deferred revenue Other non-current liabilities	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 0.00 0.00 0.00 0.00	0.00 0.00 0.00 0.00	0.00 0.00 0.00 00.0	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 0.00 0.00	0.00 0.00 0.00 0.00 0.00
Total liabilities	177,132,33	138 054 83	25 213 59	167,960.16	695,306.52	0.00	100,000.00	422 528 CO	36,168,192.24	27,256,247.79
Net assets	177,102.30	100,004,00	20,210.00	101,500.10	830,308.32	0.00	100,000.00	432,825.80	30,100,132.24	27,256,247.79
Capital assets Reserves Current year Surplus / (Deścits)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Accumulated surpluses / (deficits) prior year	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0,00
Total net assets/ equity	0.00	00.0	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

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APPENDIX 1 to ANNEX 6 to FC(2019)0053

Extra Budgetary Funds Statement of financial performance

(All amounts in EUR)

	Notes	180600	150700	150800	0060SI	1S1000	IS1200	IS2000	182010	IS2040 IS	IS2050 IS	IS2060 II	IS2080 IS	IS2090	IS2100 IS	IS2105
		Von Karman Institute	Children Summer Camps	US Tramil	EW Trial Air	EW Trial Nav	Audit of Multi- Nationally Funded Bodies	TF Tajikistan II	TF Moldova	TF Azerbaijan (PFP Proj JCP)	TF I	TF Ukraine II Phase G 2	TF Georgia IV	TF CNAD 1	TF Jordan TF Jordan III IV	F Jordan IV
Revenue																
Non exchange revenue		0.0	21,434.93		415,745.48	121,429.19	-3,250.77		0.00	240,000.00	0.00	0.00	34,715,48	150,855,49	00'0	0.00
Exchange revenue		0.00	156,349.76	0.00	00.00	0.00	43,960.53		000	00'0	0.00	0.00	0.00	00'0	00'0	00'0
Other revenue		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	00'0	00.0	0.00	00'0	0.00	00'0	00'0
Financial revenue		0.00	0.00	58,095.79	0.00	00'0	00:00	00'0	00.0	00'0	0.00	000	00'0	0.00	00'0	00.00
Total revenue	1 1	0.00	0.00 177,784.69	986,594.43	415,745.48	121,429.19	40,709.76	0.00	0.00	240,000.00	0.00	0.00	34,715.48	150,855.49	0.00	0.00
Expenses																
Personnel		00'0	90,233.00	0.00	0.00	0.00	00.0	0.00	0.00	0.00	0.00	00'0	00.0	00'0	00'0	00.0
Contractual supplies and services		0.00	87,550.01	972,352.18	417,674.18	120,000.00	40,709.76		0.00	240,000.00	00.0	0.00	34,715,48	150,855,49	00'0	0.00
Depreciation and amortization		0.00	0.00	00.0	0.00	00.0	00'0	00'0	0.00	00.00	00.00	0.00	00'0	00'0	00'0	00.0
Impairment		0.00	0.00	00'0	0.00	00.0	00.00	00.0	0.00	00.0	00.00	0.00	00'0	00.00	00'0	00.0
Provisions		0.00	1.68	00.00	0.00	00.0	00'0	00'0	00'0	00'0	00.00	0.00	00'0	00.00	00'0	00:00
Other expenses		0.00	00:00	00'0	0.00	0.00	00.0	00'0	0.00	00.0	00.00	0.00	00'0	00.0	00'0	00.0
Finance costs		00:00	00.00	14,242.25	-1,928.70	1,429.19	0.00	00'0	00'0	00'0	0.00	0.00	00'0	00'0	00'0	00'0
	-1			` e		404 400 40	40.700.70			. 000 000			• 1	. 470 976		000
Total expenses	ı	9.0	U.UU 177,784.69	986,594.43	415,745.48 121,429.19	121,429.19	40,/08.76	0.00	3.0	240,000.00	0.00	0.00	34,715.48	150,835.49	0.00	0.00
Surplus/(Deficit) for the period		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	0.00	0.00
	1															

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APPENDIX 1 to ANNEX 6 to FC(2019)0053

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(All amounts in EUR)

	IS2110	IS2120	IS2130	IS2140	IS2160	IS2170	IS2191	182200	IS2201	IS2210	IS2220	IS2230	IS2240	182250	IS2260
	TF Serbia IV	TF Canada Crisis Mgmt Maurita	Giobal NAF (TF APM Destruction Belarus)	TF Ukraine II SALW Mun. Destr.	TF NATO DEFENCE CAPACITY BUILDING	TF JWGDR Prof Dev Pgrm	TF Mauritani a II	TF Building Integrity	TF Building Integrity - Phase 4	TF Explosive Detac	TF Georgia Professional Developmen t	TF UKRAINE MCT	TF UKRAINE L&S	TF UKRAINE CYBER DEFENCE	TF UKRAINE C4
Revenue Non exchange revenue	00.0	000	33,338,36	0.00	981.854.07	357,490,85	000	440.261.62	00'0	0.00	156,553,92	193.617.33	190,000,00	000	331,911,64
Exchange revenue	0.00	0.00	00.0		00'0		00'0	00.0	00.00	0.00	00.0	00.00	00.0	00'0	00.0
Other revenue	00.0	0.00	00.00	00'0	00.0	00'0	00.00	00'0	00.00	00'0	00'0	00'0	00.00	00'0	00'0
Financial revenue	0.00	0.00	1,684.93	0.00	00.0	537.23	00.00	45.73	00'0	00.00	1,344,71	51,14	00'0	00.0	00'0
Total revenue	0.00	0.00	35,023.29	0.00	981,854.07	981,854.07 358,028.08	0.00	440,307.35	0.00	0.00	157,898.63	193,668.47	193,668.47 190,000.00	0.00	331,911.64
Expenses	Š	8	ć	8	70 7.47 00	00 880 474 500 688 500	8	477 749 85	Ġ	6	25 000 AE	ć	6	6	8
Contractual curroline and contract	8 6	3 8	8 8	800	929 336 22	199 276 84	8 6	259 583 43	8 6	800	80.325.10	193 189 56	190 000 00	800	331 911 64
Depreciation and amortization	0.00	0.00	00.0	00.0	00'0		0.00	000	0.00	0.00	0.00	00.0	00.0	0.00	0.00
Impairment	00:00	00.0	00:00	00.00	00'0	00.00	00.00	00'0	00'0	00'0	00'0	00.00	0.00	0.00	00:00
Provisions	00'0	00.0	00.0	00'0	00'0	00.0	0.00	00:00	0.00	00.0	0.00	00.0	0.00	00'0	0.00
Other expenses	00:0	0.00	00.0	00:0	00:0	1,702.21	0.00	210.40	00'0	00'0	663.40	412.92	00.0	00'0	0.00
Finance costs	0.00	0.00	35,023.29	00'0	00'0	4.75	0.00	2,769.67	00'0	00'0	11.67	65.99	00.00	00'0	00'0
Total exnenses			35 023 29		981 854 07	981 854 07 358 028 08	000	440 307 35	00 0	800	157 898 63	193 668 47	190 000 00	000	331 911 64
			1					200					200		
Surplus/(Deficit) for the period	0.00	0.00	0.00	0.00	0.00	0.00	00.00	0.00	0.00	0.00	0.00	0.00	0.00	00.00	0.00

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(All amounts in EUR)

	IS2270	IS2290	IS2300	IS2310	IS2350 TF NATO-	IS2360	185000	155051	125060	1S5061	185070	185080	125090	1Se000	
	TF UKRAINE MEDICAL REHABILIT ATION	TF UKRAINE MEDICAL UKRAINE REHABILIT EOD/CIED ATION	TF IRAQ CHED	TF NATO Defense & Security Campaig n -Pilot phase	111	TF Communication Activities in W- Balkans	TF NRC CAI	TF Counter Narcotics	TF NRC Theater Missile Defence	TF Monteneg ro	TF UK Stratcom	TF Iraq TCB	TF MIC- SPS G5395 FR MICR IMAG CURT	Women, Peace and Security	_
Revenue															
Non exchange revenue	120,000.00	00:00	0.00	10,082.00	0.00	20,000.00	47,478.25	182,256.28	0.00	0.00	72,398.30	0.00	0.00	108,014.27	7
Exchange revenue	0.00	00'0	0.00	0.00	0.00	00.0	0.00	00.00	0.00	00.0	0.00	0.00	0.00	0.00	0
Other revenue	0.00	00.00	0.00	0.00	0.00	00.0	0.00	00.00	0.00	00.00	0.00	0.00	0.00	0.00	0
Financial revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2,949.23	0.00	0.00	350.43	0.00	0.00	0.00	0
Total revenue	120,000.00	0.00	0.00	10,082.00	0.00	20,000.00	47,478.25	185,205.51	0.00	0.00	72,748.73	0.00	0.00	108.014.27	1100
Expenses															
Personnel	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	40,900.26	0.00	0.00	45,368.18	go.
Contractual supplies and services	120,000.00		0.00	10,082.00	0.00	20,000.00	45,772.43	173,340.27	0.00	0.00	31,848.47	00.00	0.00	62,646.09	G
Depreciation and amortization	0.00	0.00	0.00	00.0	0.00	0.00	0.00	0.00	0.00	00:0	00.0	00.0	0.00	0.00	C
Impairment	0.00	0.00	0.00	00.0	0.00	0.00	0.00	0.00	0.00	00.0	00.0	0.00	0.00	0.00	0
Provisions	0.00	0.00	00.0	00.0	00.0	0.00	0.00	0.00	0.00	00.0	00:00	00.00	0.00	0.00	0
Other expenses	0.00	0.00	0.00	0.00	0.00	0.00	00:0	0.00	0.00	00.00	0.00	00.0	0.00	00:00	0
Finance costs	0.00	00'0	0.00	0.00	0.00	00'0	1,705.82	11,865.24	0.00	0.00	0.00	0.00	0.00	0.00	0
Total expenses	120,000.00	0.00	0.00	10,082.00	0.00	20,000.00	47,478.25	47,478.25 185,205.51	0.00	0.00	0.00 72,748.73	00.00	0.00	108,014.27	In-
Surplus(Deficit) for the period	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	0.00	0
															Į

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NORTH ATLANTIC TREATY ORGANIZATION ORGANISATION DU TRAITÉ DE L'ATLANTIQUE NORD

INTERNATIONAL BOARD OF AUDITORS FOR NATO COLLÈGE INTERNATIONAL DES AUDITEURS EXTERNES DE L'OTAN



NATO UNCLASSIFIED

IBA-A(2019)0142 29 November 2019

To:

Secretary General

(Attn: Director of the Private Office)

Cc:

Assistant Secretary General, Executive Management Division

Financial Controller, International Staff

Chairman, Resource Policy & Planning Board (RPPB)

Branch Head, Secretariat and Finance Branch, NATO Office of Resources (NOR)

Private Office Registry

Subject:

International Board of Auditors for NATO (IBAN) Auditor's Report and Letter of Observations and Recommendations on the audit of the Financial Statements of the NATO Coordinated Pension Scheme for

the year ended 31 December 2018 - IBA-AR(2019)0028

IBAN submits herewith its approved Auditor's Report (Annex 2) and Letter of Observations and Recommendations (Annex 3) with a Summary Note for distribution to the Council (Annex 1).

The IBAN report sets out an unqualified opinion on the financial statements of the NATO Coordinated Pension Scheme and an unqualified opinion on compliance for financial year 2018.

Yours sincerely,

Daniela Morgante

Chairman

Attachments: As stated above.

ANNEX 1

Summary Note for Council by the International Board of Auditors for NATO (IBAN) on the audit of the Financial Statements of the NATO Coordinated Pension Scheme for the year ended 31 December 2018

The NATO Coordinated Pension Scheme is an unfunded, defined benefit plan and applies to all NATO Staff recruited between 1 July 1974 and 30 June 2005. Members of staff recruited prior to July 1974 are members of the Provident Fund. Staff members recruited after 1 July 2005 are members of the Defined Contribution Pension Scheme.

The NATO Member states jointly guarantee the payment of benefits. The total decrease in net assets under the Pension Scheme for 2018 amounted to EUR 164.5 million (EUR 158.5 million in 2017). The actuarial present value of the pension liability of the scheme at 31 December 2018 was EUR 8.1 billion (EUR 6.9 billion at 31 December 2017).

IBAN issued an unqualified opinion on the financial statements of the NATO Coordinated Pension Scheme and an unqualified opinion on compliance for the year ended 31 December 2018.

During the audit, IBAN made two observations which do not impact the audit opinion:

- 1. Need for NATO as a whole to disclose Post-Employment Liabilities to comply with the NATO Accounting Framework (IPSAS 39 Employee Benefits).
- 2. Need to develop more effective internal controls over financial reporting.

IBAN also followed up on the status of observations from previous years' audit and found that four observations were closed and one observation is in progress.

The Auditor's report (Annex 2) and the Letter of Observations and Recommendations (Annex 3) were issued to the International Staff whose comments have been included, with the IBAN's position on those comments where necessary, see the Appendix to Annex 3.

ANNEX 2 IBA-AR(2019)0028

29 November 2019

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF

THE NATO COORDINATED PENSION SCHEME

FOR THE YEAR ENDED 31 DECEMBER 2018

ANNEX 2 IBA-AR(2019)0028

INDEPENDENT AUDITOR'S REPORT TO THE NORTH ATLANTIC COUNCIL

Report on the Audit of the Financial Statements

Opinion on the Financial Statements

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of the NATO Coordinated Pension Scheme for the 12 month period ended 31 December 2018, issued and submitted to IBAN on 31 march 2019. These Financial Statements comprise the Statement of Net Assets Available for Benefits as at 31 December 2018, the Statement of Changes in Net Assets Available for Benefits and the Explanatory Notes, including a summary of significant accounting policies.

In our opinion, the Financial Statements give a true and fair view of the statement of Net Assets Available for Benefits of the NATO Coordinated Pension Scheme as at 31 December 2018, and of its statement of Changes in Net Assets Available for Benefits ended 31 December 2018, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework and International Accounting Standard (IAS) 26, Accounting and Reporting by Retirement Benefit Plans.

Basis for Opinion on the Financial Statements

In accordance with the NATO Financial Regulations (NFRs), external audit of the NATO bodies pursuant to the North Atlantic Treaty shall be performed by IBAN.

We have conducted our audit in accordance with the International Standards of Supreme Audit Institutions (ISSAIs 1000-1810) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

We are independent in accordance with the INTOSAI Code of Ethics and we have fulfilled our other ethical responsibilities in accordance with these requirements. The responsibilities of the members of IBAN are more extensively described in the section «Auditor's Responsibilities for the Audit of the Financial Statements» and in our Charter. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

ANNEX 2 IBA-AR(2019)0028

Management's Responsibility for the Financial Statements

Management's responsibility for the financial statements is laid down in the NFRs. The Financial Statements of NATO Coordinated Pension Scheme are drawn up in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework as approved by the Council and International Accounting Standard (IAS) 26, Accounting and Reporting by Retirement Benefit Plans. The Financial Controller is responsible for submitting the Financial Statements for audit to IBAN not later than 31st March following the end of the financial year.

The Financial Statements are signed by the Head of the NATO body and the Financial Controller. In signing the Financial Statements, the Head of NATO body and the Financial Control confirm the establishment and maintenance of financial governance, resource management practices, internal controls and financial information systems to achieve the efficient and effective use of resources.

This confirmation covers the design, implementation and maintenance of internal controls relevant to the preparation and presentation of financial statements that are auditable and free from material misstatement, whether due to fraud or error. This also covers reporting on the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there are plans to liquidate the entity or to cease its operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

The objectives of the audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes an opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgement and maintain professional scepticism throughout the planning and performance of the audit. This involves taking into account Considerations Specific to Public Sector Entities. We also:

• Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures

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responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We are required to communicate with the bodies charged with governance, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our Independent External Auditor's Report is prepared to assist North Atlantic Council in carrying out its role. We are therefore responsible solely to the North Atlantic Council for our work and the opinion we have formed.

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Report on Compliance

Opinion on Compliance

Based on the procedures we performed, nothing has come to our attention, as part of our audit of the Financial Statements that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations.

Basis for Opinion on Compliance

We have conducted our compliance audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 4000) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

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

Management's Responsibility for Compliance

All NATO staff, military and civilian, are obligated to comply with the NATO Financial Regulations, associated Financial Rules and Procedures and internal implementing directives. These include the NATO Civilian Personnel Regulations.

The Secretary General is responsible and accountable for sound financial management. The financial administration of NATO bodies must incorporate the principles of propriety, sound governance, accountability, transparency, risk management and internal control, internal audit, external audit, and fraud prevention and detection.

Auditor's Responsibilities for Compliance

In addition to the responsibility to provide reasonable assurance about whether the financial statements as a whole are free from material misstatement, the IBAN Charter requires IBAN to provide independent assurance and report annually to the North Atlantic Council about whether funds have been properly used for the settlement of authorised expenditure (propriety) and are in compliance with the regulations in force (regularity). Propriety relates to the observance of the general principles governing sound financial management and the conduct of public officials. Regularity concerns the adherence to formal criteria such as relevant regulations, rules and procedures.

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This responsibility includes performing procedures to obtain independent assurance about whether funds have been properly used for the settlement of authorized expenditure and whether they have been used in compliance with the regulations in force. Such procedures include consideration of the risks of material non-compliance.

Brussels, 29 November 2019

Daniela Morgante

ANNEX 3 IBA-AR(2019)0028

29 November 2019

INTERNATIONAL BOARD OF AUDITORS FOR NATO

LETTER OF OBSERVATIONS AND RECOMMENDATIONS

FOR THE NATO COORDINATED PENSION SCHEME

FOR THE YEAR ENDED 31 DECEMBER 2018

ANNEX 3 IBA-AR(2019)0028

Introduction

The International Board of Auditors for NATO (IBAN) audited the NATO Coordinated Pension Scheme Financial Statements for the year ended 31 December 2018, and issued an unqualified opinion on the financial statements and an unqualified opinion on compliance.

Observations and Recommendations

During the audit, IBAN made two observations that do not impact the audit opinion.

- 1. Need for NATO as a whole to disclose Post-Employment Liabilities to comply with the NATO Accounting Framework (IPSAS 39 Employee Benefits).
- Need to develop more effective internal controls over financial reporting.

IBAN followed up on the status of the observations from previous years' audits and found that four recommendations are closed and one recommendation is in progress.

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OBSERVATIONS, CONCLUSIONS AND RECOMMENDATIONS

1. NEED FOR NATO AS A WHOLE TO DISCLOSE POST-EMPLOYMENT LIABILITIES TO COMPLY WITH THE NATO ACCOUNTING FRAMEWORK (IPSAS 39 EMPLOYEE BENEFITS)

Reasoning

- 1.1 The NATO Coordinated Pension Scheme is a defined benefit retirement plan that applies to staff recruited between 1 July 1974 and 30 June 2005. The Scheme, which is often referred to as the NATO Defined Benefits Pension Scheme (DBPS), is coordinated with five other international organisations that apply a common set of rules. The benefits of the NATO Coordinated Pension Scheme are paid from annual budgets approved by the North Atlantic Council. Funding sources consist of compulsory contributions from active staff, employer contributions of certain NATO bodies, and as a balancing resource, budgetary contributions by NATO member nations.
- 1.2 Administration services and secretariat support for the NATO Coordinated Pension Scheme are provided by the Pensions Unit of NATO International Staff (IS) Executive Management Division. The Pensions Unit assesses the entitlement to benefits payable under the NATO Coordinated Pension Scheme for the whole NATO community. Financial services, including preparing the financial statements are provided by the NATO IS Office of Financial Control (OFC).
- 1.3 As the NATO Accounting Framework (NAF) does not include a specific standard for accounting and reporting for pension and medical funds, the IS OFC applied the International Accounting Standard (IAS) 26 "Accounting and Reporting by Retirement Benefit Plans" for the accounting and presentation of the financial statements of the NATO Coordinated Pension Scheme. The Financial Statements of the Scheme are therefore prepared in accordance with the NATO Accounting Framework and with IAS 26. As the Scheme does not have any employees itself, International Public Sector Accounting Standards (IPSAS) 39 Employee Benefits does not apply to the financial statements.
- 1.4 According to IPSAS 39 Employee Benefits, "an entity shall recognize a liability when an employee has provided service in exchange for employee benefits to be paid in the future". Employee benefits are defined as future benefits granted by the employer to actual or former employees in exchange of their past service rendered. Post-employment benefits include benefits such as pensions and lump sum payments on retirement, post-employment life insurance and post-employment medical care.

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1.5 The post-employment benefit liability disclosed in the notes to the financial statements is based on an actuarial valuation produced on an annual basis by the International Service for Remuneration and Pensions (ISRP). The ISRP is a common service platform for six Coordinated Organisations including NATO, providing services for their pension schemes and remuneration policies. The actuarial valuation is based on comprehensive data provided by NATO of the affiliated population at the end of each year.

Observation

- 1.6 The NAF requires NATO Bodies with employees contributing to the NATO Coordinated Pension Scheme to comply with IPSAS 39 Employee Benefits and recognise a post-employment benefit liability in their financial statements. Therefore, all NATO Bodies with employees contributing to the NATO Coordinated Pension Scheme need in principle to recognise their share of the EUR 8.1 billion post-employment pension liability. Not doing so, would normally require an adaptation to the NAF.
- 1.7 Note 3 to the NATO Coordinated Pension Scheme Financial Statements discloses the EUR 8.1 billion total post-employment benefit liability for all NATO Bodies and other relevant information extracted from the annual actuarial report submitted by ISRP. The IS OFC did not recognise a liability for the post-employment benefits related to the NATO Coordinated Pension Scheme in its own Financial Statements, which is correct given that the Scheme itself does not have any employees.
- 1.8 Although this does not impact the Financial Statements of the NATO Coordinated Pension Scheme, IBAN found that the pension liability and associated disclosures related to the NATO Coordinated Pension Scheme are not included in any of the financial statements of NATO Bodies or Scheme.

Recommendation

1.9 IBAN recommends that the IS OFC, being the Financial Controller of the NATO Coordinated Pension Scheme, define the recognition criteria for the post-employment liability, ensuring that this liability is recognised in accordance with the NATO Accounting Framework (IPSAS 39 Employee Benefits).

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2. NEED TO DEVELOP MORE EFFECTIVE INTERNAL CONTROLS OVER FINANCIAL REPORTING

Reasoning

2.1 Financial statements need to be free from misstatements, mathematical errors, non-reconciling items, or any other errors or omissions caused by ineffective controls over the preparation process. The NATO Financial Regulations require NATO Bodies to develop effective internal controls, including reviews and reconciliations, to ensure the consistency and accuracy of information presented in the financial statements.

Observation

- 2.2 The disclosure notes to the Coordinated Pension Scheme Financial Statements included the following errors that could have been avoided if more effective controls and verification procedures were performed on the Financial Statements prior to submitting them for audit:
 - The information related to bank costs amounting to EUR 279 thousand disclosed in Note 17 "Other Decreases in Net Assets" actually relates to Interest Earned and Bank Charges, and should therefore have been disclosed in Note 14;
 - Note 4 "Cash and Cash Equivalents" states that "the increase in the level of cash holdings can be explained by contributions being paid faster by Nations". In fact, cash and cash equivalents significantly decreased in 2018 from EUR 48.34 million to EUR 27.22 million. As a result, the explanation provided in Note 4 is inconsistent with the balances shown in the Statement of Net Assets Available for Benefits in the Financial Statement;
 - The refundable surplus from Nations' contributions amounting to EUR 145 thousand in 2018 is incorrectly disclosed in Other Liabilities, when it was in fact at year end an asset that should therefore have been recorded as a receivable. This balance needs to be recorded as a receivable because the total actual costs are higher than the requested total contributions from Nations;
- 2.3 In addition, although the number of 3,943 affiliates disclosed in the 2018 financial statements is correct, this number could not be reconciled with the number of 3,931 affiliates disclosed in the ISRP 2018 actuarial valuation report. The number of 3,943 pensioners was confirmed by the Pensions Unit of NATO IS Executive Management as being correct and ISRP was informed of this error. All relevant information disclosed in

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the financial statements needs to be reconciled with the actuarial valuation report to ensure that errors and other discrepancies are avoided.

Recommendation

2.4 IBAN recommends that in order to prevent and detect errors, IS OFC develop more effective internal controls over the financial statements preparation process, such as by documenting verification procedures of information and amounts presented in the financial statements prior to their submission for audit.

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FOLLOW-UP OF PREVIOUS YEAR'S OBSERVATIONS

IBAN followed up on the status of observations from the previous years' audit. The observations, actions taken by the auditee as reviewed by IBAN, and their status are summarised in the table below.

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
(1) Pension FY 2017 IBA-AR(2018)29, paragraph 1		
LATE ISSUANCE OF THE FINANCIAL STATEMENTS		Observation Closed.
Board's Recommendation The financial statements of the NATO Coordinated Pension Scheme were received by the Board on 28 June 2018, thus not respecting the requirements of the NFRs. The late issuance of the financial statements results in a qualification on compliance for the 2017 Coordinated Pension Scheme Financial Statements.	IBAN has noted the progress and improvements made to issue on time the financial statements for the year ended 31 December 2018.	
(2) Pension FY 2016 IBA-AR(2017)31, Paragraph 2		
INSUFFICIENT CONTROLS OVER FINANCIAL REPORTING		Observation Closed .
Board's recommendation The preparer of the financial statements should keep detailed supporting working papers in order to be able to support any balance presented or information	Sufficient information was available to support the information disclosed in the financial statements for the year 2018.	
disclosed in the financial statements. Moreover, the IS must be able to provide details for each ERP asset / liability account in order to allow proper follow-up of the balances.	Different income transactions were still recorded together in a limited number of accounts. However IBAN was provided with sufficient supporting details concerning these transactions.	
The Board recommends recording income and expense transactions, different by nature, in separate accounts, such as:	Improvement of the transparency and availability of accounting data noted. Also more extensive use of ERP workflows noted.	
 unrealized gain/loss; gain/loss from foreign currency purchases; 	Overall improvement of the quality of financial statements noted. Some	

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OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
contributions;inward/outward transfers;other types of income/expense.	insignificant discrepancies noted in the Financial Statements.	
The Board recommends improving the transparency and availability of the accounting data. Where technically possible and practicable, the Board recommends linking transactions in ERP to the specific counterparty in order to be able to trace changes in respective balances receivable and/or payable to these counterparties. Using standard ERP workflows instead of manual adjustments is encouraged. In situations when aggregated data is entered in the accounting program, underlying supporting details (summaries, listings, calculations, etc.) should be available within the ERP and should be subject to proper verification and approval within the system.	No issue identified regarding the overstatement of the balance of receivables from International Staff at year-end. A Formal inter-entity balance confirmations process between all entities, which have financial statements prepared by the IS Office of Financial Control has been established for the year 2018.	
The Board recommends strengthening the multi-level financial statements review process in order to improve the overall quality of the produced financial statements and their compliance with applicable reporting frameworks.		
The Board recommends performing, at least annually, formal inter-entity balance confirmations between all entities who have financial statements prepared by the IS Office of Financial Control.		
(3) Pension FY 2016 IBA-AR(2017)31, Paragraph 5		
DISCLOSURE OF RESULTS OF THE ACTUARIAL VALUATION USING 2016 DATA		Observation Closed.
Board's recommendation The Board recommends aligning the reporting timelines for the financial statements and the ISRP actuarial valuation of NATO Coordinated Pension	IBAN has noted the progress and improvements to make the actuarial valuation for the year ended 31	

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OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
Scheme pension obligation in order to ensure that the financial statements include the data on actuarial valuation for the respective year.	December 2018 available for the issuance of the financial statements.	
(4) Pension FY 2015 IBA-AR(2017)23, paragraph 5		
SIGNIFICANT DELAYS IN PROVIDING INFORMATION REQUIRED FOR THE AUDIT		Observation Closed.
Board's recommendation The Board recommends that the IS Office of Financial Control provide required information to the Board in a timely manner. In order to meet the Board's deadlines, less flexibility will be provided in future audits.	IBAN has noted improvements in the timelines of the submission of the information during the financial audit. There was no issue regarding information provided for the audit of the Coordinated pension scheme for the year 2018.	
5) Pension FY 2015 IBA-AR(2017)23, paragraph 8		
UNCLEAR FOREIGN CURRENCY CONVERSION POLICY		Observation In progress.
Board's recommendation The Board recommends developing and implementing a comprehensive policy on the accounting and reporting of transactions and balances, stated in	The formal policy on the accounting and reporting of transactions and balances stated in foreign currencies has not been implemented.	
foreign currencies. The Board recommends that monetary assets and liabilities at year-end be revalued into EUR at the year-end foreign exchange rates.	No material issues or findings in the year end revaluations of balances stated in foreign currency have been found by IBAN during the audit of the financial statements for the year 2018.	

The Open status is used for recommendations that are open and for which no notable progress has been achieved to date. The In-progress status is used for open recommendations when the NATO Body has started to implement the recommendation or when some (but not all) sub-recommendations are closed. The Closed status is used for recommendations that are closed because they have been implemented, are superseded, or have lapsed.

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INTERNATIONAL STAFF (IS) FORMAL COMMENTS ON THE LETTER OF OBSERVATIONS AND RECOMMENDATIONS AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS

OBSERVATION 1:

NEED FOR NATO AS A WHOLE TO DISCLOSE POST-EMPLOYMENT LIABILITIES TO COMPLY WITH IPSAS 39 EMPLOYEE BENEFITS

International Staff's Formal Comments

A. The point raised by IBAN does not concern the accounting treatment of the NATO Coordinated Pension Scheme but that of all NATO bodies who submit separate financial statements.

The NATO Coordinated Pension Scheme is a post-employment benefit plan. There are no IPSAS standards for accounting and reporting by post-employment benefits plans. The NATO Accounting Framework does not have any specific provisions for post-employment benefit plans. As a consequence, the IS Office of Financial Control has applied International Accounting Standard 26 "Accounting and Reporting by Retirement Benefit Plans" for the related financial statements. We note that this observation and recommendation has no impact on the opinion on the accounts, neither on compliance, of the NATO Coordinated Pension Scheme.

- B. Before 2006, in trying to get ready for IPSAS compliance, when analysing the implications of the then IPSAS 25 (now IPSAS 39), it was considered that no NATO body would disclose any proportion of the RMCF or of NATO Coordinated Pension Scheme liability. The practical reasons were:
 - It would be difficult and costly to identify an objective set of criteria to break down the liability among the NATO bodies (e.g. some staff move from one NATO body to another; some NATO bodies are closed and no longer exist without transfer of liability to another NATO body);
 - Any breakdown would require fixing a number of arbitrary parameters that could be challengeable or considered irrelevant;
 - Breaking down the information into a number of little pieces (by NATO body) would blur the overall information;
 - Having each NATO body disclose a proportion of the liability would give the impression that each NATO body is individually liable, which is not the case.

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More generally, the IS OFC believes that whilst each NATO body is responsible for paying the pension contributions related to its own staff, as provided by the NATO Civilian Personnel Regulations, its financial responsibility as an individual NATO body stops there. None of the NATO bodies to which IBAN refers and who issue their own financial statements has an obligation to pay future related benefits such as pension benefits, be it for its former staff or any proportion of former NATO staff. In this respect, the IS OFC believes that each individual NATO body cannot be considered individually liable. We are not aware of any NATO regulations (NFR, CPR or other) that would have such provisions. We, therefore, believe that the idea (see paragraph 1.6 of the observation) that the individual NATO bodies would carry a share of the overall pension liability, and that therefore it should be disclosed, is not properly justified.

In consideration of the above, in order to avoid any confusion, we consider that a clarification at the level of the NATO Accounting Framework is preferable and should be sought.

IBAN's Position

IBAN acknowledges that the liability amounting to EUR 8.1 billion related to the NATO Coordinated Pension Scheme is in practice borne centrally by NATO as a whole. This is because Nations have agreed that pension contributions are called up and paid centrally on behalf of all NATO Bodies. However, applying the reasoning described by the OFC has led to the current situation, whereby this significant liability is not recognised in any of the financial statements of NATO, which in overall terms cannot be compliant with IPSAS 39 and therefore with the NATO Accounting Framework. IBAN therefore has amended the observation and recommendation to reflect this point.

OBSERVATION 2:

NEED TO DEVELOP MORE EFFECTIVE INTERNAL CONTROLS OVER FINANCIAL REPORTING

International Staff's Formal Comments

The recommendation is agreed.

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NATO COORDINATED PENSION SCHEME FINANCIAL STATEMENTS

For the year ended 31 December 2018

Annexes	
1	Statement of Net Assets Available for Benefits
2	Statement of Changes in Net Assets Available for Benefit
3	Notes to the Financial Statements

Jens STOLTENBERG Secretary General

Stephane CHAGNOT Financial Controller

Annex 1 to FC(2019)0044

NATO COORDINATED PENSION SCHEME Statement of Net Assets Available for Benefits

(All amounts in EUR)	Notes	Current Year	Previous Year
		31-Dec-18	31-Dec-17
Assets			
Cash and cash equivalent	4	27,216,210.62	48,336,753.88
Financial investment	5	40,000,000.00	40,000,000.00
Staff member contributions receivable	6	368,164.67	549,197.06
Employer contribution receivable	7	1,352,786.02	1,311,689.94
Nation contributions receivable	8	144,756,106.41	113,969,650.36
Pension adjustments contribution receivable	9	25,436,772.09	19,807,575.69
Credit for past service to be refunded by staff	10	65,962.93	76,915.45
Other	11	456,687.83	270,127.75
Total assets		239,652,690.57	224,321,910.13
Liabilities			
Contributions called for y+1	8	163,964,400.00	154,542,700.00
Voluntary advances	8	659,149.87	0.00
Pension adjustments called for y+1	9	27,543,000.00	27,109,100.00
Other	12	550,732.92	419,791.48
Total Liabilities		192,717,282.79	182,071,591.48
Net assets available for benefits	13	46,935,407.78	42,250,318.65

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THE NATO COORDINATED PENSION SCHEME Statement of Changes in Net Assets Available for Benefits

(All amounts in EUR)	Notes	Current Year	Previous Year
		31-Dec-18	31-Dec-17
Increase in net assets		1,058,659.18	157,810.10
Interest income	14	24,600.67	-225,121.92
Transfers from other pension funds	15	947,287.18	199,660.66
Other	16	86,771.33	183,271.36
Contributions		168,123,326.27	158,349,731.20
Staff members	6	15,308,114.68	16,231,956.37
Employers	7	292,980.18	550,055.43
Nations	8	152,802,326.98	141,567,719.40
Regularizations previous years		-280,095.57	0.00
Tax adjustments	9	27,176,320.84	25,924,447.09
Total increase in net assets available for benefits		196,358,306.29	184,431,988.39
Decrease in net assets		164,496,896.32	158,480,172.78
Pension benefits	18	164,147,209.15	157,977,212.21
Leaving allowances	18	0.00	148,401.18
Other costs	17	69,894.83	70,293.06
Bank costs	14	279,792.34	284,266.33
Tax adjustments	9	27,176,320.84	25,924,447.09
Total decrease in net assets available for benefits		191,673,217.16	184,404,619.87
Net change for the year		4,685,089.13	27,368.52
Net assets available for benefits, beginning of year		42,250,318.65	42,222,950.13
Net assets available for benefits, end of year		46,935,407.78	42,250,318.65

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EXPLANATORY NOTES TO THE 2018 FINANCIAL STATEMENTS OF THE NATO COORDINATED PENSION SCHEME

NOTE 1: GENERAL INFORMATION

Description

The NATO Coordinated Pension Scheme is a defined benefit retirement plan that applies to NATO staff recruited between 1 July 1974 and 30 June 2005. NATO staff recruited before 1 July 1974 are participants in the NATO Provident Fund, a defined contribution retirement plan. NATO staff recruited after 30 June 2005 are participants in the NATO Defined Contribution Pension Scheme (DCPS), also a defined contribution retirement plan.

NATO IS operates the Coordinated Pension Scheme for all NATO staff. This Scheme is often referred to as the NATO Defined Benefit Pension Scheme, and is hereafter referred to as the NATO DBPS.

The NATO DBPS is coordinated with five other international organisations: the Council of Europe, the European Centre for Medium Range Weather Forecast, the European Space Agency, the Organisation for Economic Cooperation and Development and the Western European Union (extinct as off 2011). These Coordinated Organisations apply a common set of rules concerning the present defined benefit retirement plan. These rules are initiated and recommended by the Coordinating Committee on Remuneration and are approved by the North Atlantic Council. They are embedded in the NATO Civilian Personnel Regulations (CPRs), Annex IV.

The scheme includes provisions for retirement, invalidity, survivor, orphan and dependent pensions. Benefits paid are usually calculated as a proportion of the staff member's final salary, based on the number of reckonable years of service. NATO civilian staff recruited between 1 July 1974 and 30 June 2005 become eligible for a retirement pension after 10 years of service; those who depart before 10 years of service receive a leaving allowance. The details of the conditions and entitlements of each component of the NATO DBPS are laid down in Annex IV of the CPRs.

Financing Policy

The benefits of the NATO DBPS are paid from annual budgets approved by the North Atlantic Council. Funding sources consist of compulsory contributions from active staff, employer contributions of certain NATO bodies, and, as a balancing resource, budgetary contributions by NATO member Nations. Contrary to most, if not all, of the other Co-ordinated Organisations, NATO has not set aside funds to be invested to fund future costs and, therefore, NATO's funding of the Coordinated Pension Scheme is on a pay-as-you-go basis.

Staff Contributions

The rate of the staff contribution is set so as to represent the cost, in the long term, of one-third of the benefits provided at the coordinated level. Therefore this rate is not specific to NATO; it is the same for all the Coordinated Organisations.

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The staff contribution rate is adjusted in accordance with the result of an actuarial study which is carried out every 5 years. This rate has been increasing over time. It was 7.0% from the inception of the scheme until it was brought to 8.0% in 1995. The rate was further increased to 8.3% in 2000 and to 8.9% in 2005.

As of 1 January 2010, contributions to the NATO DBPS from serving staff increased from 8.9% to 9% of their basic salary, further to a change in the method used to calculate such rates in order to take account of the closure of the pension scheme in certain Coordinated Organisations. The rate was increased to 9.5% as from 1 January 2015.

Employer contributions

In specific cases, and in particular for a few NATO activities, limited either in time or in numbers of personnel, or with a specific financial basis, Nations decided that the pension liability is best discharged through a contribution equal to twice the staff contribution rate from the annual budget of the concerned activity or NATO entity (BC-WP(83)3(Revised) paragraph 5(1) and C-M(83)34). This contribution is considered as an employer's contribution. This contribution, together with the staff's, is deemed to provide the necessary funds for the subsequent pensions liability of the entities concerned. Employer contributions are due from the following NATO bodies: the NATO Headquarters Staff Centre (closed in 2018), the New NATO Headquarters Project Office (NHQPO), the Munitions Safety Information Analysis Centre (MSIAC), the NATO Naval Forces Sensor and Weapon Accuracy Check Sites (FORACS), the NATO Battlefield Information Collection and Exploitation Systems (BICES) Agency and the NATO Alliance Ground Surveillance Management Agency (NAGSMA).

Nations' contributions

The member states jointly guarantee the payment of benefits. Should a country, being a member or ex-member of the Organisation, fail to comply with its obligations, the other countries shall meet the cost thereof in proportion to their contributions to the budget of the Organisation as fixed annually from and after the said country's default (article 40.4 of Civilian Personnel Regulations, Annex IV).

Contributions from member states are called once a year based on the authorized annual budgets. They are calculated as the difference between the anticipated benefits due for the year under review and the main sources of funding, primarily staff contributions and employer's contributions. The NATO DBPS is funded through two separate budgets approved by the North Atlantic Council, one for the International Staff and the other for the Military Budgets which includes NATO agencies.

The related calls for contributions are issued in advance, usually towards the end of the preceding year. Costs are shared among NATO member countries based on the cost-shares applicable to the NATO body for which the staff member worked before he/she became a beneficiary of the scheme. In practice, the annual call is based on a weighted average of each NATO body's cost-share weighted by the related pension costs as per the latest available financial statements.

Management of the DBPS

Administrative services and secretarial support are provided by the Pensions Unit of NATO-IS Human Resources. In the framework of the coordinated system, this unit is referred to as Computation Unit II. The Pensions Unit assesses the entitlement to benefits payable under

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the DBPS for the whole NATO community. Financial services are provided by the NATO-IS Office of Financial Control (OFC). The OECD's International Service for Remunerations and Pensions (ISRP) provides overall support concerning the global NATO DBPS (actuarial studies, adjustment calculations, etc.).

An Administrative Committee on Pensions of the Coordinated Organizations (CAPOC) was set up to ensure that provisions of the Pension Scheme Rules are uniformly applied at the coordinated level.

None of the above-mentioned management services provided by NATO and the ISRP are charged to the NATO DBPS (see note on Related Parties).

Pension Adjustment

The recipient of a pension is entitled to an adjustment applying to the member country of the organisation in which the pension and adjustment relating thereto are chargeable to income taxes under the tax regulations in force in that country. This adjustment (sometimes referred to as "tax adjustment") concerns members of the NATO DBPS and of the DCPS. The adjustment equals 50% of the amount by which the recipient's pension would theoretically need to be increased, were the balance remaining after deduction of the amount of national income tax or taxes on the total to correspond to the amount of the pension calculated in accordance with the rules of the NATO DBPS or of the DCPS.

The adjustment is borne by the country in which the recipient is subject to taxes on income for the period considered and, therefore, separate accounts are drawn up for each individual country.

For practical reasons, the operations relating to the adjustment of pensions are included in the present financial statements rather than in a separate set of financial statements.

A specific call for contributions is issued to the countries concerned.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

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

Declaration of conformity

The financial statements of the NATO DBPS have been prepared in accordance with the NATO Financial Regulations and International Accounting Standard 26, "Accounting and Reporting by Retirement Benefit Plans". The NATO Accounting Framework, which is an adapted version of the International Public Sector Accounting Standards (IPSAS), does not have a specific standard for accounting and reporting by retirement benefit plans

The accounting system currently used by the NATO DBPS is accrual based.

The financial statements summarise the transactions, net assets available for benefits and the changes in net assets available for benefits. In accordance with IAS 26 the actuarial present value of promised retirement benefits of the NATO DBPS is presented in Note 3.

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Basis of presentation

The financial statements have been prepared on a going-concern basis: the NATO DBPS will continue in operation for the foreseeable future.

The amounts shown in these financial statements are presented in EUR.

Changes in accounting policy

None in 2018.

Reclassification of financial statements of previous year

None in 2018.

Use of estimates

In the application of accounting policies judgments, estimates and assumptions are made about carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. Estimates include, but are not limited to: the long term obligation of the NATO DBPS and receivables.

Foreign currency transactions

NATO entities pay their staff's contributions in various currencies (EUR mostly, GBP, USD, NOK, PLN and DKK) normally in the bank accounts denominated in the same currency. Contributions from the Nations to the pension budget and for the pension adjustment are exclusively called in EUR at the year-end for the following year and received in the EUR bank account.

Benefits are paid in various currencies. Benefits are calculated by reference to salary scales applicable to the country of the staff member's last posting. However the staff member may opt for the scale applicable to another country if the former staff member settles subsequently: in a member country of one of the Coordinated Organisations of which he is a national, or in a member country of one of the Coordinated Organisations of which his spouse is a national, or in a country where he/she has served at least five years in one of the organisations of the Coordinated Organisations. As a consequence payments are made in a variety of currencies such as: EUR, AUD, CAD, CHF, DKK, GBP, NOK, NZD, SEK, THB, TRY and USD.

Foreign currency transactions are accounted for at the NATO exchange rates prevailing on the date of transactions. The monetary assets and liabilities at year-end are reported in EUR using the NATO rates of exchange that were applicable at year-end.

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 recognized as expenses and revenues.

Cash and Cash equivalents

Cash and cash equivalents are defined as short-term assets. They include cash in banks, term deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash.

Financial Investments

Financial investments with a fixed redemption value, acquired with the intention to be held to maturity, matching DBPS obligations or parts thereof, are recognised at ultimate redemption value.

Receivables

Receivables are stated at their book value. No allowance for loss is recorded for receivables relating to NATO bodies' statutory contributions or to national contributions.

Payables

Payables are amounts due to third parties based on rights acquired by staff or pensioners, or services provided that remain unpaid. This includes, as required, an estimate of the related accrued obligation for rights not liquidated, or services provided but not yet invoiced.

Financial instruments

The NATO DBPS uses non-derivative financial instruments as part as its normal operations. These financial elements include bank accounts, deposit accounts, accounts receivable and provisions. The NATO DBPS has also invested in a 3-year capital-guaranteed note yielding 3-month Euribor but with a minimum of 0.03%. The note is intended to be held to maturity in order to match obligations of the DBPS.

Cash and equivalents are recognised in the statement of financial position at their fair value. The 3-year note with capital guarantee is recognised at redemption value at maturity.

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

Credit risk

The NATO DBPS incurs credit risks from cash, cash equivalents and a note held with banks, and receivables.

Credit risk on cash and cash equivalents is managed by holding current accounts and short term highly liquid deposits that are readily convertible to a known amount of cash held a with registered banking institution with the following ratings (short term).

ING Bank Credit Ratings as off 01/03/2019 are:

ING Bank	Fitch	Moody's	S&P	
Short term	F1	P1	A-1	

A "floored floater" 3-year, capital-guaranteed note held with a registered banking institution has the following ratings.

Credit Ratings as at 08/03/2019

	Fitch	Moody's	S&P	
Ratings	A	A2	A-	

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Credit risk is also managed by maintaining control procedures over receivables. These consist essentially of contributions due from NATO member countries. This risk is considered limited since these countries are generally considered creditworthy. Similarly, the risk linked to employer or staff contributions due from NATO bodies is considered limited since, with the exception of the Staff Centre, these bodies are directly funded by member Nations or indirectly in the case of customer funding.

Currency risk

The NATO DBPS is exposed to foreign currency exchange risk arising from fluctuations in currency rates. The scheme receives contributions in EUR from member Nations. It receives mostly EUR but also GBP, USD, NOK, PLN and DKK from NATO bodies. As explained above, benefits due to participants in the scheme are in various currencies. Payments are made mainly in EUR. The table below provides a breakdown of the DBPS pension related payments by currency. Foreign currencies are purchased as needed on a monthly basis keeping foreign currency holdings at a minimum. There is therefore very little currency risk because cash and cash equivalent balances on bank accounts in foreign currencies are always a small percentage of the cash and equivalents.

Currency	Percentage/EUR
EUR	83.99%
GBP	8.45%
USD	2.95%
NOK	1.37%
DKK	1.34%
CAD	1.12%
TRY	0.44%
CHF	0.14%
AUD	0.06%
THB	0.05%
MXN	0.04%
NZD	0.03%
SEK	0.03%
PLN	0.01%
Total	100%

The calls for contributions from Nations related to Pension Adjustment are in EUR. Pension Adjustments paid to pensioners are primarily in EUR. There is therefore very little currency risk.

Liquidity risk

A liquidity risk could arise from an unforeseen short term liquidity requirement. There is a very limited exposure to liquidity risk because contributions ensure funding commensurate with budgeted benefit disbursements and are called in advance, and because member states jointly guarantee the funding of this pension scheme. Some limited risk could be due to the validity of forecasts used for the NATO DBPS budget formulation. However, past history shows that this process results in surpluses.

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The outflows of cash follow fairly regular paths and so do the staff and employer contributions but the latter are of a smaller amount. While the timing of member Nations' contributions is not entirely predictable, staff and employer contributions as well as benefit outflows are very stable. The budgetary surplus shields NATO DBPS from liquidity risk.

Cash, cash equivalents, and the capital-guaranteed note are managed to avoid liquidity risk.

The calls for contributions related to the Pension Adjustment tend to be lower than the actual requirement due to difficulties in making accurate forecasts. This situation generates a liquidity risk that is managed through the excess cash on the DBPS side.

Interest rate risk

The scheme is restricted from entering into borrowings and therefore, there is no related interest rate risk.

Market risk

The bank-guaranteed note yields 3-month Euribor with a minimum of 0.03%. There is no currency risk attached to it since it is in EUR. The capital is guaranteed. Fluctuations in the euro interest rates will affect the market value of the note if sold before maturity, which is not the intention. The principal corresponds to funds the DBPS has no intention to use in the immediate future, it matches DPBS obligations and relates to inward transfers of pension rights by staff members from their previous pension schemes.

NOTE 3: ACTUARIAL VALUATION

In 2018 the International Service for Remunerations and Pensions (ISRP) decided to update its actuarial model known as the Projection of Pensions and Staff Costs model. This updated model was subject to an external review and validation of its calculations and output. The conclusion was that the new model appears to be a reasonable way to assess the value of the liabilities within the Co-ordinated Organisation schemes. A reconciliation exercise was conducted between the output of the updated model and the calculations produced by the previous model, with differences which were either not material or explainable and therefore were considered acceptable.

An actuarial study was conducted early 2019 by the OECD ISRP using the updated model to assess the value of the long term NATO post-employment medical care obligation.

The new DCPS was created on 1 July 2005 and thereafter the NATO DBPS was closed to new entrants.

The evaluation of the situation end 2018 results in an overall present value of MEUR 8,076.

The methodology is based on the Projected Unit Credit Approach, this method is recognised by the IFRS/IPSAS standards.

Endogenous assumptions taken into account are:

 Probability that a staff member leaves the Organisation, retires, or becomes invalid, etc. - Annual salary increase and impact due to career progression: 0.24% above inflation (previous: 0.27%)

Exogenous assumptions taken into account are:

- Discount rate in nominal value for post-employment medical care: 0.85% (previous 1.14%)
- Price inflation in the long run: 2% (previous 2%)
- Rates of mortality for both active staff and pensioners (mortality table International Civil Servant Life Table 2018 ICSLT2018, source ISRP/EUROSTAT, which is based on data covering several international organizations in Europe, including NATO and the European Union.).(previous table was ICSLT2013).

The previous actuarial study estimated that the value of the obligation for post-employment medical care at the end of 2017 was MEUR 6,891. The liability at the end of 2018 can be obtained as follows:

(amounts in MEUR)

Evaluation of the obligation at year end 2017	(a)	6,891
Benefits paid	(b)	164
Interest cost	(c)	78
Current service cost	(d)	161
Obligation at year end 2017 projected into 2018	(e)=(a-b+c+d)	6,966
Actuarial loss (gain) on obligation	(f-e)	1,110
Evaluation of obligation at year end 2018	(f)	8,076

The actuarial loss is MEUR 1,110 (i.e. the positive difference between the obligation estimated at the end of the current year by the new study and the obligation resulting from the previous study at the end of previous year projected into the current year). An analysis of the actuarial loss is provided in the following table.

Type of of loss (gain)	Amount in MEUR	% of year end liability
Experience	209	2.6%
Assumption	-170	-2.1%
Assumption	650	8.0%
Assumption	421	5.2%
		13.7%
	Experience Assumption Assumption	Experience 209 Assumption -170 Assumption 650

By definition actuarial valuations are largely dependent on the endogenous and exogenous parameters. Therefore changes to the latter can result in material changes to the final evaluation of the obligation.

The significant increase in life expectancies reflected in the new mortality table ICSLT2018 had a significant impact. This new mortality table was approved in 2018. It is an update of the previous ICSLT2013 table produced using historic population data from a number of European based international organisations. It is therefore deemed to constitute a more realistic assumption.

In this case, the discount rate was decreased, by 29 basis points, from 1.14% to 0.85%.

The discount rate refers to market yields on high quality corporate bonds. For the purpose of this actuarial study, in the absence of a market for Eurozone corporate bonds with maturities longer than 18 years, the Euro area government bond yield curve was used instead as a reference to discount the liabilities of the NATO Co-ordinated Pension Scheme. This resulted in the discount rate of 0.85%, compared to the previous 1.14% (and before 0.89%, 1.51%, 1.33% and 2.77%).

Use of the ever-changing market value reference discount rate is likely to result in substantial changes of the actuarial valuations. Considering that the present interest rates used for the actuarial study are historically low, the use of a higher discount rate in the future would result in a decrease in the valuation of the liability.

The table below provides a sensitivity analysis for each significant actuarial assumption as of the end of the reporting period.

	Amounts in MEUR	Change
Base liability	8,076	-
Discount rate -1%	10,038	24%
Discount rate +1%	6,629	-18%
Inflation -1%	6,700	-17%
Inflation +1%	9,894	23%
Mortality rate shifted by +1 year	7,740	-4%
Mortality rate shifted by -1 year	8,419	4%

Any potential liabilities regarding medical expenses for present and future pensioners are reported in the financial statements of the RMCF.

There could be an additional long term obligation in relation to the adjustment of pensions for countries in which pensions are subject to national tax legislation. This obligation is not an obligation of the NATO DBPS and, therefore, it is not reported here.

NOTE 4: CASH AND CASH EQUIVALENTS

Separate bank accounts are held in various currencies (AUD, CAD, CHF, DKK, EUR, GBP, NOK and USD) in order to ensure payments. Payments are made in other currencies (e.g. NZD, SEK,TRY); they are usually made from the EUR bank account.

Cash is held on account of third parties in the amount of EUR 58,980.38 (same as end 2017). These funds belong to Nations, members of former NAMSA (now NSPA), who decided that amounts credited to them further to the transfer of staff from the Provident Fund to the DBPS (validation costs) would be kept at their disposal. Five Nations are concerned. These funds can be used to fund part of their budgetary contributions to the DBPS.

The increase in the level of cash holdings can be explained by contributions paid faster by Nations.

NOTE 5: FINANCIAL INVESTMENTS

In 2016, in a market context where low-risk deposits in euro offered negative interest an amount of EUR 40,000,000 was invested in a Belfius Bank guaranteed capital note maturing in June 2019 yielding the 3-month Euribor rate but with a floor of 0.03%. The 3-year maturity is

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consistent with a conservative assessment of when these funds might be required for disbursement. The EUR 40 million is related to inward transfers from national pension schemes so are not subject to disbursement in the near term.

This note is recognized at its redemption value because it is held to maturity and corresponds to DBPS future requirements. It is an "over the counter" (OTC) investment, not publicly traded. However, if it were marketable and if it were held for sale, its reported value would be based on current interest rate market conditions. At 31 December 2018, that notional market value would have represented an unrealised gain of EUR 36 thousand. The most recent estimated value on 12 March 2019 represented a notional unrealised gain of EUR 13 thousand.

This is the only non-cash-equivalent investment held by DBPS.

NOTE 6: STAFF MEMBER CONTRIBUTIONS

Staff member contributions are paid monthly by the NATO payroll centres. Since 1 January 2015, contributions to the NATO DBPS from serving staff have been 9.5% of basic salary (previous contribution rate was 9.0% since 1 January 2010). The reduction in the number of contributing staff, as newly recruited staff are members of the DCPS, results in reductions in the value of staff member contributions. This trend is partially offset by the increase of the contribution rate.

Outstanding amounts are contributions due on staff salaries for December from several NATO entities, which were all received in early 2019.

NOTE 7: EMPLOYER CONTRIBUTIONS

Employer contributions are due from the following NATO bodies: MSIAC, FORACS, NAGSMA, the NATO BICES Agency, the New NATO Headquarters Project Office and the NATO Headquarters Staff Centre. Employer contributions are paid monthly.

Outstanding amounts are essentially employer contributions due by the NATO Headquarters Staff Centre, which is in charge of morale and welfare activities. No employer contributions have been made by the Staff Centre since 2001 (staff member contributions were paid). A recovery plan was established in 2011 and the Staff Centre reimburses EUR 25,000 per month (EUR 300,000 per annum) which is about 50% more than its annual dues. According to the initial plan the full amount should be repaid by 2021. However due to its financial situation the Staff Centre did not fully comply with the plan and no contributions were received during recent years. As of 31 December 2018 the outstanding receivable amounts to EUR 1,352,786.32. The Staff Centre was closed during 2018. Nations have agreed that its outstanding liability towards the DBPS will be funded through a contribution by the Civil Budget and have carried forward appropriations to that effect. The settlement is expected to take place in 2019.

NOTE 8: NATIONS' CONTRIBUTION

Contributions due from NATO member Nations to fund the NATO DBPS of a given budget year are called once annually towards the end of the preceding year. In accordance with Article XXIX 8) of the NATO Financial Rules and Procedures, amounts called are to be paid in principle within a period of one month after receipt of the request. Amounts recognised are those amounts called.

The DBPS call for contributions is a single call issued towards the end of the year. It includes an advance on next year's pension budget including any frozen credits, takes into account the previous year's surplus or deficit, and regularises any adjustments done in the course of the budget year such as budget revisions.

The advances called at year end are:

	2019		2018	
	CIV	MIL	CIV	MIL
Budget called in Y-1	38,134,400.00	125,830,000.00	37,842,700.00	116,700,000.00
	163,964,400.00		154,542,700.00	

Uncollected budgetary contributions from Nations relate mainly to the call for the 2019 pension budget. The call for contributions was issued in late 2018 which largely explains the level of these receivables. Below there is a breakdown of such outstanding collections as off 31 December 18.

Nations outstanding receivables as at 31/12/2018		
ALBANIA	158,724.67	
BELGIUM	3,851,215.24	
BULGARIA	1,059,337.74	
CANADA	10,329,229.04	
CROATIA	355,444.25	
CZECH	365,333.51	
DENMARK	1,474,215.17	
ESTONIA	310,800.42	
FINLAND	-1,216.07	
FRANCE	16,264,992.51	
GERMANY	19,218,953.45	
GREECE	553,920.43	
HUNGARY	1,055,646.83	
ICELAND	96,081.50	
ITALY	3,033,135.73	
LITHUANIA	27.00	
LUXEMBOURG	533,265.73	
MONTENEGRO	77,967.60	
NETHERLANDS	5,979,112.18	
NORWAY	5,924,827.95	
PORTUGAL	1,217,468.71	
ROMANIA	2,748,655.81	
SLOVENIA	537,418.49	
SPAIN	8,240,931.02	
SWEDEN	-6,688.25	
TURKEY	3,162,624.51	
UK	7,379,359.95	
USA	50,835,321.29	
Total:	144,756,106.41	

On occasion, NATO member Nations may voluntarily pay supplementary advance contributions, at year end there was only one outstanding voluntary advance of EUR 659,149.87 (EUR 0 end 2017).

NOTE 9: PENSION ADJUSTMENT

For practical reasons, the operations relating to the adjustment of pensions are included in the present financial statements. Members of the DCPS are also entitled to such an adjustment.

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DCPS related payments are a very small fraction of the total (EUR 95,008.26) and were advanced by the DCPS.

The adjustment is paid monthly by way of advance at the same time as the pension.

The following table provides the breakdown of actual payments by country for DBPS pensions Tax Adjustments.

DBPS - Pension tax adjustments paid	to pensioners	
Country	2018	2017
ALBANIA	0.00	0.00
BELGIUM	13,025,918.00	12,430,463.00
BULGARIA	0.00	0.00
CANADA	250,367.41	246,888.02
CROATIA	0.00	0.00
CZECH REPUBLIC	0.00	0.00
DENMARK	493,519.44	1,233,275.20
ESTONIA	0.00	0.00
FRANCE	1,595,347.00	1,594,300.00
GERMANY	2,245,624.00	2,154,439.00
GREECE	172,998.00	165,092.00
HUNGARY	0.00	0.00
ICELAND	0.00	0.00
ITALY	2,173,432.00	1,867,275.54
LATVIA	0.00	0.00
LITHUANIA	0.00	0.00
LUXEMBOURG	1,378,309.00	1,210,731.00
NETHERLANDS	2,948,180.00	2,846,766.80
NORWAY	343,631.77	61,833.05
POLAND	17,605.03	16,472.71
PORTUGAL	162,755.00	135,415.00
ROMANIA	0.00	0.00
SLOVAKIA	0.00	0.00
SLOVENIA	0.00	0.00
SPAIN	288,658.00	260,662.00
TURKEY	0.00	0.00
UNITED KINGDOM OF GREAT BRITAIN	1,697,877.61	1,211,339.55
UNITED STATES OF AMERICA	287,342.71	324,984.51
DCPS transfers	95,008.26	164,509.69
Adjustments	-252.39	0.00
Total:	27,176,320.84	25,924,447.07

Pension Adjustment amounts paid to pensioners as reported in Euros in the table above are impacted by a variety of factors, among which: exchange rates, number of pensioners having their tax residence in a given country (which may be different from their country of origin or the country in which the NATO entity for which staff worked is located), household/family situation, level of the pension itself, national taxation policies, etc. As a consequence, amounts due by individual Nations may vary from one year to the other and are not related to their cost shares of the NATO entity for which staff worked.

Contributions due by Nations concerned to fund the Pension Adjustment of a given budget year are called towards the end of the preceding year. In accordance with Article XXIX 8) of the NATO Financial Rules and Procedures, amounts called are to be paid in principle within one month after receipt of the request. Amounts recognised are those amounts called. Advances on the next year's payments of the pension adjustment are called towards the end of the current year. At year end the balance of advances were:

	2019		2018	
	CIV	MIL	CIV	MIL
Budget called in Y-1	10,190,800.00	17,352,200.00	9,522,300.00	17,586,800.00
	27,543,000.00		27,109,100.00	

Receivables from Nations to fund the Pension Adjustment relate mainly to the call for the advances on 2019 expenses. The call was issued in late 2018 which largely explains the level of these receivables. The table below gives you the status of the open receivables at year end.

NOTE 10: CREDIT FOR PAST SERVICE TO BE REFUNDED BY STAFF

This relates to amounts due from staff who had left the Organisation and were paid a leaving allowance but who were later re-employed by the Organisation or to staff who retroactively became members of the Coordinated Scheme further to NATO Administrative Tribunal decisions.

NOTE 11: OTHER ASSETS

These are essentially accrued interest, occasional advances to the DCPS and miscellaneous amounts to be regularised.

NOTE 12: OTHER LIABILITIES

These correspond to amounts relating to bank fees, life insurance capital due and other miscellaneous amounts due to be regularised (including reimbursement to the DCPS of amounts it paid in relation to Pension Adjustment), and some accruals.

This item also includes funds held on behalf of certain Nations corresponding to their share of former NAMSA (now NSPA) staff members' validation costs EUR 58,980.38 (same amount at end 2017). When the DBPS was established, staff who decided to transfer from the Provident Fund had to return the value of their accounts to the DBPS. The related holdings were returned to the Nations but certain Nations decided to keep the funds in the DBPS accounts.

NOTE 13: NET ASSETS AVAILABLE FOR BENEFITS

The net assets available for benefits at year-end correspond essentially to the surplus linked to the budgetary process, the inward transfer of pension rights (Note 15) and credit for past service by staff. As explained in the introductory note on the funding of the DBPS, contrary to most, if not all, of the other Coordinated Organisations, NATO has not set aside funds to be invested to fund future costs and, therefore, NATO's funding of the Coordinated Pension Scheme is on a pay-as-you-go basis.

Breakdown of Net Assets a	vailable for ben	ie fits
	2018	2017
Credits for Past Services	65,962.93	76,915.45
Pensions rights transferred to DBPS	41,380,317.37	
Budgetary Surplus at End of Year	5,489,127.48	
	46,935,407.78	42,250,318.65

The surplus at year-end is the difference between the final approved pension budgets and actual amounts required to ensure the payment of benefits due for the period covered by these financial statements. It therefore normally contains excess funding from Nations. The surplus is due to the budgetary context under which the NATO DBPS operates and normally results from prudent estimation of the net funding requirements and unforeseen net revenue (such as the net result from interest revenue, foreign exchange profit and loss, bank charges and other miscellaneous income and expenditure).

This surplus is not invested into a fund from which future benefits would be paid: it is returned to contributing Nations. The surplus is taken into account, as a deduction, in the assessment of the net contributions to be called from member Nations for the budgets of the second year after the reporting period (e.g. the surplus end of 2018 will be returned to Nations with the call for the 2020 budget to be issued end 2019).

NOTE 14: INTEREST EARNED AND BANK CHARGES

This corresponds to expenses and revenues related to financial operations, interest earned on cash holdings and bank charges paid on transactions.

NOTE 15: INWARD TRANSFER OF PENSION RIGHTS FROM PENSION SYSTEMS

The NATO Civilian Personnel Regulations (Annex IV, Article 12) provide that staff may, under certain circumstances, arrange for payment to the Organisation of any amounts corresponding to the retirement pension rights accrued under the pension scheme to which the staff member was previously affiliated in so far as that scheme allows such a transfer. Agreements can be signed with other pension systems to establish the conditions under which such transfers apply to staff in given conditions.

For the individuals concerned, the related amount is converted into a number of years of reckonable service with which the staff member concerned has been credited under his/her own pension scheme.

End 2018, the total amount of inward transfers received throughout the year was EUR 947,287.18, which resulted in a balance of EUR 41,380,317.37 at the end of the year.

In 2009, the Belgian Authorities allowed such inward transfers to NATO and accordingly gave the then-active staff a limited period of time, from 1 December 2009 to 31 May 2010, to make their requests. For 2010 and 2011, the Belgian "Office National des pensions" was the sole case concerned, with contributions amounting to respectively EUR 22.507 million and EUR 10.914 million. As of 31 December 2013, NATO-IS OFC had received EUR 36.025 million from the Belgian "Office National des Pensions" (EUR 35.714 million as of end 2012, EUR 33.422 million as of 31 December 2011).

In 2012, the inward transfers received amounted to EUR 3.294 million, with the main contributions coming from the following national pension systems: Belgium (EUR 2.291

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million), Greece (EUR 0.471 million), the Netherlands (EUR 0.369 million) and Luxemburg (0.072 million).

In 2013, the inward transfers received amounted to EUR 2.694 million, with the main contributions coming from the following national pension systems: Belgium (EUR 0.311 million), Greece (EUR 0.232 million), the Netherlands (EUR 2.026 million) and Luxemburg (0.124 million).

In 2014, the inward transfers received amounted to EUR 0.329 million, with the main contributions coming from the following pension systems: Greece (EUR 0.191 million), the Netherlands (EUR 0.034 million) and International Organisations (0.103 million).

In 2015, the inward transfers received amounted to EUR 0.274 million, with the main contribution being the repayment of a Leaving Allowance (EUR 0.222 million) and the rest coming from a pension system of the Netherlands (EUR 0.052 million).

In 2017, the inward transfers received amounted to EUR 199,660.66.

In consideration of the fact that these inward transfers of rights are evaluated at the actuarial value of future benefits due to the concerned staff, the corresponding amounts have been considered as a net asset available for future benefits. They have also been included in the actuarial value of the future obligation of the NATO DBPS.

The Budget Committee approved, per BC-DS(2011)0055, that the related budgetary receipts be applied not as a lump sum to the current year but rather spread over time and should offset expenses when they occur.

NOTE 16: OTHER INCREASES IN NET ASSETS

This corresponds mainly to interest income and to realised exchange gains and other miscellaneous operations.

NOTE 17: OTHER DECREASES IN NET ASSETS

This corresponds mainly to the cost of the actuarial study, realised exchange losses and other miscellaneous operations. The breakdown of the amount recorded as "bank costs" (EUR 279,792.34) is as follows:

Туре	Amount
Accruals	-6,695.41
Bank fees	198,010.93
Exchange rate differences (pensions payments)	87,737.07
Pensioners bank charges pay back	739.75
Total	279,792.34

NOTE 18: PENSIONS AND LEAVING ALLOWANCES

The tables under notes 18 and 21 provide a breakdown of payments and collections according to the kind of pensions paid in 2018.

28,260,008.68
5,561,472.07
186,998.48
4,785,809.54
1,770,362.25
0.00
0.00
56,535.34
40,621,186.36
2.545.544.69
3,545,314.62
115,645.80
0.00
0.00
-297,054.24
0.00
3,363,906.18
37,257,280.18
86,001,515.33
16,982,618.10
558,915.28
13,970,262.17
6,069,247.25
0.00
0.00
172,238.17
123,754,796.30
11,762,800.06
177,334.38
0.00
1,410.85
16,958.67
11,958,503.96
111,796,292.34

Under Miscellaneous receipts for the Civil Budget, there is a correction of EUR 294,054.24 (reduction of receipts) that derives from corrections done in 2018 for a double invoicing issued to NATO IS in 2017. Under Miscellaneous receipts for the Military Budget there were also corrections done by the total amount of EUR 16,958.67 (increase on receipts), resulting from credit memos and new invoices issued.

NOTE 19: CONTINGENT ASSETS

Nothing to report.

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NOTE 20: CONTINGENT LIABILITIES

There are no material contingent liabilities arising from legal actions and claims that are likely to result in significant liability to the NATO DBPS.

NOTE 21: SEGMENT INFORMATION

Although there are only two main sources of funding (Civil Budget and Military Budgets), each of the NATO bodies has its own individual funding cost share which is taken into account when calculating the final contributions for each individual country. Segment information is developed in the following tables to show income and expenditure by NATO body (i.e. the NATO body which was the last employer of the retired staff member on the expense side, and the NATO body which is currently employing the contributing staff member on the revenue side).

The data provided below concerns 2018.

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SEGMENT TABLE NATO BODIES 2018	ACO-ACT	ACO-ACT (16N)	ACO-ACT (17N)	BGOH (2N)	BGOH (8N)	BGOH (9N)	CEPMA (6N)	CEPIMA (7N)	CEPMA (8N)	Ex NACISA (14N)	IMS
PAYMENTS / PAIEMENTS										()	
Retirement Pension / Pension d'Ancienneté	22,546,158.92	13,289,314.37	191,619.72	341,538.00	35,229.36	1,000,468.94	16,799.52	160,411.80	1,805,112,16	1.028.261.80	3,622,605,99
Survivor Pension / Pension de Survie	6,311,524.37	1,970,415.96	0.00	34,367.67	13,694.40	742,860.43	0.00	0.00	687,280,26	416.712.68	713 514 89
Orphans Pension / Pension d'Orphelins	112,015.80	40,544.33	0.00	0.00	0.00	0.00	0.00	0.00	0.00	000	10 715 40
Invalidity Pension / Pension d'Invalidité	1,930,334.01	5,310,665.46	0.00	84,799.84	6,142.70	234,886.44	74,271.60	45,833.34	63.670.29	35.461.80	547 877 35
Family Allowance / Allocations Familiales	1,381,282.10	1,285,501.98	8,741.76	32,017.00	2,676.36	65,407.14	4,374.86	11,803.14	91.649.52	64.319.78	203.032.32
Leaving Allowance / Allocations de Départ	00:00	00:00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	00.00	000
Validation Costs Paid / Coûts de Validation payés	00:00	0.00	00:00	0:00	0.00	0.00	0:00	0.00	0.00	000	000
Miscellaneous / Divers	44,990.77	30,517.28	279.25	686.71	80.48	2,848.22	133.02	303.90	3.690.14	2,152,94	AC 7007
Total Payments / Paiements	32,326,305.97	21,926,959.38	200,640.73	493,409.22	57,823.30	2.046.471.17	95.579.00	218 352 18	2 651 402 37	1 546 and no	E 000 703 CO
RECEIPTS / RECETTES									Libory Total	4,000,000,00	50.557,550,5
Staff Contributions / Contributions des Agents	2,174,802.71	1,746,998.74	0.00	0.00	0.00	0.00	0.00	000	000	000	605 368 03
Employer Contributions / Contributions de l'Employeur	0.00	0.00	00:00	0.00	0.00	0.00	0.00	00.0	000	000	152 472 06
Validation Costs Received / Coûts de Validation reçus	0.00	0.00	00:00	0.00	0.00	0.00	0.00	0.00	000	8 0	000
Interests, Profit & Loss / Intérêts, Pertes & Profits	256.98	206.43	00:00	0.00	0.00	0.00	0.00	0.00	000	800	25.08
Miscellaneous / Divers	0.00	0.00	0.00	00:00	0.00	0.00	0.00	0.00	000	00.0	000
Contributions due by Staff Center	00.0	0.00	00:00	0.00	00:00	0.00	0.00	0.00	0.00	0.00	000
Total Receipts / Recettes	2,175,059.69	1,747,205.17	0.00	0.00	0.00	0.00	0.00	0.00	0.00	000	757 930 54
Funding Requirement / Besoin de financement	30,151,246.29	20,179,754.21	200,640.73	493,409.22	57,823.30	2,046,471.17	95,579.00	218,352.18	2,651,402.37	1,546,909.00	4,341,863,15

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SEGMENT TABLE NATO BODIES 2018	SI	NAHEMA (SN)	NAMEADSMA (2N)	NAMMA (3N)	NAMSA (25N)	NAPMA (16N)	NCIA	NEFMA (4N)	NETMA (4N)	NSPA	Total
PAYMENTS / PAIEMENTS											
Retirement Pension / Pension d'Ancienneté	28,260,008.68	24,108.84	00:00	28,495.68	21,117,140.96	1,925,688.04	18,119,300.13	86.540.52	622.533.66	40.186.92	40.186.92 114.261 524.01
Survivor Pension / Pension de Survie	5,561,472.07	0.00	0.00	57,090.79	3,804,655.99	398,111.85	1,536,084.95	78.401.52	217.902.34	000	77 544 090 17
Orphans Pension / Pension d'Orphelins	186,998.48	29,736.48	0.00	0.00	234,837.89	7,520.16	107,402.90	0.00	16.142.32	000	745 913 76
Invalidity Pension / Pension d'Invalidité	4,785,809.54	0.00	0.00	83,398.44	3,369,175.59	473,550.24	1,459,423.70	90,266.40	165,554.97	000	18 756 071 71
Family Allowance / Allocations Familiales	1,770,362.25	2,471.52	00:0	2,489.52	1,362,331.20	166,814.80	1,328,894.89	8,548.92	45,853,14	1.037.30	7.839.609.50
Leaving Allowance / Allocations de Départ	0.00	0.00	0.00	0.00	0.00	0.00	0:00	0.00	0.00	0.00	000
Validation Costs Paid / Coûts de Validation payés	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	00:0	000	000
Miscellaneous / Divers	56,535.34	78.49	00:0	238.99	41,655.38	4,141.67	31,429.69	367.60	1.488.46	57.45	778 773 51
Total Payments / Paiements	40,621,186.36	56,395.33	0.00	171,713.42	29,929,797.01	2.975.826.76	22.582.536.26	264.124.96	1 069 474 89	41 281 67	A1 781 67 16A 27E 087 66
RECEIPTS / RECETTES								Control of the contro	Contract Contr	17,201.07	104,373,392,00
Staff Contributions / Contributions des Agents	3,545,314.62	0.00	12,291.69	0.00	0.00	116,341.92	4.052.567.27	000	000	3 054 478 80	15 208 114 68
Employer Contributions / Contributions de l'Employeur	115,645.80	0.00	0.00	0.00	0.00	00:00	24.862.32	000	000	000	20,721,000,01
Validation Costs Received / Coûts de Validation reçus	0.00	00:0	0.00	0.00	0.00	0.00	0.00	000	000	8 6	0.000.100
Interests, Profit & Loss / Intérêts, Pertes & Profits	00:00	0.00	1.45	0.00	0:00	13.75	481.79	000	000	360 91	1 410 85
Miscellaneous / Divers	-297,054.24	00:00	0.00	0.00	0:00	0.00	16,958.67	00:00	00:0	000	-280 095 57
Contributions due by Staff Center	00:00	0.00	0.00	0.00	0.00	0:00	0.00	0.00	0.00	000	0.00
Total Receipts / Recettes	3,363,906.18	0.00	12,293.14	0.00	0.00	116,355.67	4,094,870.05	0.00	000	3.054.789.71	15 322 410 14
Funding Requirement / Besoin de financement	37,257,280.18	56,395.33	-12,293.14	171,713.42	19,929,797.01	2,859,471.09	18,487,666.21	264,124.96	1,069,474.89	-3,013,508.04	-3,013,508.04 149,053,572.52

The data provided below concerns 2017.

	IS (28N)	IS (28N) ACO-ACT (16N) ACO-ACT (17N) ACO-ACT (28N)	ACO-ACT (17N)	ACO-ACT (28N)	ACO-ACT (Ex-27N)	BGOH (2N)	BGOH (8N)	BGOH (9N)	BGOH (9N) CEPMA (6N)	CEPMA (7N)	CEPMA (8N)	Ex NACISA (14N) IMS (28N)		IMS (Ex-27N)
PAYMENIS														
Retirement Pensions Survivor Pensions Orphans Pensions Invalidity Pensions	27,097,736.42 5,500,424.71 186,745.65 4,508,153.70	-	128,188.90 9,504.15 0.00 -14,671.49	8,377,891.50 1,575,948.68 15,408.02 571,753.65	14,935,158.86 4,542,741.87 104,158.37 1,393,809.87	331,517.04 33,209.07 0.00 82,501.22	34,195.80 15,090.19 0.00 6,006.12	34,195.80 1,116,684.02 15,090.19 682,122.70 0.00 0.00 6,006.12 233,001.34	16,306.68 0.00 0.00 72,214.14	144,329.76 0.00 0.00 55,942.98	1,837,966.12 697,543.36 0.00 87,035.28		1,001,186.06 4,176,943.12 406,097.99 645,030.53 0.00 0.00 34,668.89 498.905.32	498,219.84 242,863.79 31,515.79
Family Allowances Leaving Allowances Validation Costs Paid	1,693,021.42	1,283,098.44	4,189.39	512,058.15	907,342.90	45,166.35 0.00	3,494.37	80,713.33	4,077.63	11,542.31	92,694.98	67,218.33	295,563.98	27,684.55
Miscellaneous	117,261.67	62,686.94	381.17	33,119.14	65,570.35	1,475.40	176.15	6,329.91	277.46	634.68	8,135.88	4,522.05	16,828.98	2,622.04
Total Payments	39,251,744.75	20,983,599.75	127,592,12	11,086,179.14	21,948,782.22	493,869.08	58,962.63	58,962.63 2,118,851,30	92,875.91	212,449.73	2,723,375.62	1,513,693,32 5,633,271,93	5,63,271.93	877,690.79
RECEIPTS														
Staff Contributions Employer Contributions Validation Costs Received	4,058,952.02	00:00	1,803,080.10	1,966,999.45	274,673.88	00.0	0.00	0.00	0.00	00:00	116,965.15	0.0	626,632.58	0.00
interests Miscellaneous	126.58	0.00	51.42	56.09	7.83	0:00	0.00	0.00	0.00	0.00	3.34	0.00	22.29	0.00
Total Receipts	4,438,905.42	000	1,803,131.52	1,967,055.54	274,681.71	0.00	0000	0.00	000	000	116,968,49	0.00	781,774.62	0.00
Funding Requirement	34,812,839.33	20,983,599.75	-1,675,539.39	9,119,123.59	21,674,100.51	493,869.08	58,962.63 2	58,962.63 2,118,851.30	92,875.91	212,449.73	2,606,407,14	1.513.693.37. 4.851.497.31	1851,497.31	97 690 78

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	NAHEMA (SN)	NAMMA (3N)	NAHEMA (SN) NAMMA (3N) NAMSA (2SN)	NAPMA (16N)	NC3A (28N)	NCIA	NEFMA (4N) NETMA (4N)	NETMA (4N)	NSPA	NAMA (12N)	NAMEADSMA (2N)	TOTAL
PAYMENTS											100000	
Retirement Pensions	23,775.96	27,778.99	19,437,286.16	1,784,753.67	9,721,880.23	5,278,322.75	83,938.44	620,134.80	35,918.03	0.00	0.00	109,144,363.38
Survivor Pensions	0.00	81,621.84	3,723,125.34	350,452.17	816,977.07	425,755.94	76,044.12	185,957.16	0.00	0.00	0.00	21,748,438.51
Orphans Pensions	29,326.08	0.00	241,301.90	7,320.00	39,688.57	66,538.32	0.00	16,195.20	0.00	0.00		810,679.77
Invalidity Pensions	0.00	80,890.44	3,330,600.41	446,759.48	1,099,898.92	318,541.42	87,552.24	187,633.38	0.00	0.00		18,549,136.53
Family Allowances	2,437.44	2,433.77	1,316,717.56	173,079.69	665,889.26	473,508.81	8,291.64	54,369.72	0.00	0.00		7,724,594.02
Leaving Allowances	0.00	00:00	0.00	00.00	0.00	0.00	00:0	000	0.00	0.00	0.00	148,401,18
Validation Costs Paid												
Miscellaneous	166.42	577.48	84,045.47	8,277.09	36,988.28	19,664.23	766.55	3,189.01	107.62	0.00	0.00	473,803.96
Total Payments	55,705.90	193,302,52	28,133,076.84	2,770,642.10	12,381,322.33	6,582,331.47	256,592.99	256,592.99 1,067,479.27	36,025.65	0.00	0,00	158,599,417.35
RECEIPTS												
Staff Contributions	0.00	00.00	3,337,566.83	137,468.02	2,809,073.91	1,351,044.04	0.00	00.00	0.00 -268,515.66	5,661.70	12,354.35	16,231,956.37
Employer Contributions	0.00	0.00	481.25	0.00	0.00	14,627.61	0.00	0.00	0.00	0.00	0.00	550,055.43
Valuation Costs Received Interests												
Miscellaneous	0.00	0.00	95.19	3.92	80.10	38.94	0.00	0.00	-7.66	0.16	0.35	478.56
Total Receipts	00'0	000	3,338,143.27	137,471.94	2,809,154.01	1,365,710.59	0.00	00:00	-268,523.32	5,661.86	12,354.70	16,782,490.36
Funding Requirement	55,705.90	193,302.52	24,794,933.58	2,633,170.16	9,572,168.32	5,216,620.87	256,592.99	256,592.99 1,067,479.27	304,548.97	-5,661.86	-12,354.70	141,816,926.99

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NOTE 22: BUDGET EXECUTION

Presently the NATO DBPS budgets are not made available to the public. The following table compares approved budgets and actuals.

Budget Execution 2018

(amounts in EUR)	Initial Budget	Revised Budget	Actuals	Difference
	(a)	(b)	(c)	(b-c)
CIVIL BUDGET				
PAYMENTS / PAIEMENTS				
Retirement Pension / Pension d'Ancienneté	20 504 000 00	20 504 000 00		
Survivor Pension / Pension de Survie	29,591,900.00	29,591,900.00	28,260,008.68	1,331,891.3
Orphans Pension / Pension d'Orphelins	5,667,100.00	5,667,100.00	5,561,472.07	105,627.9
Invalidity Pension / Pension d'Invalidité	173,000.00	173,000.00	186,998.48	-13,998.4
Family Allowance / Allocations Familiales	4,299,300.00	4,299,300.00	4,785,809.54	-486,509.5
Leaving Allowance / Allocations de Départ	1,701,100.00	1,701,100.00	1,770,362.25	-69,262.2
Validation Costs Paid / Coûts de Validation payés	0.00	0.00	0.00	0.0
Miscellaneous / Divers	0.00	0.00	0.00	0.0
Total Payments / Palements	0.00	0.00	56,535.34	-56,535.3
iotal Payments / Palements	41,432,400.00	41,432,400.00	40,621,186.36	811,213.6
RECEIPTS / RECEITES				
Staff Contributions / Contributions des Agents	3,437,700.00	3,437,700.00	3,545,314.62	-107,614.6
Employer Contributions / Contributions de l'Employeur	152,000.00	152,000.00	115,645.80	36,354.2
Validation Costs Received / Coûts de Validation reçus	0.00	0.00	0.00	0.0
Interests,Profit &Loss / Intérêts,Pertes & Profits	0.00	0.00	0.00	0.0
Miscellaneous / Divers	0.00	0.00	-297,054.24	297,054.2
Contributions due by Staff Center	0.00	0.00	0.00	0.0
Total Receipts / Recettes	3,589,700.00	3,589,700.00	3,363,906.18	225,793.8
Funding Requirement / Besoin de financement MILITARY BUDGETS	37,842,700.00	37,842,700.00	37,257,280.18	585,419.8
PAYMENTS / PAIEMENTS				
Retirement Pension / Pension d'Ancienneté	20 500 000 00	20 500 000 00	05 004 545 00	
Survivor Pension / Pension de Survie	89,500,000.00	89,500,000.00	86,001,515.33	3,498,484.6
Orphans Pension / Pension d'Orphelins	17,200,000.00	17,200,000.00	16,982,618.10	217,381.9
Invalidity Pension / Pension d'Invalidité	700,000.00	700,000.00	558,915.28	141,084.7
Family Allowance / Allocations Familiales	14,600,000.00	14,600,000.00	13,970,262.17	629,737.8
Leaving Allowance / Allocations de Départ	6,400,000.00	6,400,000.00	6,069,247.25	330,752.7
Validation Costs Paid / Coûts de Validation payés	0.00	0.00	0.00	0.0
Miscellaneous / Divers	0.00	0.00	0.00	0.0
Total Payments / Palements	0.00	0.00	172,238.17	-172,238.1
total Payments / Palements	128,400,000.00	128,400,000.00	123,754,796.30	4,645,203.7
RECEIPTS / RECETTES				
Staff Contributions / Contributions des Agents	11,600,000.00	11,600,000.00	11,762,800.06	-162,800.0
Employer Contributions / Contributions de l'Employeur	100,000.00	100,000.00	177,334.38	-77,334.3
Validation Costs Received / Coûts de Validation reçus	0.00	0.00	0.00	0.0
nterests,Profit &Loss / Intérêts,Pertes & Profits	0.00	0.00	1,410.85	-1,410.8
Miscellaneous / Divers	0.00	0.00	16,958.67	-16,958.6
	11,700,000.00	11,700,000.00	11,958,503.96	-258,503.9
Total Receipts / Recettes				
Total Receipts / Recettes Funding Requirement / Besoin de financement	116,700,000.00	116,700,000.00	111,796,292.34	4,903,707.6
	116,700,000.00	116,700,000.00	111,796,292.34	4,903,707.6

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The "actual amounts" referred to by IPSAS 24 ("amounts that result from execution of the budget") are considered to be the commitment of credits. In the case of the NATO DBPS there are no differences between the budget and accounting bases. The notion of commitments used for the NATO DBPS budget execution corresponds to expenses incurred during the course of the year. In this respect the NATO DBPS budget should be considered as prepared and executed on an accrual basis. There are no timing or entity differences.

DBPS funding requirement credits for 2018 for the Civil Budget and the Military Budgets were initially approved at, respectively, EUR 37,842,700.00 and EUR 116,700,000.00. . No revisions took place during 2018.

The difference between approved budgets and actuals for both the Civil Budget and the Military Budgets mainly concern the following items: invalidity pensions and staff contributions. Invalidity pensions do not follow regular evolution paths and prove to be more difficult to anticipate. Newly recruited staff are automatically members of the DCPS. As a consequence, the number of staff contributing to the NATO DBPS is declining. The impact of this trend has proven difficult to forecast. Approved budgets are based on a principle of prudence and therefore there is a tendency to underestimate revenue.

NOTE 23: RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT PERSONNEL

During 2018 there have been the following related party transactions:

Administrative Expenses

Administrative expenses in relation to the NATO DBPS are not recognised in these financial statements.

The administrative expenses related to the management of the scheme by NATO IS are estimated at about EUR 420K. This includes miscellaneous operating costs and the personnel costs of the full time equivalent of 4 staff from the Office of Financial Control and the Human Resources Pension Unit.

NATO's contribution towards the annual administrative costs of the International Service for Remunerations and Pensions (ISRP which took over, among others, the activities of the former Joint Pensions Administrative Section) paid to the OECD was EUR 128,919 in 2011. No similar breakdown for subsequent years has been provided but the amount is estimated to be of the same order of magnitude in 2018.

These administrative expenses are charged to the NATO Civil Budget, which includes the IS. In the framework of the Administrative Support Costs process applied by NATO IS to all of the other NATO bodies to which such kind of services are provided, NATO-IS charges these expenses to the other individual NATO bodies in proportion to the number of NATO established posts. The related income is returned to NATO member Nations as a deduction to the Civil Budget contributions called from them.

For the purposes of these financial statements, Key Management Personnel are considered to be the NATO-IS Assistant Secretary General for Executive Management and the Financial Controller. Their remuneration is totally covered by the NATO International Staff.

NOTE 24: STATISTICAL INFORMATION

The following table provides information concerning the number of beneficiaries in the NATO Coordinated Pension Scheme.

			1		
Year	Retirement	Survivor and Reversion	Orphan's and Dependent's	Invalidity	Total
Cai	Pensions		'	Pensions	Total
1005		Pensions	Pensions		
1995	830	330	88	155	1,403
1996	878	340	91	168	1,477
1997	926	374	97	188	1,585
1998	967	395	98	202	1,662
1999	1,020	409	104	224	1,757
2000	1,096	424	96	229	1,845
2001	1,134	432	102	248	1,916
2002	1,187	448	98	275	2,008
2003	1,243	461	103	293	2,100
2004	1,344	479	96	313	2,232
2005	1,417	500	99	336	2,352
2006	1,469	515	96	379	2,459
2007	1,548	515	90	406	2,559
2008	1,629	523	77	419	2,648
2009	1,715	537	79	452	2,783
2010	1,838	543	71	472	2,924
2011	1,950	561	68	480	3,059
2012	2,023	592	72	480	3,167
2013	2,149	609	64	491	3,313
2014	2,272	624	59	470	3,425
2015	2,380	652	58	459	3,549
2016	2,589	665	65	439	3,758
2017	2,665	684	58	436	3,843
2018	2,759	699	53	432	
	-,,,,,,	333		432	3,943

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List of acronyms:

BICES: Battlefield Information Collection and Exploitation Systems Agency

CPR: Civilian Personnel Regulations

DCPS: Defined Contribution Pension Scheme
DBPS: Defined Benefit Pension Scheme

FORACS: NATO Naval Forces Sensor and Weapons Accuracy Check Sites

IFRS: International Financial Reporting Standards
IPSAS: International Public Sector Accounting Standards

IS: International Staff

ISRP: International Service for Remunerations and Pensions

JPAS: Joint Pensions Administrative Section

MSIAC: Munitions Safety Information Analysis Centre

NAGSMA: NATO Alliance Ground Surveillance Management Agency

NAC: North Atlantic Council

NCIA: NATO Communication and Information Agency

NSPA: NATO Support Agency.

OECD: Organisation for Economic Co-operation and Development

OFC: Office of Financial Control
RMCF: Retirees Medical Claims Fund
SC: NATO Headquarters' Staff Centre



NORTH ATLANTIC TREATY ORGANIZATION ORGANISATION DU TRAITÉ DE L'ATLANTIQUE NORD

INTERNATIONAL BOARD OF AUDITORS FOR NATO COLLEGE INTERNATIONAL DES AUDITEURS EXTERNES DE L'OTAN

NATO UNCLASSIFIED



IBA-A(2019)0098 28 August 2019

To:

Secretary General

(Attn: Director of the Private Office)

Cc:

Chairman, NATO FORACS Steering Committee

Project Manager and Technical Director, NATO FORACS Office

Financial Controller, International Staff

Chairman, Resource Policy & Planning Board

Branch Head, Secretariat and Finance Branch, NATO Office of Resources

Private Office Registry

Subject: International Board of Auditors for NATO (IBAN) Auditor's Report and

Letter of Observations and Recommendations on the audit of the NATO FORACS Office (NFO) Financial Statements for the year ended

31 December 2018 - IBA-AR(2019)0022

IBAN submits herewith its approved Auditor's Report (Annex 2) and Letter of Observations and Recommendations (Annex 3) with a Summary Note for distribution to the Council (Annex 1).

IBAN's report sets out an unqualified opinion on the Financial Statements of the NATO FORACS Office (NFO) and on compliance for financial year 2018.

Yours sincerely,

Dr. Hans Leijtens

Chairman

Attachments: As stated above.

ANNEX 1

Summary Note for Council by the International Board of Auditors for NATO (Board) on the audit of the Financial Statements of the NATO FORACS Office for the year ended 31 December 2018

The NATO Naval Forces Sensors and Weapon Accuracy Check Sites (NATO FORACS) provide a comprehensive calibration of sensors associated with the weapon systems of NATO naval units such as surface ships, submarines and anti-submarines helicopters. These tests are conducted at three FORACS ranges under the jurisdiction of Norway (NFN), Greece (NFG), and the United States (NFA).

The overall management of the programme is the responsibility of the FORACS Steering Committee. The NATO FORACS Office is located at the NATO Headquarters in Brussels and serves as the executive staff of the Steering Committee. The NATO FORACS Office budget for 2018 (including brought forward credits) amounted to EUR 2.05 million while budget expenses amounted to EUR 1.34 million.

IBAN issued an unqualified opinion on the financial statements and on compliance for the year ended 31 December 2018.

The IBAN's audit resulted in three observations and recommendations. These observations do not impact the audit opinion:

- 1. Weaknesses in the internal controls over financial reporting.
- Recognition of revenue from services provided by the Ranges to non-member Nations.
- 3. Recognition and disclosure of the cash to be received from Ranges related to budgetary surpluses.

IBAN also followed up on the status of two outstanding observations from its previous years' audits and noted that one is in-progress and one is closed as superseded by current year observation 1.

The Auditor's Report (Annex 2) and the Letter of Observations and Recommendations (Annex 3) were issued to the NATO FORACS whose comments have been included (see the Appendix to Annex 3).

ANNEX 2 IBA-AR(2019)0022

28 August 2019

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF NATO NAVAL FORCES SENSOR AND WEAPON ACCURACY SITES (NATO FORACS OFFICE (NFO))

FOR THE YEAR ENDED 31 DECEMBER 2018

ANNEX 2 IBA-AR(2019)0022

INDEPENDENT AUDITOR'S REPORT TO THE NORTH ATLANTIC COUNCIL

Report on the Audit of the Financial Statements

Opinion on the Financial Statements

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of NATO FORACS OFFICE (NFO), for the 12 month period ended 31 December 2018, issued under document reference FC(2019)0038, and submitted to IBAN on 31 March 2019. These Financial Statements comprise the Statement of Financial Position as at 31 December 2018, the Statement of Financial Performance, the Statement of Changes in Net Assets/Equity and the Statement of Cash Flow, for the 12 month period ended 31 December 2018, including a summary of significant accounting policies and other explanatory notes. In addition, the Financial Statements include a budget execution report for the 12 month period ended 31 December 2018.

In our opinion, the Financial Statements give a true and fair view of the financial position of NATO FORACS OFFICE (NFO) as at 31 December 2018, and of its financial performance, its cash flows and budget execution for the 12 month period ended 31 December 2018, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework.

Basis for Opinion on the Financial Statements

In accordance with the NATO Financial Regulations (NFRs), external audit of the NATO bodies pursuant to the North Atlantic Treaty shall be performed by IBAN.

We have conducted our audit in accordance with the International Standards of Supreme Audit Institutions (ISSAIs 1000-1810) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

We are independent in accordance with the INTOSAI Code of Ethics and we have fulfilled our other ethical responsibilities in accordance with these requirements. The responsibilities of the members of IBAN are more extensively described in the section «Auditor's Responsibilities for the Audit of the Financial Statements» and in our Charter. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

ANNEX 2 IBA-AR(2019)0022

Management's Responsibility for the Financial Statements

Management's responsibility for the financial statements is laid down in the NFRs. The Financial Statements of NATO FORACS OFFICE (NFO) are drawn up in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework as approved by the Council. The Financial Controller is responsible for submitting the Financial Statements for audit to IBAN not later than 31st March following the end of the financial year.

The Financial Statements are signed by the Head of the NATO body and the Financial Controller. In signing the Financial Statements, the Head of NATO body and the Financial Control confirm the establishment and maintenance of financial governance, resource management practices, internal controls and financial information systems to achieve the efficient and effective use of resources.

This confirmation covers the design, implementation and maintenance of internal controls relevant to the preparation and presentation of financial statements that are auditable and free from material misstatement, whether due to fraud or error. This also covers reporting on the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there are plans to liquidate the entity or to cease its operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

The objectives of the audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes an opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgement and maintain professional scepticism throughout the planning and performance of the audit. This involves taking into account Considerations Specific to Public Sector Entities. We also:

 Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

ANNEX 2 IBA-AR(2019)0022

- Obtain an understanding of internal control relevant to the audit 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 the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We are required to communicate with the bodies charged with governance, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our Independent External Auditor's Report is prepared to assist North Atlantic Council in carrying out its role. We are therefore responsible solely to the North Atlantic Council for our work and the opinion we have formed.

Report on Compliance

Opinion on Compliance

Based on the procedures we performed, nothing has come to our attention, as part of our audit of the Financial Statements that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations.

ANNEX 2 IBA-AR(2019)0022

Basis for Opinion on Compliance

We have conducted our compliance audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 4000) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

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

Management's Responsibility for Compliance

All NATO staff, military and civilian, are obligated to comply with the NATO Financial Regulations, associated Financial Rules and Procedures and internal implementing directives. These include the NATO Civilian Personnel Regulations.

The Project Manager is responsible and accountable for sound financial management. The financial administration of NATO bodies must incorporate the principles of propriety, sound governance, accountability, transparency, risk management and internal control, internal audit, external audit, and fraud prevention and detection.

Auditor's Responsibilities for Compliance

In addition to the responsibility to provide reasonable assurance about whether the financial statements as a whole are free from material misstatement, the IBAN Charter requires IBAN to provide independent assurance and report annually to the North Atlantic Council about whether funds have been properly used for the settlement of authorised expenditure (propriety) and are in compliance with the regulations in force (regularity). Propriety relates to the observance of the general principles governing sound financial management and the conduct of public officials. Regularity concerns the adherence to formal criteria such as relevant regulations, rules and procedures.

This responsibility includes performing procedures to obtain independent assurance about whether funds have been properly used for the settlement of authorized expenditure and whether they have been used in compliance with the regulations in force. Such procedures include consideration of the risks of material non-compliance.

Brussels, 28 August 2019

Dr. Hans Leijtens

Chairman

ANNEX 3 IBA-AR(2019)0022

28 August 2019

INTERNATIONAL BOARD OF AUDITORS FOR NATO

FOR THE NATO FORACS OFFICE (NFO) FOR THE YEAR ENDED 31 DECEMBER 2018

ANNEX 3 IBA-AR(2019)0022

Introduction

The International Board of Auditors for NATO (IBAN) audited the NATO FORACS Office (NFO) Financial Statements for the year ended 31 December 2018 and issued an unqualified opinion on the financial statements and an unqualified opinion on compliance.

Observations and Recommendations

The IBAN's audit resulted in three observations and recommendations. These observations do not impact the audit opinion:

- 1. Weaknesses in the internal controls over financial reporting.
- 2. Recognition of revenue from service provided by the Ranges to non-member Nations.
- 3. Recognition and disclosure of the cash to be received from Ranges related to budgetary surpluses.

IBAN also followed up on the status of two outstanding observations from its previous years' audits and noted that one is in-progress and one is closed as superseded by current year observation 1.

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OBSERVATIONS AND RECOMMENDATIONS

 WEAKNESSES IN THE INTERNAL CONTROLS OVER FINANCIAL REPORTING

Reasoning

- 1.1 Article 6 of the NATO Financial Regulations (NFRs) requires the Financial Controller to exercise the responsibility of budgeting, accounting and reporting activities of the NATO entity. This includes being responsible for the financial internal control system established, and for the preparation of the financial statements in accordance with the NATO Accounting Framework.
- 1.2 Cash and cash equivalent are defined as short-term assets. They include cash in hand, deposits held with bank, and other short term highly liquid investment. According to IPSAS 2 "Cash flow statement", cash equivalents are held for the purpose of meeting short term cash commitments rather than for investment or other purposes.
- 1.3 For an investment to qualify as a cash equivalent, it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents.

Observations

- 1.4 IBAN found misstatements or errors in the financial statements.
- 1.5 Firstly, the NFO holds funds, in cash, contributed to the NATO FORACS Greece (NFG), NATO FORACS AUTEC (NFA) and NATO FORACS Norway (NFN) budgets. These bank accounts are controlled by the IS Office of the Financial Controller. However, the closing bank balances are reported in the NFO's financial statements because they are exclusively used for the daily management of FORACS financial operations. The funds managed include NFA's short term deposits amounting EUR 866,701 (EUR 801,011 in 2017) with a maturity of one month. We found that these amounts, which should be considered as cash equivalent according to IPSAS 2, are not included in the opening and closing cash balances of the cash flow statement.
- 1.6 This leads to an incorrect presentation of the cash flow statement, showing a variation of EUR -65,689 as a cash outflow from financing activities.
- 1.7 Secondly, exchange and non-exchange revenue figures have been inverted in the Statement of Financial Performance. Consequently, EUR 970,033 of revenues related to the execution of the budget has been mistakenly disclosed as exchange revenue.

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Recommendations

- 1.8 IBAN recommends NFO to:
 - a) Correct the Cash Flow Statement in order to present short term deposits with a maturity of less than three months as a cash equivalent.
 - b) Implement and document verification procedures of the figures in the Financial Statements in order to prevent or detect these mistakes before the issuance of the Financial Statements.

2. RECOGNITION OF REVENUE FROM SERVICES PROVIDED BY THE RANGES TO NON-MEMBER NATIONS

Reasoning

- 2.1 IPSAS 9 "Revenue from exchange transactions" states that "when the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction should be recognised by reference to the stage of completion of the transaction at the reporting date."
- 2.2 IPSAS 23 "Revenue from non-exchange transactions" also states that "in a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange."
- 2.3 According to the FORACS accounting policy disclosed in the Financial Statements, non-exchange revenue has to match with the expenditure reported in the budget execution.

Observations

- 2.4 NFO has recognised EUR 85,239 of exchange revenue. However the service to the Belgian Navy was rendered by the NFN Range. A Range is a fixed-site facility responsible for conducting and controlling tests on board ships. Corresponding expenses were therefore not incurred by NFO.
- 2.5 Given that this revenue will not be paid back to the NFN Range, it must be treated as an implicit contribution by the NFN Range to NFO. Accordingly, the amount needs to be recognised as a non-exchange revenue in the NFO Financial Statements.

Recommendation

2.6 IBAN recommends that the revenues collected by NFO resulting from the services provided by the Ranges to non-member Nations be documented and recognised

ANNEX 3 IBA-AR(2019)0022

as non-exchange revenue.

3. RECOGNITION AND DISCLOSURE OF CASH TO BE RECEIVED FROM RANGES RELATED TO BUDGETARY SURPLUSES

- 3.1 According to IPSAS 1 "Presentation of financial statements", [...] "for each asset and liability line item that combines amounts expected to be recovered or settled no more than twelve months after the reporting date [...], an entity shall disclose the amount expected to be recovered or settled after more than twelve months."
- 3.2 IPSAS 19 "Provisions, contingent liabilities and contingent asset" also states that "in the extremely rare case where no reliable estimate can be made, a liability exists that cannot be recognised. That liability is disclosed as a contingent liability. Likewise, a contingent asset is disclosed, where an inflow of economic benefits or service potential is probable."
- 3.2 As per FRP XXIX, paragraph 10, related to refundable surpluses, contributions paid in excess of the net expenditure reported in the annual financial statements constitute part of the refundable surplus which shall be refunded to contributors pro rata according to the cost sharing formula under which they were originally assessed.
- 3.3 Article 6.4 of the "NATO FORACS Guidelines for calls for funds and budgets distribution" states that "NFA's and NFN's lapsed funds from the previous year are returned to HQ/FC-controlled bank accounts by the end of February." Due to national rules, NFG's lapsed funds are deducted by FC from the advance on NFG's current year's budget payable in April.

Observations

- 3.4 2018 budgetary surpluses (main + supplementary) for NFA and NFN amounted to NOK 3,072,320 (EUR 310,429) and USD 128,051 (EUR 110,981) respectively. These surpluses are disclosed in the "NATO FORACS Corporate Plan 2019 2020" issued in April 2019.
- 3.5 NFN's cash was returned to NFO in March 2019. However NFA's cash was not returned to NFO, and the corresponding lapsed funds from 2018 were finally deducted from the second disbursement of 2019 funds.
- 3.6 The return of budgetary surplus is an obligation of the Ranges towards NFO from which they may not derogate, pursuant to Article 6.4 of the FORACS procedure mentioned below. However no corresponding cash receivable from the Ranges with refundable surplus to Nation member as a liability counterpart, is issued in NFO's Financial Statements. Similarly, no information is provided in the Financial Statements with respect to contingent assets and liabilities.

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Recommendations

- 3.7 IBAN recommends that NATO FORACS:
 - a) Recognise in the financial statements the Ranges budgetary surpluses for the year, which will be returned in cash to NFO the following year, as a current asset in counterpart of a liability representing the refundable surplus to Nation.
 - b) Disclose in the financial statements the Ranges budgetary surpluses as a contingent assets and liabilities, if the Ranges budgetary surplus amounts are not available, or the amount not sufficiently reliable at the reporting date.

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FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

IBAN followed up on the status of observations from the previous years' audit. The observations, actions taken by the auditee as reviewed by IBAN, and their status are summarised in the table below.

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
(1) NFO FY 2017 IBA-AR(2018)20, paragraph 1.5		
WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING		Observation Closed.
Board's Recommendation The Board recommends that NFO:		
a) The Board recommends NFO to implement and document verification procedures of the figures in the Financial Statements in order to prevent or detect these mistakes before the issuance of the Financial Statements.	This recommendations is Closed as superseded by current year Observation 1.	
(2) NFO FY 2015 IBA-AR(2017)22, paragraph 7.8		
EFFORT TO ACHIEVE COMPLIANCE WITH THE REVISED NATO FINANCIAL REGULATIONS, PARTICULARLY THOSE ARTICLES ON INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT		Observation In-progress.
Board's Recommendation a) Ensure its risk management policy and risk registers include financial reporting and compliance risks.	a) Financial Controller's involvement in risk management is still limited. Observation In-progress .	
b) As required by FRP XII 3) (e), choose a specific internal control framework that it will use to assess its system of internal control. The assessment is required by Article 12 of the NFRs. Since other NATO entities have already adopted COSO as their internal control framework, and it is a framework that can be used by entities of all sizes, the NFO should consider adopting COSO as their internal control framework.	b) The Statement of Internal Control for 2018 does not mention any specific internal control framework that will be used to assess the system of internal control. Observation In-progress.	
c) In coordination with the IS where applicable, begin the work of assessing and documenting the system of internal control and risk management procedures to support compliance with NFR Articles 11 and 12, FRPs XI and XII, and the internal control framework that it chooses.	c) Documentation has not been completed yet. Observation Inprogress.	

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OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
d) Through outsourcing if considered to be more cost effective, ensure internal audit activities are evaluating NFO risk management and internal control.	d) The evaluation of the internal controls and risk management by the IS Internal Audit has not been conducted yet. IBAN notes that the IS Internal Audit was provided with relevant information related to risk management and internal controls by the Project Manager. Also, we note that the IS Internal Audit Plan is prepared based on a risk based methodology. It is for NFO to ensure that internal audit activities are conducted. NFO is awaiting IS Internal Audit action. Observation Open.	
e) Ensure that the supplementary budget credits are only used to enter into commitments for goods and services to be rendered during the financial year. Contract authority should be used for goods and services to be received in future years.	e) NFO changed the approval process for the supplementary budget, which is now only used for goods and services to be rendered during the financial year. Observation Closed .	

The Open status is used for recommendations that are open and for which no notable progress has been achieved to date. The In-progress status is used for open recommendations when the NATO Body has started to implement the recommendation or when some (but not all) sub-recommendations are closed. The Closed status is used for recommendations that are closed because they have been implemented, are superseded, or have lapsed.

APPENDIX ANNEX 3 IBA-AR(2019)0022

NATO FORACS STEERING COMMITTEE FORMAL COMMENTS ON THE LETTER OF OBSERVATIONS AND RECOMMENDATIONS

OBSERVATION 1:

WEAKNESSES IN THE INTERNAL CONTROLS OVER FINANCIAL REPORTING

NATO FORACS Steering Committee's Formal Comments

Recommendation a)

Agreed.

Recommendation b)

Agreed. The existing verification procedures in place will be reinforced.

OBSERVATION 2:

RECOGNITION OF REVENUE FROM SERVICES PROVIDED BY THE RANGES TO NON-MEMBER NATIONS

NATO FORACS Steering Committee's Formal Comments

IBAN's analysis is acknowledged and the recommendation is agreed. It should be noted however that the recognition of services provided by the ranges as exchange revenue is a documented accounting policy and practice disclosed in the notes since 2017 (see note 16 for 2017 reporting year) and IBAN had made no observation which lead us to believe that this was acceptable.

OBSERVATION 3:

RECOGNITION AND DISCLOSURE OF CASH TO BE RECEIVED FROM RANGES RELATED TO BUDGETARY SURPLUSES

NATO FORACS Steering Committee's Formal Comments

Recommendation a)

Agreed.

Recommendation b)

Agreed.

APPENDIX ANNEX 3 IBA-AR(2019)0022

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS (5) Audit Report FY 2015 IBA-AR(2017)22 paragraph 7.8

EFFORT TO ACHIEVE COMPLIANCE WITH THE REVISED NATO FINANCIAL REGULATIONS, PARTICULARLY THOSE ARTICLES ON INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT

NATO FORACS Steering Committee's Formal Comments

Recommendation a)

The OFC is developing a complete risk matrix for its operations which will, therefore, also apply to FORACS.

Recommendation b)

Agreed. However, the NATO FORACS Steering Committee has subsequently approved adoption of the COSO Framework (NFO(2019)003-200 dated 31 January 2019 and NFO(2019)010-200 dated 18 February 2019 refer).

Recommendation c)

Agreed. The documentation is nearing readiness for final signature.

Recommendation d)

The Board notes that "NFO is awaiting IS Internal Audit action". It should be noted that the IS Internal Audit may conduct audits of a horizontal nature that indirectly cover NFO. The IS Internal Audit was informed about NFO risk management and internal controls and did not conclude that it should take any NFO specific action. I do not believe this observation should be kept Open until a specific audit is conducted by the IS Internal Audit who, by definition, has to conduct its activities based on relative risks within its overall portfolio.

IBAN's Position

NFO is responsible to ensure internal audit activities are evaluating NFO risk management and internal controls, through outsourcing if considered to be more cost effective. IBAN therefore maintains its position to consider the status of this observation as "Open".

FC(2019)0038

NATO FORACS OFFICE

FINANCIAL STATEMENTS Financial Year 2018

Annexes:

- 1 Statement of financial position
- 2 Statement of financial performance
- 3 Statement of cash flow
- 4 Statement of changes in net assets/equity
- 5 Statement of budget execution
- 6 Explanatory notes to the financial statements

M. PAGE

Project Manager FORACS

S. Thehed be

S. CHAGNOT

Financial Controller NATO-IS

ANNEX 1 to FC(2019)0038

NATO FORACS OFFICE Statement of Financial Position

As at 31 December 2018

				(IN EUR)
	Notes	Current Year	Prior Year	Variance
		2018	2017	CY - PY
Assets				
Current assets				
Cash and cash equivalents	(3&4)	3,467,883.54	3,506,414.20	-38,530.66
Short term investments	(3&4)	866,701.33	801,011.80	65,689.53
Receivables	(5)	85,592.30	200,612.15	-115,019.85
Prepayments	(6)	2,614,906.77	2,502,087.13	112,819.64
Other current assets	(6)	19,008.40	16,034.06	2,974.34
Inventories	(7)			0.00
		7,054,092.34	7,026,159.34	27,933.00
Non-current assets				
Receivables				0.00
Property, plant & equipment				0.00
Intangible assets	(8)	1,685,581.64	1,398,421.62	287,160.02
	(-,	1,685,581.64	1,398,421.62	287,160.02
Total assets		8,739,673.98	8,424,580.96	315,093.02
			<u> </u>	0.10,000.02
Liabilities				
Current liabilities				
Payables	(9)	-753,881.85	-868,982.55	115,100.70
Deferred revenue	(10)	-52,063.83	-82,374.74	30,310.91
Advances	(11)	-5,079,662.88	-4,832,164.20	-247,498.68
Provisions	(12)	-,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	,,002,101.20	0.00
Other current liabilities	(13)	-795,584.92	-650,363.09	-145,221.83
	(12)	-6,681,193.48	-6,433,884.58	-247,308.90
Non-current liabilities				
Provisions		0.00	0.00	0.00
Deferred revenue	(14)	-1,685,581.64	-1,398,421.62	-287,160.02
Other non-current liabilities		.,	.,,	0.00
		-1,685,581.64	-1,398,421.62	-287,160.02
Total liabilities		-8,366,775.12	-7,832,306.20	-534,468.92
Surplus/Deficit		0.00		0.00
Retained earnings	(15)	-372,898.86	-592,274.75	219,375.89
Reserves				.,
Total net assets		-372,898.86	-592,274.75	219,375.89

ANNEX 2 to FC(2019)0038

NATO FORACS OFFICE Statement of Financial Performance

As at 31 December 2018

				(in EUR)
	Notes	Current Year	Prior Year	
		2018	2017	Variance
Revenue				
Exchange Revenue		(970,033.34)	(977,467.40)	7,434.06
Non-Exchange revenue		(85,239.00)		-85,239.00
Financial revenue		(42,158.60)	(9,966.31)	-32,192.29
Other revenue		(19,418.42)	(11,451.14)	-7,967.28
Total revenue	(16)	-1,116,849.36	-998,884.85	-117,964.51
Expenses				
Personnel		655,525.96	632,781.77	22,744.19
Contractual supplies and services		400,983.99	351,708.83	49,275.16
Depreciation and amortization		0.00	0.00	0.00
Impairment		0.00	0.00	0.00
Provisions		0.00		0.00
Other expenses		11,243.58	11,381.93	-138.35
Finance costs		49,095.83	3,012.32	46,083.51
Total expenses	(17)	1,116,849.36	998,884.85	117,964.51
Surplus/(Deficit) for the period		0.00	0.00	(0.00)

ANNEX 3 to FC(2019)0038

NATO FORACS OFFICE Statement of Cash Flow

As at 31 December 2018

			(in EUR)
	Notes	Current Year	Prior Year
		2018	2017
Cash flow from operating activities			
Surplus/(Deficit)		0.00	0.00
Non-cash movements		0.00	0.00
Depreciation/ Amortisation		0.00	0.00
Impairment		0.00	0.00
Use of Cash Reserves		-219,375.89	68,923,46
Increase /(decrease) in payables		-115,100.70	-123,403,87
Increase/ (decrease) in other current liabilities		362,409,60	-754.826.97
Increase/ (decrease) in provisions		0.00	0.00
Increase/ (decrease) in other non current liabilities		287.160.02	601,462,48
(Gains)/losses on sale of property, plant and equipment		0.00	0.00
Decrease/ (Increase) in other current assets		0.00	0.00
Decrease/ (Increase) in receivables		-774.13	298,593.99
Net cash flow from operating activities		314,318.90	90,749.09
Cash flow from investing activities			
Purchase of property plant and equipment / Intangible assets		297 160 02	004 400 40
Proceeds from sale of property plant and equipment		-287,160.02 0.00	-601,462.48
Net cash flow from investing activities		-287,160,02	0.00
and the state of t		-207,160.02	-601,462.48
Cash flow from financing activities			
Decrease/ (Increase) Deposit		-65,689,53	14,805.46
Net cash flow from financing activities		-65,689.53	14,805.46
Net increase/(decrease) in cash and cash equivalents		-38.530.65	-495,907.93
			100,001.00
Cash and cash equivalent at the beginning of the period		3,506,414.20	4,002,322.12
Cash and cash equivalent at the end of the period		3,467,883.54	3,506,414.20

ANNEX 4 to FC(2019)0038

NATO FORACS OFFICE Statement of Changes in Net Assets/Equity

As at 31 December 2018

(in EUR)

Delaway at the Land College Co	
Balance at the beginning of the period 2015	(481,168.94)
Changes in accounting policy Restated balance	
Net (gains)/losses recognised directly in net assets/equity	
Exchange difference on translating foreign operations	
Use of cash Reserves	(40.400.05)
Gain on property revaluation	(42,182.05)
Surplus/(deficit) for the period	
Change in net assets/equity for the year ended 2016	(42,182.05)
Balance at the end of the period 2016	(522 250 00)
balance at the end of the period 2016	(523,350.99)
Balance at the beginning of the period 2016	(540,678.49)
Changes in accounting policy	
Restated balance	
Net (gains)/losses recognised directly in net assets/equity	
Exchange difference on translating foreign operations	
Use of cash Reserves	(68,923.76)
Gain on property revaluation	
Surplus/(deficit) for the period	
Change in net assets/equity for the year ended 2017	(592,274.75)
Balance at the beginning of the period 2017	(592,274.75)
Changes in accounting policy	
Restated balance	
Net (gains)/losses recognised directly in net assets/equity	
Exchange difference on translating foreign operations	
Use of cash Reserves	219,375.89
Gain on property revaluation	, ,
Surplus/(deficit) for the period	
Change in net assets/equity for the year ended 2018	(372,898.86)

NATO FORACS OFFICE Statement of Budget Execution As at 31 December 2018

687,000 687,000 687,000 687,000 685,528 860,135 860,13	(Amounts in euro)	Initial budget	Initial budget Buget increase	BA2	Budget Revision	BA3	Transfers	Final budget	Final budget Commitments	Expenses	Total spent	Carry forward	Lapsed
75,135 71,000 505,000 71,000 505,000 71,000 505,000 71,000 505,000 71,000 505,000 71,000 505,000 71,000 72,826 72,826 72,	Budget 2018 Chapter 1	687 000		687 000	•	687 000		687 000		655 526	655 526		31 474
1,133,135 960,000 576,000 150,000 426,000 426,000 22,826 1,133,135 960,000 2,093,135 (120,000) 1,973,135 - 1,973,135 - 1,282,659 1,785	Chanter 2	375 135		830 135	30,000	860 135		860 135		804 307	604 307	1 440	254 440
1,133,135 960,000 2,093,135 (120,000) 1,973,135 - 1,973,135 - 1,282,659 1,7 50,590 50,590 50,590 50,590 50,590 50,590 51,785 - 27,285 82,375 - 82,375 - 82,375 - 61,012 16 10 10 10 10 11 10 10 10 10	Ciaplei 2	12, 10, 10, 10, 10, 10, 10, 10, 10, 10, 10		000,133	20,000	200,133		400,000		100,400	100'ton	1113	014,402
17 17 18 19 19 19 19 19 19 19 19 19	Chapter 3	000, L		000'9/6	(000,001)	426,000		426,000		22,826	22,826	33,782	369,393
1,133,135 960,000 2,093,135 (120,000) 1,973,135 . 1,973,135 . 1,282,659 1,713,135 . 1,282,659 1,714,133,135 . 1,282,659 1,714,131,135 . 1,282,659 1,714,131,135 . 1,282,659 1,714,131,135 . 1,282,659 1,714,131,135 . 1,282,135 . 1,282,1375 .	Chapter 4		•	•		1	t	•			•		•
50,590 50,590 50,590 50,590 50,590 33,727 31,785 31,785 27,285 31,785 31,785 51,012 61,012	Total	1,133,135	960,000	2,093,135	(120,000)	1,973,135	•	1,973,135	•	1,282,659	1,282,659	35,200	655,276
50,590 50,590 50,590 50,590 50,590 33,727 31,785 31,785 51													
50,590 50,590 50,590 50,590 50,590 50,590 33,727 31,785 31,785 27,285 27,285 82,375 82,375 61,012	Budget 2017												
50,590 50,590 50,590 50,590 50,590 33,727 31,785 31,785 27,285 27,285 31,785 61,012 61	Chapter 1	•		t	,	٠	•	•		•	•		•
31,785 31,785 - 31,785 - 27,28	Chapter 2	50,590		50,590	•	50,590	•	50,590	Ē	33,727	33,727	16,863	0
16 16 16 16 16 17 18 19 19 10 10 10 10 10 10 10 10	Chapter 3	31,785		31,785	•	31,785	•	31,785	•	27,285	27,285		4,500
16	Total	82,375	•	82,375		82,375	•	82,375	•	61,012	61,012	16,863	4,500
16													
androsks 1215.510 960.000 2175.510 (120.000) 2.055.540 . 2.055.540 . 1.343.670	Budget 2016												
androsks 1215.510 960.000 2175.510 (120.000) 2.055.540 . 2.055.540 . 1.343.670	Chapter 1			•	1	ı	•	,			'		1
3udasks 1215.510 960.000 2175.510 (120.000) 2.055.510 . 2.055.510 . 1343.670	Chapter 2	•		•	•	•	•	•		•	•		•
audoeks 1215.510 960.000 2175.510 (120.000) 2.055.540 - 2.055.540 - 1343.620	Chapter 3			•	٠	•	'				•		•
1215.510 960.000 2.175.510 1120.0001 2.055.510 - 2.055.510 - 1.143.670	Total	8		1		•	•			•	•	•	•
1215.510 960.000 2.175.510 1120.000) 2.055.510 - 2.055.510 - 1.343.670													
	Total All Budgets	1,215,510	960,000	2,175,510	(120,000)	2,055,510		2,055,510	•	1,343,670	1,343,670	52,064	659,776

NATO FORACS OFFICE Statement of Budget Execution As at 31 December 2017

(Amounts in euro)	Initial budget	Budget increase	BA2	Transfers	BA3	Transfers	Final budget	Expenses	Carry forward	Lapsed
Budget 2017										
Chapter 1	687,000.00		687,000.00	1	687,000.00	(15,000.00)	672,000.00	1,313,226.03	50,590.22	(691,816.25)
Chapter 2	463,226.00	1,139,917.00	1,603,143.00	1	1,603,143.00	13,900.00	1,617,043.00	245,628.86	31.784.94	1,339,629,20
Chapter 3	30,000.00	55,000.00	85,000.00	ı	85,000.00	1,100.00	86,100,00	1		86 100 00
Chapter 4		1	1				ı			
Total	1,180,226.00	1,194,917.00	2,375,143.00		2,375,143.00		2,375,143.00	1.558.854.89	82.375.16	733 912 95
Budget 2016										
Chapter 1	11,760.45		11,760.45	1	11,760.45	1	11 760 45	3 963 79		7 706 66
Chapter 2	16,439.87		16,439.87	ı	16,439.87	•	16.439.87	13,345.04		3.094.83
Chapter 3			•	•		•				
Total	28,200.32		28,200.32		28,200.32	1	28,200.32	17,308.83	•	10,891.49
Budget 2015										
Chapter 1	9,894.46		9,894.46	1	9,894.46	•	9.894.46	9 789 59		40A R7
Chapter 2	0.23		0.23	1	0.23	•	0.23			0.23
Chapter 3			1	1	1	•	1			0.20
Total	9,894.69	•	9,894.69		9,894.69	1	9,894.69	9.789.59		105.10
Total All Budgets	1,218,321.01	1,194,917.00	2,413,238.01	•	2,413,238.01	•	2,413,238.01	1,585,953.31	82.375.16	744.909.54

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EXPLANATORY NOTES TO NATO FORACS OFFICE 2018 FINANCIAL STATEMENTS

NOTE 1: GENERAL INFORMATION

FORACS' mission is to measure the bearing, range, position and heading accuracy of sensors and navigation systems and to provide communications systems and interoperability testing in surface ships, submarines and maritime aircraft to satisfy national requirements and to meet NATO material readiness standards.

The NATO FORACS Memorandum of Understanding was signed in 1974 by seven NATO nations: Denmark, Germany, Greece, Italy, Norway, the United Kingdom and the United States. In September 1994, Canada became the eighth signatory.

Three NATO FORACS (Naval Forces Sensor and Weapons Accuracy Check Sites) test Ranges were authorized under the management of a NATO FORACS Steering Committee (NFSC).

NATO FORACS Office (NFO) was established at NATO Headquarters in January 1977. This office provides technical direction for the project, quality control over test procedures, and maintains a data bank of test results for national summary reports.

NATO FORACS Norway (NFN) began routine testing in 1978.

NATO FORACS Greece (NFG) was opened for routine operation in 1985.

In 1994 the US FORACS range at AUTEC (Atlantic Underwater Test and Evaluation Center) became an affiliated NATO FORACS test range called NATO FORACS AUTEC (NFA).

Nations maintain oversight of the project through the NATO FORACS Steering Committee. The Steering Committee executes its responsibility through an executive Project Manager at the NFO in Brussels.

Normal operations and maintenance of NATO FORACS activities are funded by the member nations on a cost-sharing basis. Non-member nations utilize the resources and capabilities based on a calculated 'day rate' for services. Fixed facilities and capital costs are commonly funded through the NATO Security Investment Programme (NSIP). NATO International Staff Financial Control provides accounting and budgeting for the NATO FORACS Office and handles annual calls to nations to fund operations for the Project.

These financial statements relate only to the NATO FORACS Office (NFO). The three NATO FORACS Ranges (NFA, NFG and NFN) are responsible for executing their own budgets and issuing their own financial statements under their national budgeting and financial rules.

NATO FORACS conducts tests for eight Alliance nations in response to NATO's tasking to provide mission capable platforms. This testing also supports Nation's acquisition and upgrade programmes testing ship, submarine and maritime aircraft. Having systems in ships, submarines and maritime aircraft aligned and calibrated to the same common reference and to clearly defined accuracy standards aligns with the Connected Forces Initiative and improves interoperability of maritime systems within and between nations. In 2013, FORACS adopted a strategic tag line: *Operational Confidence Through Accuracy*

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The NATO FORACS Project continues to demonstrate a quality management culture based on ISO 9001:2015 and in 2017 achieved recertification for a further three years.

NOTE 2: ACCOUNTING POLICIES

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

Declaration of Conformity

The NFO financial statements have been prepared in accordance with NATO Financial Regulations (NFR), the Financial Rules and Procedures (FRP) and the NATO Accounting Framework, which is an adapted version of the International Public Sector Accounting Standards (IPSAS).

Basis of Preparation

These financial statements relate to the NATO FORACS Office (NFO). They also include transactions with the Ranges only in as much as they relate to the calls for contribution process of their respective budgets and therefore concerns cash, short term investments, receivables, payables, advances, and the Ranges' other current liabilities to the IS OFC on behalf of the NATO FORACS Office. Funds are called from Participating Nations; receivables are recorded; funds are transferred to the Ranges upon request of the Range Managers. Cash and cash equivalents are held on separate bank accounts controlled by the IS Office of Financial Control. None of the ensuing financial transactions of the Ranges (commitments, expenses, payments, etc.) are disclosed in these financial statements since they are executed under the exclusive authority and responsibility of the Ranges in accordance with their respective national regulations. The NATO FORACS Office plays no role in this respect.

All budget related decisions are taken by the FORACS Steering Committee, not by the FORACS Office. The latter has no financial authority over the Ranges, which operate under national regulations for all aspects of their management (budget execution, procurement, human resources, health and safety, financial reporting, external audit, etc.). The NATO FORACS Office holds an executive management function but does not exercise any power over the Ranges and it does not have rights over their surpluses or assets, neither can it be considered liable for their obligations. As a consequence, the NATO FORACS Office exercises no control over the Ranges for financial reporting purposes and therefore its financial statements are not consolidated with those of the Ranges.

These financial statements have been prepared on a going-concern basis. The assumption is that NFO is a going concern and will continue in operation and meet its objectives and obligations for the foreseeable future.

The financial year is from 1 January to 31 December.

The amounts shown in these financial statements are presented in EUR

FORACS applied IPSAS 9 Revenue from exchange transactions and IPSAS 23 Revenue from non-exchange transactions.

The following IPSAS have no material effect on the 2018 NFO financial statements:

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IPSAS 5: Borrowing Costs

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

Changes in accounting policy

None.

Restatement of Financial Statements of Previous Years

None.

Reclassification of Financial Statements of Previous Years

A minor reclassification was done, concerning untaken leave. It is no longer disclosed as a provision in the statement of financial performance in consideration of the fact that in the NATO context untaken leave is never paid except in very specific and exceptional circumstances in which case it is immediately expended. Untaken leave is included in the item Other Expenses.

The table below summarises the change.

			(in EUR)
	Reclassified	Initial	Reclass Initial
	2017	2017	Variance
Revenue			
Revenue	(977,467.40)	(977,467.40)	-
Financial revenue	(9,966.31)	(9,966.31)	-
Other revenue	(11,451.14)	(11,451.14)	-
Total revenue	(998,884.85)	(998,884.85)	-
Expenses			
Personnel	632,781.77	632,781.77	-
Contractual supplies and services	351,708.83	351,708.83	-
Depreciation and amortization			-
Impairment			-
Provisions	-	11,381.93	-11,381.93
Other expenses	11,381.93	-	11,381.93
Finance costs	3,012.32	3,012.32	-
Total expenses	998,884.85	998,884.85	
Surplus/(Deficit) for the period	0.00	0.00	-

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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 NFO's budget is authorized and managed in EUR so the contribution call is made in EUR. Foreign currency transactions as required are accounted for at the NATO exchange rates prevailing on the date of the transactions. Monetary assets and liabilities at year-end which were denominated in foreign currencies were converted into EUR using the NATO rates of exchange that were applicable at year-end.

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.

NFO does not have any unrealised gains or losses resulting from the translation of statements.

Financial Risks

NFO uses only non-derivative financial instruments as part of its normal operations. These financial instruments 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 vast majority of NFO's expenditures are made in EUR, the currency of its budget. The current bank accounts are held in EUR.

b. Credit risk

NFO incurs credit risks from cash and cash equivalent held with banks and from receivables.

The maximum exposure as at year-end 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.

Concerning cash and cash equivalent NFO 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:

Credit Ratings as at 01/03/2019

ING Bank	Fitch	Moody's	S&P
Short term	F1	P1	A-1

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The NFO outstanding accounts receivable are managed by maintaining control procedures over receivables. All cash receivables are due from NATO member nations, which are considered credit worthy.

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. In addition, the NATO FORACS Office maintains an Operational Reserve. Some limited risk could be due to the inaccuracy of budget forecasts. However, past history shows that this process results in surpluses and the budgetary rules provide for revised budgets.

The NATO FORACS Office incurs a liquidity risk since it collects the budget contributions for the Ranges and sends to the Ranges the funds they require, sometimes in advance of the budget year. This transfer of a liquidity risk from the Ranges to the NATO FORACS Office could result in a liquidity issue if contributions from Participating Nations were late.

d. Interest rate risk

Except for certain cash and cash equivalent balances, NFO's financial assets and liabilities do not have associated interest rates. NFO 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. In case of negative interest rates, these are added to the amounts called from Participating Nations.

Current Assets

Cash and cash equivalents

Cash and cash equivalents are defined as short-term assets. They include cash in hand, deposits held with banks, and 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 uncollectible debts.

Outstanding budget contributions concerning the Ranges are also recorded as Receivables.

Contributions receivable are recognised when a call for contribution has been issued to the funding nations. No allowance for loss is recorded with respect to Member countries' assessed contributions receivable.

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d. Prepayments

A prepayment is a payment in advance of the period to which it pertains and is mainly in respect of an advance payment made to a third party. This item may include advances made to staff in accordance with Civilian Personnel Regulations (such as advances on salary or on education allowance in consideration of the fact that these are advances on future staff benefits).

e. Other Current Assets

Other Current Assets relate to miscellaneous amounts due to the FORACS such as accrued interest, counterpart of untaken leave, etc. This item may include other assets that do not result from the standard order to cash process, such as miscellaneous transactions to be regularized between entities managed by the IS Office of Financial Control.

f. Inventories

As mentioned above, NATO's adaptations of IPSAS are spelled out in C-M(2016)0023 of April 2016, which included IPSAS 12 Inventories. Furthermore, C-M(2017)0043 of September 2017, approved the NATO Accounting Policy for Inventory.

When it comes to assessing the control of NATO Inventory, these documents define a set of 10 criteria to be used in assessing the level of control of an Inventory 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 capitalisation threshold. This is applied from January, 2013, under the initial NATO Accounting Framework C-M(2013)0039 of July 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.

Capitalisation 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

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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

NFO 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.

NFO 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.

NFO may consider inventory acquired prior to 1 January 2013 as fully expensed.

For inventory held prior to 1 January 2013, and not previously recognized as an asset, NFO will provide a brief description of inventory held within their inventory recording systems in the notes to the financial statements. Such disclosure will include as a minimum the types of inventories held, locations where inventories are held and the approximate number of items held per asset category. Where this adaptation conflicts with another requirement of IPSAS this adaptation shall apply. For the remainder, IPSAS 12 shall apply.

NFO assesses inventories under IPSAS 12. The outcome of this assessment is that the value of the inventories is immaterial both in value and in terms of the nature of the items held. Consequently, inventory is fully expensed on receipt. The materiality will be assessed each year.

In consideration of the above thresholds, the NFO currently has no inventory.

Non-Current Assets - Fixed Assets (Property, Plant & Equipment)

a. Property, Plant & Equipment

As mentioned above NATO's adaptation of IPSAS are spelled out in C-M(2016)0023 of April 2016 among which were specific items addressing IPSAS 17 PPE. Furthermore, C-M(2017)0022(INV) approved the NATO accounting policy for Property, Plant and Equipment.

When it comes to assessing the control of NATO over PPE these documents define a set of 10 criteria to be used in assessing the level of control of a tangible 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 capitalisation threshold. This is applied from January 2013, under the initial NATO Accounting Framework C-M(2013)0039 of July 2013

Capitalisation thresholds relevant to the financial statement are as follow:

Category	ory 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		

NATO FORACS considers PPE acquired prior to 1 January 2013 as fully expensed. However, existing accounting policies will continue to be applied for any PPE assets already capitalized prior to 1 January 2013. For PPE upgraded after 1 January 2013, only the portion related to the modification will be capitalized.

In consideration of the above thresholds, the NFO currently has no PPE.

b. Intangible assets

As mentioned above, NATO's adaptations of IPSAS are spelled out in C-M(2017)0023 of April 2013, which included IPSAS 31 Intangible Assets. Furthermore, C-M(2017)0044 approved the NATO accounting policy for intangible assets.

When it comes to assessing the control of NATO over Intangible Assets, these documents define a set of 10 criteria to be used in assessing the level of control of an Intangible 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 capitalisation threshold. This is applied from January 2013, under the initial NATO Accounting Framework C-M(2013)0039 of July 2013.

NATO Intangible Assets Capitalisation Thresholds - the NATO FORACS will capitalise each intangible asset item 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	

FORACS will capitalise all controlled intangible assets above the NATO Intangible Asset Capitalisation Threshold. For anything below the threshold, the NATO FORACS will have the flexibility to expense specific items.

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FORACS will capitalise integrated systems and include research, development, implementation and can include both software and hardware elements. But FORACS 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

FORACS will capitalise other types of intangible assets acquired after 1 January 2013 including:

- Copyright
- Intellectual Property Rights
- Software development

FORACS may consider Intangible Assets acquired prior to 1 January 2013 as fully expensed.

FORACS 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 enduse 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, FORACS 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 capitalised.

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.

In 2015, the NFO has initiated a replacement of a software required for its operations.

Current Liabilities

a. Payables

Payables are amounts due to third parties, including Participating Nations, based on goods received or services provided that remain unpaid. These include estimates of accrued obligations to third parties for goods and services received but not yet invoiced. Amounts due to Participating Nations in the context of their budget contributions are booked under Other Current Liabilities.

b. Advances and Deferred Revenue

Advances are contributions received related to future year's budgets. Up until 2015, Advances only concerned advances linked to the NFO budget call for contributions. Advances linked to the Ranges'

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budgets were classified as Payables. As from 2016, Advances include all advances linked to the budget process of the NFO and of the Ranges. This better reflects the nature of the transactions since they result from the call for budgetary contributions process, handled by IS OFC, irrespective of the entity, and harmonises the approach between the NFO and the Ranges.

Deferred Revenue represents Participating Nations' contributions which have been called for current NFO budgets but that have not yet been recognised as revenue in the absence of any related budgetary expenses.

c. Other Current Liabilities

Amounts corresponding to the current year budgetary surplus of NFO (lapsed credits + net interests + miscellaneous income) are considered a liability towards the Participating Nations. The settlement does not follow the normal accounts payable process, since the standard approach is to return them to Participating Nations via a deduction of the following year's call for budget contributions. This liability is therefore classified under Other Current Liabilities.

This item may include other liabilities that do not result from the standard procure to pay process, such as miscellaneous transactions to be regularized between entities managed by the IS Office of Financial Control.

Non-Current Liabilities

The long term unearned revenue is unearned revenue in relation to net carrying amounts of Property, Plant and Equipment and Intangible Assets. Revenue is recognised over the estimated life cycle of the Property, Plant and Equipment and The Intangible Assets.

Net Assets

Net Assets correspond to FORACS' Project Accumulated Surplus. Project Accumulated Surplus relates to funds resulting from past years contributions by FORACS member Nations in excess of budget execution that the Steering Committee decided not to redistribute to the member nations but keep for the needs of FORACS as an operational reserve. It is held at the direction of the Steering Committee.

Revenue Recognition

Revenue comprises contributions from NATO FORACS Office Member Nations and amounts due by beneficiaries of services provided by the FORACS Ranges.

Revenue is recognised to the extent 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 that relate to future periods are deferred accordingly.

Where a transfer is subject to conditions that, if unfulfilled, require the return of the transferred resources, the entity recognises a liability until the condition is fulfilled.

Contributions to be called from Member nations, based on the budget they approved, are initially recorded as unearned revenue liabilities. They are recognised as revenue in the statement of financial performance when such contributions are used for their intended purpose as envisioned in the approved Budget.

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Transformational adjustments are made in calculating earned revenue and expenses in the Statement of Financial Performance.

Segment Reporting

A segment is a distinguishable activity or group of activities for which it is appropriate to separately report financial information. There is no segment in NFO. The Ranges are FORACS components but are not NATO entities and do not form part of NFO, so cannot be considered as segments of NFO. Separate information concerning the Ranges is provided when appropriate, but this should not be considered as being done with the intent of complying with IPSAS 18 on Segment Reporting, which is not applicable in the case of these financial statements.

Statement of Financial Position

NOTE 3: CASH AND CASH EQUIVALENTS - SHORT TERM INVESTMENTS

The current bank accounts are held in EUR. Deposits are held in interest-bearing bank accounts, immediately available.

in EUR	2018	2017
NFO	2,429,846.72	2,508,038.52
Petty Cash	0.00	0.00
TOTAL	2,429,846.72	2,508,038.52

NOTE 4: FUNDS MANAGED FOR THIRD PARTIES

The NATO-IS Office of Financial Control holds funds, in cash, contributed to the NFG, NFA and, since 2013, NFN budgets. These bank accounts are controlled by IS Office of Financial Control, in the context of the management of FORACS financial operations, thus the closing balances are reported in the NFO's financial statements. Upon request of the Range Managers, funds are transferred to the Greek, US and Norwegian officials respectively, under the supervision of the Range Managers to execute their budget following their national rules.

The breakdown is as follows.

in EUR	2018	2017
NFA	37,471.38	29,237.30
NFA short term deposit	866,701.33	801,011.80
NFG	611,836.40	780,576.73
NFN	388,729.04	188,561.65
TOTAL	1,904,738.15	1,799,387.48

NOTE 5: ACCOUNTS RECEIVABLE

Receivables (in EUR)	2018	2017		
Budgetary contributions	-	200,612.15		
Staff		-		
Other NATO bodies	353.30			
Users of FORACS services	85,239.00	-		
Total	85,592.30	200,612.15		

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Contributions receivable are funds requested from the nations to finance the current and following year budgets of all the FORACS components. There is normally only one call for contribution, issued during the summer period. As directed by the Steering Committee, the call includes approximately 20% of the current year's budget credits and an advance of approximately 80% for next financial year.

The tables below analyse the budgetary contributions receivable by FORACS components and the amounts originally called as advances on the following year's budget.

Budget Contributions Receivable (in EUR)	- 1 2019	
NFO	-	
NFA		-
NFG		-
NFN		200,612.15
TOTAL	-	200,612.15

NOTE 6: PREPAYMENTS AND OTHER CURRENT ASSETS

(in EUR)	2018	2017
Prepayments to the Ranges	2,610,555.62	2,497,346.09
Prepayments to Suppliers	-	- I
Prepayments to Staff	4,351.15	4,741.04
Other Current Assets	19,008.40	16,034.06
Total	2,633,915.17	2,518,121.19

Advances are made to the Ranges on their respective following year's budget in accordance with the process of centralisation of all budgetary calls under the NATO FORACS Office umbrella.

Prepayments to the Ranges (in EUR)	2018	2017	
NFA	560,520.54	520,447.14	
NFG	348,396.00	336,540.00	
NFN	1,701,639.08	1,640,358.95	
TOTAL	2,610,555.62	2,497,346.09	

Prepayments to staff (typically advances on salaries, advances on education allowances, travel expenses) are done in accordance with the NATO Civilian Personnel Regulations.

Other Current Assets include the counterpart of untaken leave as a valuation of the potential budgetary contribution that would be required if this untaken leave were to be paid. However as indicated in the note on Employee Disclosure untaken leave is normally never paid. This item also includes accrued financial revenue.

NOTE 7: INVENTORIES

Nothing to report, inventories are not considered material.

NOTE 8: NON CURRENT ASSETS

FORACS intends to replace the data recording and analysis software used for its operations. To this effect, end 2015, a contract was signed with the NATO Communications and Information Agency

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in a total amount of EUR 1,558,500 which constituted the main commitment related to this project. The software is still undergoing a series of tests before it can be used for operational purposes, therefore no depreciation has been recorded in 2018.

(amounts in EUR)	Carrying Amount end 2016	Additions	Disposals	Depreciation	Other Changes	Carrying Amount end 2017
Software	796,959	601,462				1,398,422
TOTAL FORACS	796,959	601,462	0	0	0	1,398,422

(amounts in EUR)	Carrying Amount end 2017	Additions	Disposals	Depreciation	Other Changes	Carrying Amount end 2018
Software	1,398,422	287,160	_			1.685.582
TOTAL FORACS	1,398,422	287,160	0	0	0	1,685,582

NOTE 9: ACCOUNTS PAYABLES

Payables (in EUR)	2018	2017
Suppliers	65,742.52	3,159.82
Personnel	_	439.49
Other FORACS entities	388,109.73	606,911.63
Member Nations	153,960.68	68,324.94
Accruals	146,068.92	190,146.67
Total	753,881.85	868,982.55

Payables and accrued expenses may be to commercial suppliers, staff, other NATO bodies, FORACS member Nations or other FORACS entities.

Payable to suppliers relates to goods and services for which an invoice has been received, checked, and queued for payment but for which payment was still pending at year-end.

Accrued expenses correspond to the estimated accrual obligation to third parties for goods and services received but not yet invoiced.

Payables to other FORACS entities

Payables to NFA, NFG and NFN are amounts previously called by the NATO-IS Office of Financial Control and due to the related Ranges in order to fund their respective budgets and for which a decision to transfer the funds has been taken and payment is pending.

Payable to Participating Nations

A payable of EUR 153,960.68 (EUR 68,324.94 end 2017) is in relation to reimbursable salaries and represents the amount due to the United States (US) for a civilian staff member who was previously employed by FORACS but paid directly by the US government. The amount available at the beginning of 2018 was used to offset the budgetary contribution of the US called in 2018. The net outstanding amount remains to be regularised.

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NOTE 10: DEFERRED REVENUE

Deferred Revenue

This item is limited to NFO since it is the only FORACS entity over which the IS Office of Financial Control exercises budget control.

Deferred Revenue corresponds to NFO contributions called for the current year budget or before (received or receivable) that NFO intends to use for its initial purpose, but for which corresponding goods or services could not be received in the course of the current budget year but will be incurred after the end of the reporting period. If these amounts carried forward are not spent by the end of the second year following the year for which they were approved, these funds will lapse unless a specific decision is taken by member nations for a further carry-forward.

There were no appropriations subject to a special carry-forward, neither to a further carry-forward.

NOTE 11: ADVANCES

The standard call for contribution process includes an advance on the following year's budgets for all FORACS components. The FORACS components may in turn request that part or all of the advances be transferred to them. The amounts called as advances at year end were the following.

Advances called (in EUR)	2018	2017
NFO	954,248.00	906,508.00
NFA	1,494,721.80	1,387,858.35
NFG	929,054.00	897,439.00
NFN	1,701,639.08	1,640,358.85
TOTAL	5,079,662.88	4,832,164.20

NOTE 12: SHORT TERM PROVISIONS

There are no short term provisions.

NOTE 13: OTHER CURRENT LIABILITIES

Amounts corresponding to the current year budgetary surplus of NFO (lapsed credits + net interests + miscellaneous income) are considered a liability towards the Participating Nations. The settlement does not follow the normal accounts payable process, since the standard approach is to return them to Participating Nations via a deduction of the following year's call for budget contributions. Up to now, the standard practice of the FORACS Steering Committee has been to use these amounts to fund the NFO supplementary budget or to add them to the Project Accumulated Surplus (see note on Net Assets).

Current Year Budget Surplus NFO				
(in EUR)	2018	2017		
Lapsed Appropriations	659,776.33	744,909.54		
Net Financial Income	36,202.71	- 81,187.96		
Miscellaneous Income	104,657.42	1,598.82		
Total Surplus Current Year NFO	800,636.46	665,320.40		

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The miscellaneous income is mainly due to services provided to a non-Participating nation. The financial income is due to the correction of a 2016 transaction between bank accounts which had not yet been regularized and resulted in an exchange gain of EUR 31,815.18.

This item also includes smaller amounts related to current year financial interest and bank charges on the accounts used to settle the relationships with the Ranges.

Included at year end is the valuation of Untaken Leave (which has no impact on the current budget of NFO) in the amount of EUR 11,243.58 (EUR 11,381.93 end 2017).

NOTE 14: NON CURRENT LIABILITIES AND LONG TERM DEFERRED REVENUE

The long term deferred revenue is unearned revenue in relation to net carrying amounts of Property, Plant and Equipment and intangible assets. Revenue is recognised over the estimated life cycle of the Property, plant and equipment and the intangible assets.

NOTE 15: NET ASSETS

Net Assets correspond to FORACS' Project Accumulated Surplus.

Project Accumulated Surplus relates to funds resulting from past contributions by FORACS member Nations in excess of budget execution that the Steering Committee decided not to redistribute to the member nations but keep for the needs of FORACS. This decision was approved by the NAC (C-M(2018)0032-AS1 dated 26 Jun 2018 Approval of Operational Reserve Fund). It is an Operational Reserve held at the direction of the Steering Committee essentially in the case of emergency funding needs for the Project to ensure continuity of service and also for reallocation among NATO FORACS entities when the Steering Committee approves their supplementary budgets. It originates from previous years' budgetary and financial operations of the various NATO FORACS entities.

Statement of Financial Performance

NOTE 16: REVENUE

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be measured reliably. The non-exchange revenue is matched with the expenses stemming from budget execution.

Contributions, when called, are booked as an Unearned Revenue and subsequently recognized as Revenue when it is earned.

Exchange Revenue may result from services provided by FORACS to entities other than the Participating Nations (EUR 85,239.00; EUR 0 in 2017; EUR 202,862.65 in 2016). Revenue is assessed on a calculated day rate for services.

NOTE 17: EXPENSES

Wages, Salaries and Employee Benefits

The personnel costs include all civilian personnel expenses as well as other non-salary related expenses, in support of funded activities. They also include expenses for salaries and emoluments for approved NATO permanent civilian positions and temporary personnel, for other salary related

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and non-related allowances including overtime, medical examinations, recruitment, installation and removal, and for contracted consultants and training.

Supplies and Consumables Used

This item also includes expenses attributed to Capital Expenses from a budget perspective, if they do not meet the criteria of PPE or Intangible Assets.

Other Expenses

This item includes a valuation of untaken leave.

NOTE 18: BUDGET INFORMATION

NATO FORACS Office Budget

Presently, the NATO FORACS Budgets are not publicly available.

The actual amounts referred to by IPSAS 24 ("amounts that result from execution of the budget") are expenses incurred during the execution of the budget and appearing under the heading "Actuals" in the Budget Execution Statement.

Presentation of budget information in the financial statements

In the present financial statements budget information is limited to NFO since it is the only entity over which the IS OFC exercises budget control.

The NFO budget classification is based on the economic nature of the expenses broken down into three chapters as follows:

Chapter I: Personnel Expenses
Chapter II: Operating Expenses
Chapter III: Capital Costs

The NFO Budget is prepared for the same period (1 January to 31 December).

These financial statements also include transactions with NFA, NFG and NFN in relation to their funding as components of FORACS (calls for their budgets' contributions, prepayment of advances on their budgets, transfers related to budget adjustments). Their respective budget execution and control are conducted in accordance with their own national regulations. Neither the NFO nor the IS Financial Controller have any responsibility or authority in this respect. As a consequence their budget executions are not reflected in the budget execution statement of the NFO presented in these financial statements.

Changes to the budgetary regulations were introduced by the North Atlantic Council in 2015 in approving a new set of NATO Financial Regulations. The new NATO Financial Regulations were made applicable to the 2015 budget year as from 1 May 2015. They have in particular instilled an accruals based approach to budget preparation and budget execution, whereas before the approach was largely commitment and cash based.

Despite a stronger emphasis on the principle of annual budgets, the approved and executed budget cannot be considered as fully accruals-based, since the new regulations allow for a number of exceptions, such as carrying forward commitments for goods and services that were expected to be

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delivered in the course of the year but for various reasons were not, or authority given to the member Nations to allow for special carry forward of appropriations unused at year-end.

The NFO budget is prepared and executed as follows:

- 1) The commitment of appropriations is the advance acceptance and recording of the financial consequence resulting from a legal obligation incurred during the financial year. As a consequence appropriations are allocated, and commitments are approved, for goods, services and works to be delivered at a later stage. Commitments are settled when the service is rendered or goods delivered as is the case for expenses under accrual accounting.
- 2) Unliquidated commitments at year end normally lapse. However, if they are supported by a legal obligation and correspond to goods or services that could not be received during the course of the year for specific reasons, they may be carried forward and added to the budget of the following financial year. Uncommitted appropriations may be subject of a special carry forward to the following year if a specific agreement is given by the Steering Committee. Outstanding commitments can be carried forward for two years. As a consequence, the services or goods received may relate to a commitment of appropriations from previous years' budgets. The carry-forward should be justified by a reason for which the services or goods could not be received in the course of the year. In addition, in accordance with Financial Regulations, member Nations may agree to a further carry-forward of commitments that were already carried forward twice.
- 3) Commitments, because they are an advance acceptance, and because payments cannot be made above approved appropriations 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 appropriations eventually lapsing.
- 4) Commitments are only made in respect of expenses 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 appropriations for non-cash flow transactions such as capital depreciation or provisions which would normally appear in the Statement of Financial Performance under accrual accounting.
- 5) On an exceptional basis, the Steering 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.
- 6) The balance of unused budgetary appropriations (not committed) lapses and is to be returned to Contributing Nations or added to the Operational Reserve at year-end (the latter being the usual practice). Lapses may include cases where a project was eventually not completed or started, and therefore lead to no expense.

Budget approval

The way in which NFO deals with budget approvals is as follows. Every year, an initial budget for Operations and Maintenance is requested in order to provide contributors with a stable level of contribution and a significant amount is planned for under the supplementary budget.

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The 2018 NFO Budget authorization was initially approved at 1,133,135 (Initial Budget in the Table at Annex 5). A supplementary budget was approved by the Steering Committee in the amount of EUR 960,000. Eventually the Steering Committee decided a reduction of EUR 120,000. Eventually the total 2018 NFO budget amounted to EUR 1,973,135 (BA3 in the Table at Annex 5).

The 2017 NFO Budget authorization was initially approved at 1,180,226 (BA1 in the Table at Annex 5). A supplementary budget was approved in the amount of EUR 1,194,917, bringing the total 2017 NFO budget to EUR 2,375,143 (BA2 in the Table at Annex 5). In 2017, the supplementary budget usage was projected to cover mainly the development of specific software.

There were no frozen appropriations.

Budget execution

The NFO budget execution for the current and previous year is shown at Annex 5 and Annex 6 respectively, which compares the budget's authorized appropriations and the actual amounts committed and expended.

Credits are transferred under the authority delegated to the NATO-IS Financial Controller by the NATO Financial Regulations and Financial Rules and Procedures.

BUDGET EXECUTION		
Total Budget (including carried-forward from previous year)	(a)	2,055,510
Credits Carried Forward in Following Year	(b)	52,064
Lapsed Appropriations	(c)	659,776
Budget Execution Expenses	(d) = (a-b-c)	1,343,670

RECONCILIATION		
Financial Performance Expenses (Excluding financial costs)	(d)	1,067,754
Increase in Non-Current Assets	(e)	287,160
Provisions	(f)	-
Other Expenses	(g)	(11,244)
Sub-Total	(h)=(d+e+f+g)	1,343,670
Difference to Budget Expenses	(c-h)	-

Reconciliation between NFO Budget and Calls for Contributions

The funding of the NFO budget is made of an advance call and a call for contributions, carried over credits, the previous year's surplus, and on occasion, as directed by the Steering Committee, a contribution from/to the Project's Accumulated Surplus and/or a transfer from/to another FORACS entity's current year budget.

One call for contributions is issued every year which includes an advance concerning the budget of the following year and the remainder concerning the current year's budget (i.e. current year budget minus advance called during the previous year and any other adjustments among the FORACS entities).

The table below reconciles the approved budget and the sources of funding.

amounts in EUR	2018	2017
Initial Budget	1,133,135	1,180,226
Supplementary Budget	840,000	1,194,917
Total Annual Budget	1,973,135	2,375,143
Advance called previous year	906,508	904,181
Call in current year	226,627	276,045
Total Cash Calls	1,133,135	1,180,226
Use of Previous Year's Surplus	665,320	1,461,963
Use of (Contribution to) Project Accumulated Surplus	294,680	- 267,046
Transfer from (to) other FORACS entities	- 120,000	-
Other Funding Sources	840,000	1,194,917
Total Funding	1,973,135	2,375,143

NOTE 19: WRITE-OFFS

The Steering Committee approved NFO write offs of furniture etc. on vacating Z-Building in accordance with the request at NFO(2018)009-360 dated 19 Feb 2018).

NOTE 20: LEASES

NFO does not have any financial leases.

NOTE 21: RESTRICTIONS ON FIXED ASSETS

There are no restrictions on fixed assets.

NOTE 22: CONTINGENT LIABILITIES

There have been no contingent liabilities identified that would be expected to result in a material obligation.

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.

Paid leave is an employee benefit and as such part of overall personnel expenses. In accordance with personnel regulations, the remaining balance at year end may be carried forward but must be taken before 30 April of the following year. It can be exceptionally expanded to 31 October in accordance with Civilian Personnel Regulations art. 42.3.5 and 42.3.6. After this date it lapses and is not paid to staff. For these financial statements, untaken leave is specifically reported if its monetary value is more than 10% of the total annual leave entitlement. The cost of untaken leave days is usually absorbed during the year through the monthly salaries; leave to be taken carried forward into the next year constitutes a liability towards the future and would notionally require funding from Participating Nations.

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It should be noted that the NATO-IS is managing centrally three pension programs, namely the Defined Benefit Pension Scheme (DBS), the Provident Fund and the Defined Contribution Pension Scheme (DCPS) as well as the Retiree Medical Claims Fund (RMCF), covering staff employed by all NATO bodies. NATO wide financial statements are issued by 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.

At December 31, 2018, NFO had an approved Personnel Establishment of 4 positions funded by the FORACS budget (4 at year-end 2017).

Positions	NATO Civilians	
	31-12-18	31-12-17
Total Approved Establishment	4	4
Total Filled Positions	4	4
Arrivals in the year	0	1
Departures in the year	0	1

Positions	Total Approved Establishment	Total Filled Positions
Civilian	4	4
Voluntary National Contribution	-	-
Temporary Staff	-	-
Interns	-	-
Others	-	-

At December 31, 2018 one staff member (one end 2017) participated in the Defined Contribution Pension Scheme (DCPS) administered by NATO. The DCPS provides that the NFO budget makes a 12 percent monthly matching contribution to the staff members' contributions for current service. Two other employees (two end 2017) participated in NATO's Co-ordinated Pension Scheme (a defined benefit pension scheme): a deduction of 9.5% of their salaries is made and contributed to the annual financing of this Plan. In addition, the NFO budget makes a monthly matching contribution of 19% to the DBPS. Consequently, the NFO has neither DBPS nor DCPS liabilities for its staff members. These contributions are expensed during the year in which the services are rendered and represent the total pension obligation of the entity.

The table below indicates the contributions made to the various pension programs.

(amounts in EUR)		2018	2017
Provident Fund	Staff		
	Employer	-	
	Total		-
Co-ordinated Pension Scheme	Staff	16,751.22	17,022.72
	Employer	33,502.44	34,045.44
	Total	50,253.66	51,068.16
Defined Contribution Pension Scheme	Staff	15,357.90	13,652.50
	Employer	14,176.44	14,569.37
	Total	29,534.34	28,221.87
TOTAL	Staff	32,109.12	30,675.22
	Employer	47,678.88	48,614.81
	Total	79,788.00	79,290.03

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Further to an analysis covering the last years of the history of death in service risks in relation to premiums paid by the Organisation during 2012-2015, a compensation of EUR 6 million at the NATO-wide level was agreed by the insurance company. End 2018, the NATO Secretary General decided that a fraction of this amount (circa EUR 1,7 million) should be paid to NATO staff who were members of the DCPS during the period 2012-2015 in proportion to the contributions they made to the DCPS. Staff employed by NFO during the period 2012-2015 and affiliated to the DCPS are therefore entitled to a payment to be made from the NATO DCPS accounts. A decision still has to be taken concerning the remaining amount of the compensation, which may result in a proportional payment to NFO.

NOTE 25: KEY MANAGEMENT PERSONNEL AND RELATED PARTIES

The NATO FORACS Steering Committee (one representative per member nation) is the governing body of the NFO and of the NFG, NFN and NFA. Therefore for the purpose of IPSAS 20 the latter are considered related parties. Steering Committee members are nominated by their respective National Authorities. They are paid on the basis of applicable National pay scales. The Steering Committee members do not receive from NATO any additional remuneration for Steering Committee responsibilities or access to benefits.

The key management personnel of the NFO consists of the Project Manager. The Project Manager is responsible for the overall operational management of FORACS. The Project Manager reviews the three range's budgets, proposed by the range managers, and proposes all four budgets to the Steering Committee for approval. The three sites are managed operationally by range managers, each nominated by the participating nation where the site is located.

There are no other remuneration or benefits to key management personnel or their family members.

NOTE 26: RELATED PARTIES

In reviewing the four budgets on an annual basis, the Steering Committee determines the budgetary credits for the initial and the supplementary budgets. It is in this context that funds for the O&M budget are called (supplementary budget funds are already held by NFO on behalf of the Project) and held in cash or cash equivalents by the NATO-IS Office of Financial Control to finance three other NATO FORACS budgets, namely NATO FORACS Greece, NATO FORACS AUTEC and NATO FORACS Norway. For more effective cash management purposes, the Steering Committee approved the call procedure whereby funds pertaining to NFG, NFA and NFN are transferred into accounts at NATO Headquarters. These bank accounts are controlled by NFO, thus the closing balances are reported in the NFO's financial statements. Upon request of the Range Managers, funds are transferred to the Greek, US and Norwegian officials respectively, under the supervision of the Range Managers to execute their budget following their national rules.

NATO Office of Financial Control holds the surplus funds of the various NATO FORACS entities on the NFO bank account. These funds are not controlled by the NFO Project Manager, but are approved for expenditure by the Steering Committee to enable it to implement its supplementary budget authorisations. Remaining funds constitute the Operational Reserve.

Key management personnel have no significant party relationships that could affect the operation of the NATO FORACS Office.

In 2018, NATO International Staff charged NFO an amount of EUR 36,550.45 for administrative support costs (EUR 44,508.37 in 2017) and EUR 16,699.00 for common operating costs (EUR

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9,634.64 in 2017). In addition, the International Staff charged an annual rent for office space occupied in 2018 up until the move to the New NATO HQ (EUR 3,242.27).

* * * * *

List of acronyms:

AUTEC Atlantic Underwater Test and Evaluation Center

BC Budget Committee

DI Defence Investment Division (NATO International Staff)

FORACS Naval Forces Sensor and Weapon Accuracy Check Sites

IPSAS International Public Sector Accounting Standards

IS International Staff

MOU Memorandum of Understanding

NCIA NATO Communication and Information Agency

NSPA NATO Support Agency

NNAG NATO Naval Armaments Group

NFA NATO FORACS AUTEC
NFG NATO FORACS Greece
NFN NATO FORACS Norway
NFO NATO FORACS Office

NFSC NATO FORACS Steering Committee

PPE Property, Plant and Equipment



NORTH ATLANTIC TREATY ORGANIZATION ORGANISATION DU TRAITÉ DE L'ATLANTIQUE NORD

INTERNATIONAL BOARD OF AUDITORS FOR NATO COLLEGE INTERNATIONAL DES AUDITEURS EXTERNES DE L'OTAN

NATO UNCLASSIFIED



IBA-A(2019)0102 28 August 2019

To: Secretary General

(Attn: Director of the Private Office)

Cc: Financial Controller, International Staff

Director, NATO Headquarters Project Office & Transition Office, Defence

Investment Division

Chairman, Resource Policy & Planning Board

Branch Head, Secretariat and Finance Branch, NATO Office of Resources

Private Office Registry

Subject: International Board of Auditors for NATO (IBAN) Auditor's Report and Letter of Observations and Recommendations on the audit of the New NATO Headquarters (NNHQ) Financial Statements for the year ended 31 December 2018 - IBA-AR(2019)0021

IBAN submits herewith its approved Auditor's Report (Annex 2) and Letter of Observations and Recommendations (Annex 3) with a Summary Note for distribution to the Council (Annex 1).

IBAN's report sets out an unqualified opinion on the financial statements of the New NATO Headquarters and on compliance for the financial year 2018.

Yours sincerely,

Dr. Hans Leijtens

Chairman

Attachments: As stated above.

ANNEX 1

Summary Note for Council by the International Board of Auditors for NATO (IBAN) on the audit of the Financial Statements of the New NATO Headquarters (NNHQ) for the year ended 31 December 2018

The International Board of Auditors for NATO (IBAN) audited the New NATO Headquarters (NNHQ) Financial Statements for the year ended 31 December 2018. At the Washington Summit, in April 1999, the Heads of State and Government of NATO countries formally decided to build a new NATO Headquarters in Brussels to meet the Alliance's needs in the twenty-first century. The North Atlantic Council, upon recommendation of the Civil Budget Committee, approves the budget for the New NATO Headquarters. It is funded from national contributions based on a specific cost-share agreement among the NATO nations.

The total overall budget is EUR 1.179 billion.

Budget authorisations for 2018 totalled EUR 96 million, of which EUR 26 million relates to the 2018 budget and EUR 70 million relates to credit brought-forward from prior year budgets.

The total valuation of the New NATO Headquarters under construction as of 31 December 2018 was recorded for an amount of EUR 1.078 billion.

IBAN issued an unqualified opinion on the financial statements and on compliance for the year ended 31 December 2018.

During the audit, IBAN made three observations with recommendations. They do not impact the audit opinion on the financial statements and on compliance:

- 1. NNHQ Long Term Programme Budget execution statements do not reconcile with Financial Statements.
- 2. Errors in the Note 8 "Non-Current Assets".

These findings are in the Letter of Observations and Recommendations (Annex 3).

IBAN also followed up on the status of the observation from its previous years' audit and noted that it was closed.

The Auditor's Report (Annex 2) and the Letter of Observations and Recommendations (Annex 3) were issued to the International Staff, see the Appendix to Annex 3.

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28 August 2019

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF THE

THE NEW NATO HEADQUARTERS (NNHQ)

FOR THE YEAR ENDED 31 DECEMBER 2018

ANNEX 2 IBA-AR(2019)0021

INDEPENDENT AUDITOR'S REPORT TO THE NORTH ATLANTIC COUNCIL

Report on the Audit of the Financial Statements

Opinion on the Financial Statements

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of the New NATO Headquarters (NNHQ), for the 12 month period ended 31 December 2018, issued under document reference FC(2019)0059 and submitted to IBAN on 4th April 2019. These Financial Statements comprise the Statement of Financial Position as at 31 December 2018, the Statement of Financial Performance, the Statement of Change in Net Assets and the Cash Flow Statement for the 12 month period ended 31 December 2018, including a summary of significant accounting policies and other explanatory notes. In addition, the Financial Statements include a Budget Execution Report for the 12 month period ended 31 December 2018.

In our opinion, the Financial Statements give a true and fair view of the financial position of the NNHQ as at 31 December 2018, and of its financial performance, its cash flows and budget execution for the 12 month period ended 31 December 2018, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework.

Basis for Opinion on the Financial Statements.

In accordance with the NATO Financial Regulations (NFRs), external audit of the NATO bodies pursuant to the North Atlantic Treaty shall be performed by IBAN.

We have conducted our audit in accordance with the International Standards of Supreme Audit Institutions (ISSAIs 1000-1810) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

We are independent in accordance with the INTOSAI Code of Ethics and we have fulfilled our other ethical responsibilities in accordance with these requirements. The responsibilities of the members of IBAN are more extensively described in the section «Auditor's Responsibilities for the Audit of the Financial Statements» and in our Charter. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's Responsibility for the Financial Statements

Management's responsibility for the financial statements is laid down in the NFRs. The Financial Statements of NNHQ are drawn up in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework as approved by

ANNEX 2 IBA-AR(2019)0021

the Council. The Financial Controller is responsible for submitting the Financial Statements for audit to IBAN not later than 31st March following the end of the financial year.

The Financial Statements are signed by the Head of the NATO body and the Financial Controller. In signing the Financial Statements, the Head of NATO body and the Financial Control confirm the establishment and maintenance of financial governance, resource management practices, internal controls and financial information systems to achieve the efficient and effective use of resources.

This confirmation covers the design, implementation and maintenance of internal controls relevant to the preparation and presentation of financial statements that are auditable and free from material misstatement, whether due to fraud or error. This also covers reporting on the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there are plans to liquidate the entity or to cease its operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

The objectives of the audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes an opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgement and maintain professional scepticism throughout the planning and performance of the audit. This involves taking into account Considerations Specific to Public Sector Entities. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 the entity's internal control.
 - Evaluate the appropriateness of accounting policies used and the

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reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of the use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We are required to communicate with the bodies charged with governance, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our Independent External Auditor's Report is prepared to assist North Atlantic Council in carrying out its role. We are therefore responsible solely to the North Atlantic Council for our work and the opinion we have formed.

Report on Compliance

Opinion on Compliance

Based on the procedures we performed, nothing has come to our attention, as part of our audit of the Financial Statements that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations.

Basis for Opinion on Compliance

We have conducted our compliance audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 4000) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

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

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Management's Responsibility for Compliance

All NATO staff, military and civilian, are obligated to comply with the NATO Financial Regulations, associated Financial Rules and Procedures and internal implementing directives. These include the NATO Civilian Personnel Regulations.

The Secretary General is responsible and accountable for sound financial management. The financial administration of NATO bodies must incorporate the principles of propriety, sound governance, accountability, transparency, risk management and internal control, internal audit, external audit, and fraud prevention and detection.

Auditor's Responsibilities for Compliance

In addition to the responsibility to provide reasonable assurance about whether the financial statements as a whole are free from material misstatement, the IBAN Charter requires IBAN to provide independent assurance and report annually to the North Atlantic Council about whether funds have been properly used for the settlement of authorised expenditure (propriety) and are in compliance with the regulations in force (regularity). Propriety relates to the observance of the general principles governing sound financial management and the conduct of public officials. Regularity concerns the adherence to formal criteria such as relevant regulations, rules and procedures.

This responsibility includes performing procedures to obtain independent assurance about whether funds have been properly used for the settlement of authorized expenditure and whether they have been used in compliance with the regulations in force. Such procedures include consideration of the risks of material non-compliance.

Brussels, 28 August 2019

Dr. Hans Leijtens

Chairman

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28 August 2019

INTERNATIONAL BOARD OF AUDITORS FOR NATO

LETTER OF OBSERVATIONS AND RECOMMENDATIONS FOR THE NEW NATO HEADQUARTERS (NNHQ)

FOR THE YEAR ENDED 31 DECEMBER 2018

ANNEX 3 IBA-AR(2019)0021

Introduction

The International Board of Auditors for NATO (IBAN) audited the New NATO Headquarters (NNHQ) Financial Statements for the year ended 31 December 2018, and issued an unqualified opinion on the financial statements and an unqualified opinion on compliance.

Observations and Recommendations

IBAN's audit resulted in two observations and recommendations, which do not impact the audit opinion:

- 1. NNHQ Long-Term Programme Budget execution statements do not reconcile with Financial Statements.
- 2. Errors in the Note 8 "Non-current Assets" to the Financial Statement.

IBAN also followed up on the status of the observation from the previous year's audit and found that the observation was closed.

IBAN also issued a Management Letter (reference IBA-AML(2019)0015) to the Financial Controller of the International Staff with observations for management's attention.

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OBSERVATIONS AND RECOMMENDATIONS

1. NNHQ LONG-TERM PROGRAMME BUDGET EXECUTION STATEMENTS DO NOT RECONCILE WITH FINANCIAL STATEMENTS

Reasoning

- 1.1 The end of year Long-Term Programme Budget (LTPB) budget execution reports must reconcile with the Budget Execution Statements of the NNHQ financial statements, which is prepared in accordance with Article 34.4 of the NFRs.
- 1.2 The aim of this budgeting and accounting reconciliation is to ensure that the approved budget has been executed as planned by the Governing Body and that commitments or expenditure are incurred based on the authorised budget.

Observations

- 1.3 The LTPB budget execution reports for 2018 do not reconcile with the NNHQ financial statements for 2018 due to an accounting oversight.
- 1.4 The LTPB budget execution reports show available credits carried forward for the amount of EUR 1.97 million higher than the corresponding items in the financial statements.
- 1.5 This is due to the late introductions of accruals in the Enterprise Resource Planning (ERP) systems of the International Staff when closing the 2017 accounting year. Budget credits normally lapse within the ERP except for the LTPB, for which a permanent exception from the lapsing rules in Article 24 of the NATO Financial Regulations (NFRs) has been granted to allow the carry-forward of credits. However the upload of this exception related to the LTPB lapsed credits, requires manual posting in the ERP performed by the the International Staff (IS) Office of Financial Control.
- 1.6 However, this manual posting has not been made until the end of the financial reporting process.
- 1.7 The HQPO team relies on the ERP budget module report to follow on their budget execution. Funds are committed and expenditure are incurred by HQPO based on the ERP budget report. As the ERP has not been manually updated to reflect the 2017 late accruals against the New NNHQ budget carry-forwarded to 2018, expenditure for some activities or projects have exceeded the budget availability in some individual budget lines. To settle this issue transfers within the existing ceiling of the LTPB have been required and agreed by the Deputy Permanent Representatives Committee (DPRC).
- 1.8 IBAN observed that while this is done automatically by the ERP for all other budgets, no specific procedures have been put in place within "End of Year Activities" to update manually the ERP with the amount of accruals not to be carried forward in the

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LTPB budget. IBAN also observed that for one year, no proper reconciliation has been done between ERP budget figures used by the HQPO Team and the actual level of expenditure recorded in the ERP system.

Recommendation

- 1.9 In order to ensure the accuracy of the Budget Execution Statements, IBAN recommends that:
 - a) End of year activities be updated to ensure that the carry forward of accrued expenses be properly reflected against the annual budget in the ERP.
 - b) Quarterly reconciliation be conducted between HQPO Team and the IS Office of Financial Control.

2. ERRORS IN THE NOTE 8 "NON-CURRENT ASSETS" OF THE FINANCIAL STATEMENTS

Reasoning

2.1 Disclosure notes are included in the financial statements to provide additional information for the reader to better understand the figures in the Statement of Financial Position. They are an integral part of the financial statements.

Observations

- 2.2 IBAN found two disclosure errors in Note 8 to the Financial Statements on noncurrent assets. Given that the entire value of the NNHQ has been transferred to IS and NATO Communications and Information Agency (NCIA) at year end 2018, there is no impact on the NNHQ statement of financial position, nor in the statement of budget execution.
- 2.3 Firstly, the NNHQ changed its accounting policy regarding furniture. Up to 2017, the capitalisation threshold of EUR 30,000 was applied to the overall value of all pieces of furniture. Therefore, the entire furniture purchased was treated as a non-current asset. In 2018, the policy was changed and the capitalisation threshold was applied to each individual piece of furniture. As a result, the capitalisation threshold was no longer reached and furniture was fully expensed and therefore no longer treated as a non-current asset. However, the figures disclosed in note 8 on non-current assets were not updated to take into account this change in accounting policy, leading to an overstatement of EUR 10.595.742.
- 2.4 Secondly, an amount of EUR 9,520,394 of costs related to work on the "Active Network Infrastructure" (ANWI) project was completed in 2017 by NCIA as Host Nation and therefore treated as a non-current asset. However, this amount was not disclosed as

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an opening balance in Note 8 to the NNHQ Financial Statements. Non-current assets related to the work on ANWI are therefore understated by this amount.

2.5 The net impact of these errors was an overstatement of EUR 1,075,348 of noncurrent assets disclosed in Note 8 to the NNHQ Financial Statements. These errors were corrected prior to transfer to IS and NCIA.

Recommendation

2.6 IBAN recommends that the IS Office of Financial Control ensure that all non-current assets are correctly disclosed in Note 8 to NNHQ Financial Statements before transfer to NATO IS and NCIA.

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FOLLOW-UP OF PREVIOUS YEAR'S OBSERVATIONS

IBAN followed up on the status of observations from the previous years' audit. The observations, actions taken by the auditee as reviewed by IBAN, and their status are summarised in the table below.

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
(1) NEW NHQ FY 2017 IBA-AR(2018)0026, paragraph 1		
UNRELIABLE ESTIMATE OF ACCRUED EXPENSES FROM HOST NATION		Observation Closed.
"The Board recommends the IS obtains documentation and substantiation for the estimates of accrued expenses provided by the PMT".	Better estimates of accrued expenses from PMT received by monitoring on a more frequent basis the end of work completed by contractors & sub-contractors. The 2018 figures for remaining advances to PMT (Host Nation Belgium) and the estimated accrued expenses still ongoing end of June 2019 have been reviewed and are deemed reasonable.	

The Open status is used for recommendations that are open and for which no notable progress has been achieved to date. The In-progress status is used for open recommendations when the NATO Body has started to implement the recommendation or when some (but not all) sub-recommendations are closed. The Closed status is used for recommendations that are closed because they have been implemented, are superseded, or have lapsed.

APPENDIX ANNEX 3 IBA-AR(2019)0021

INTERNATIONAL STAFF (IS) FORMAL COMMENTS ON THE LETTER OF OBSERVATIONS AND RECOMMENDATIONS AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS

OBSERVATION 1:

NNHQ FINANCIAL STATEMENTS DO NOT RECONCILE WITH LONG-TERM PROGRAMME BUDGET EXECUTION STATEMENTS

International Staff's Formal Comments

This situation was reported and explained to the member Nations in June 2019 (see DPRC-N(2019)0037(1NV). The figures disclosed in the financial statements are accurate. The recommendation is agreed.

OBSERVATION 2:

ERRORS IN THE NOTE 8 "NON-CURRENT ASSETS" OF THE FINANCIAL STATEMENTS

International Staff's Formal Comments

The recommendation is agreed. This situation did not impact the amounts transferred to the IS and NCIA.

FC(2019)0059

NATO NEW HQ FINANCIAL STATEMENTS

For the year ended 31 December 2018

Annexes	
1	Statement of financial position
2	Statement of financial performance
3	Cash flow statement
4	Statement of changes in net assets
5	Budgetary execution statements
6	Explanatory notes to the financial statements

Jens STOLTENBERG Secretary General

Stephane CHAGNOT Financial Controller

NATO UNCLASSIFIED

NATO NEW HQ Statement of financial position As at 31 December 2018

(All amounts in EUR)

	Notes	2018	2017
Assets			
Current assets			
Cash and cash equivalents	3	24,792,449.59	48,271,773,49
Short term investments	4	40,601,828.11	45,600,731,22
Receivables	5	2,401,197.74	16,046,108.33
Prepayments	6	14,415,775.05	35,452,140.82
Other current assets	7	90,356.07	870,972,38
Inventories	2	0.00	0.00
	_	82,301,606.56	144,241,726.24
Non-current assets			
Receivables		0.00	0,00
Property, plant & equipment	8	0.00	1,060,427,743,29
Intangible assets		0.00	0.00
Other non-current assets		0.00	0.00
		0.00	1,060,427,743.29
Total assets		82,301,606.56	1,204,669,469.53
Liabilities			
Current liabilities			
Payables	9	12,294,904.13	3,561,765.18
Deferred revenue	10	66,373,700.87	82,491,855.79
Advances	11	3,048,041.40	28,818,516.39
Short term provisions	13		
Other current liabilities	40	0.00	
Onles custom liabilities	12	584,960.16 82,301,606.56	29,369,588.87 144,241,726.23
Non-current liabilities			
Payables		0.00	
ong term provisions	13	0.00	0.00
Deferred revenue	14	0.00	1,060,427,743.29
Other non-current liabilities		0.00	0.00
		0.00	1,060,427,743.29
Total liabilities		82,301,606.56	1,204,669,469.52
Net assets			
Capital assets		0.00	
Reserves		0,00	
Current year Surplus / (Deficits)		0,00	
ccumulated surpluses / (deficits) prior year		0.00	
	_		
Fotal net assets/ equity	17	0.00	0.00
	_		

NATO NEW HQ Statement of financial performance

As at 31 December 2018
(All amounts in EUR)

	Notes	2018		
	110163	2018	2017	<u>Variance</u>
Revenue	15			
Non exchange revenue	10	27,835,769.99	8,896,116.28	18,939,653.71
Exchange revenue				
		0.00	0.00	0.00
Other revenue		0.00	0.00	0.00
Financial revenue		0.00	0.00	0.00
Total revenue		27,835,769.99	8,896,116.28	18,939,653.71
Expenses	16			
Personnel		3,547,791.42	4 704 000 40	
Contractual supplies and services		24,196,328.29	1,721,386.46	1,826,404.96
Depreciation and amortization		0.00	7,057,255.47	17,139,072.82
mpairment		0.00	8,923.91	-8,923.91
Provisions				
Other expenses		73,382.26	32,835.72	40.540.54
-inance costs		18,268.02	75,714.72	40,546.54 -57,446.70
			70,714.72	-57,440.70
Total expenses		27,835,769.99	8,896,116.28	18,939,653.71
Surplus/(Deficit) for the period	17	0.00	0.00	0.00

INTERNATIONAL STAFF Statement of cash flow

As at 31 December 2018 (All amounts in EUR)

	Notes	2018	2017
Cash flow from operating activities	18		
Surplus/(Deficit)		_	
Non-cash movements			
Depreciation/ Amortisation			
Impairment		-	-
Increase /(decrease) in payables		8,733,138,95	1,373,893.48
Increase/ (decrease) in other current liabilities		(70,673,258.62)	(24,051,968.33)
Increase/ (decrease) in provisions			(24,001,000.00)
(Gains)/losses on sale of property, plant and equipment			-
Decrease/ (increase) in receivables		13,644,910.59	(15,271,220.14)
Decrease/ (increase) in other current assets		21,816,982.08	37,053,799.25
Increase/ (decrease) in other non-current liabilities		(1,060,427,743.29)	128,206,986.03
Net cash flow from operating activities		(1,086,905,970.29)	127,311,490.29
Cash flow from investing activities	18		
Purchase of property plant and equipment / Intangible assets Proceeds from sale of property plant and equipment		1,060,427,743.29	(128,206,986.03)
Net cash flow from investing activities		1,060,427,743.29	(128,206,986.03)
Cash flow from financing activities	18		
Net cash flow from financing activities		-	-
Net increase/(decrease) in cash and cash equivalents	18	(26,478,227.00)	(895,495.74)
Cash and cash equivalent at the beginning of the period		91,872,504.71	92,768,000.45
Cash and cash equivalent at the end of the period	_	65,394,277.70	91,872,504.71

NEW NATO HEADQUARTERS

STATEMENT OF CHANGES IN NET ASSETS AS AT 31/12/2018

	(in EUR
	Accumulated surpluses/(deficits)
Balance at 31 December 2016	0.00
Deficit on revaluation of property	0.00
Surplus on revaluation of investments (1)	0.00
Currency translation differences	0.00
Net gains and losses not recognized in the statement of financial performance	0.00
Net for the period	0.00
Balance at 31 December 2017	0.00
Balance at 31 December 2017	0.00
Deficit on revaluation of property	0.00
Surplus on revaluation of investments (1)	0.00
Currency translation differences	0.00
Net gains and losses not recognized in the statement of financial performance	0.00
Net for the period	0.00
Balance at 31 December 2018	0.00

⁽¹⁾ fixed assets in progress

NEW NATO HEADQUARTERS

BUDGETARY OPERATIONS FOR FINANCIAL YEAR 2018

n= 2018 in EUR) BUDGET AUTHORISATIONS BUDGETARY SURPLUS CHAPTER BUDGET (ref.) AUTHORIZED ADJUSTED CREDITS CARRIED LAPSED Article C-M(2017)0070 COMMITMENTS EXPENDITURES FORWARD TO n+1 CREDITS (4) (5) (6) = (4) - (5) (7) = (3) - (4)PERSONNEL COSTS sic salaries and ret 1,865,200.00 0.00 1 865 200 00 427,399.94 0.00 0.00 Temporary staff and consultants 01.02 0.00 0.00 0.00 0.00 01.03 Statutory travel 0.00 0.00 0.00 0.00 427,399.94 1,437,800.06 Financial year n Carried forward: 0.00 3,241,861.65 3.241.861.6 1,869,619,12 1,372,242.5 1,782,688.32 0.00 1.782 688 32 1 782 688 32 501,893.46 15,500.00 0.00 105,787.87 50,864.32 11,273.50 702,688.32 105,787.87 50,864.32 11,273.50 105.787.87 0.00 0.00 0.00 0.00 0.00 0.00 inancial year n-4 50.864.32 0.00 0.00 11,273.50 0.00 0.00 Financial yeer n-5 0.00 0.00 0.00 0.00 11,273.50 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00 inancial year n-9 0.00 7,057,675.66 0.00 7.057,675.66 0.00 3,730,239.61 0.00 0.00 7,057,675.60 3,327,436.0 0.00 PERATING COSTS 0.00 125,000.00 0.00 0.00 8,189,000.00 0.00 02.01 fficial missions 0.00 0.00 0.00 0.00 125,000.00 0.00 0.00 02.02 dministrative support 0.00 125,000.00 0.00 02.03 02.04 0.00 0.00 0.00 8,189,000:00 0.00 0.00 02.05 perating costs onstruction Site Guard 8,189,000.00 5,092,794.36 3,096,205.64 0.00 02.06 0.00 0.00 0.00 02.07 Asterials Procure 0.00 0.00 0.00 02.10 Niscellaneous and unfo inancial year n 0.00 0.00 8,314,000.00 5,217,794.36 0.00 3,096,205.64 0.00 8,314,000.00 arried forward Carned forward: Financial year n-1 Financial year n-2 Financial year n-3 Financial year n-4 Financial year n-6 Financial year n-6 6,952,253.0 0.00 0.00 0.00 0.00 6,952,253.03 6,952,253.03 3.213.161.84 3 739 091 19 2,785,048.87 1,307,694.54 2,251.79 0.00 -1,660,997,47 338,953,32 8,926,44 0.00 1,124,051,40 1.124 051 40 1,646,647.86 11,178.23 4,341.42 1,646,647.86 0.00 1,646,647,86 11,178.23 4,341.42 0.00 0.00 11,178.23 0.00 0.00 0.00 0.00 0.00 4,341,42 4,341.42 0.00 0.00 0.00 0.00 0.00 Financial year n-7 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00 Financial year n-9 0.00 18,052,471.94 0.00 0.00 18,052,471.94 0.00 18,052,471.94 NTELLECTUAL SERVICES 03.01 Consultants & studies
Project management team
Concept design team
Concept design team
Coveral CDT fees on addit Constr W
Financial year n-1
Financial year n-2
Financial year n-3
Financial year n-4
Financial year n-5
Financial year n-5
Financial year n-7
Financial year n-9 onsultants & studies 0.00 0.00 0.00 0.00 0.00 03.02 269,842.00 108,319.00 269,842.00 0.00 269,842.00 0.00 03.04 108,319.00 0.00 108.319.00 0.00 378,161.00 0.00 0.00 378,161.00 378,161.00 0.00 0.00 0.00 378,161,00 6,631,221.00 6.631.221.00 6.631.221.00 6 515 355 87 115,865.13 0.00 0.00 0.00 0.00 0.00 0.00 0.00 115,865.13 0.00 100,000.02 49,999.98 0.00 0.00 0.00 ,515,355.87 497,767,72 129,557.05 89,999.99 497,767.72 229,557.07 0.00 497,767.72 497,767.72 229,557.07 229.557.07 0.00 139,999.97 0.00 139,999.97 139,999,97 387.04 387.04 387.04 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00 inancial year n-9 0.00 7,877,093.60 0.00 7,877,093.80 7,877,093,80 IV. 04.01 CONSTRUCTION WORKS Works Requirements 15,331,054.00 15,331,054.00 0.00 15,331,054.00 15,331,054.00 0.00 0.00 Carried forward Carried forward: Financial year n-1 Financial year n-2 Financial year n-3 Financial year n-4 Financial year n-5 Financial year n-7 Financial year n-8 0.00 0.00 0.00 0.00 18,301,080.90 1,742,263.56 9,679,408.00 0.00 0.00 18,301,080.90 1,742,253.56 9,579,408.00 0.00 0.00 0.00 8,463,764.46 547,553.27 2,322,181.78 18.301.080.90 9,837,316.4 0.00 1,742,263.56 1,194,710.29 7,357,226.22 0.00 9.679.408.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00 45,053,806.46 45,053,806,46 11,333,499.51 33,720,306.95 PECIAL EQUIPMENT 05.01 0.00 402,430.0 402,430.00 402,430.00 0.00 402,430.00 402 430 00 Financial year n-1 11 227 924 90 11,227,924.90 7,075,918.45 4.152.006.45 1,300,802.59 0.00 5,578,343.50 5,578,343.50 4.277,540.9 0.00 776,719.21 0.00 776,719.21 776,719 21 0.00 0.00 Financial year n-4 0.00 0.00 0.00 0.00 ancial year n-5 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00 ncial year n-7 0.00 0.00 0.00 0.00 0.00 0.00 inancial year n-8 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00 17,985,417.61 17,985,417,61 17,985,417.61 0.00 GRAND TOTAL Financial year n Carried forward: Financial year n-1 Financial year n-2 26,290,845.00 0.00 26,290,845.00 26,290,845.00 5,687,060.81 20,603,784.19 0.00 46,354,341.48 0.00 46,354,341.48 46,354,341,48 27.137.819.74 19 216 521 74 10,725,114.50 12,438,120.01 202,042.52 10,725,114.50 12,438,120.01 202,042.52 10,725,114.50 0.00 0.00 0.00 0.00 0.00 9,388,705.63 4,420,079.40 1,336,408.87 8,018,040.61 0.00 inancial year n-3 12,438,120,01 Financial year n-4 Financial year n-5 Financial year n-6 Financial year n-7 Financial year n-8 0.00 202 042 53 143,116.10 58,926.42 0.00 16,001,96 0.00 0.00 0.00 0.00 16,001.98 11,660.54 4.341.42 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

0.00

96,026,465,47

0.00

96,026,465.47

0.00

46,788,442.22

0.00

49,238,023.25

0.00

0.00

0.00

0.00

0.00

96,026,465,47

nancial year n-9

GRAND TOTAL

0,10

NEW NATO HEADQUARTERS

BUDGETARY OPERATIONS FOR FINANCIAL YEAR 2017 n= 2017

		BUDG	ET AUTHORISATION	5			BUDGETAR	in I Y SURPLUS
CHAPTER Article		BUDGET (ref.) C-M(2017)0070	AUTHORIZED TRANSFERS	ADJUSTED CREDITS	COMMITMENTS	EXPENDITURES	CREDITS CARRIED	LAPSED
		(1)	(2)	(3) = (1)+(2)	(4)	(5)	(6) = (4) - (5)	(7) = (3) - (4
L	PERSONNEL COSTS					17/	(6) = (4) = (5)	(1) = (3) = (
01.01	Basic salaries and related expenses	4,190,419.00	0.00	4,190,419.00		694,964.97	3,495,454.03	
01.03	Temporary staff and consultants Statutory travel	0.00 0.00	0.00	0.00		253,592.38	-253,592.38	
	Financial year n	4,190,419.00	0.00	4,190,419.00		0.00 948,557.35	0.00 3,241,861.65	
	Carried forward Financial year n-1	2 242 222 27				3 12,0071.00	5,241,001.00	
	Financial year n-2	3,010,200.75 748,492.92	0.00	3,010,200.75 748,492.92		1,627,940.35	1,382,260.40	
	Financial year n-3	50,864,38	0.00	50,864.38		1,208,553.01 50,000.05	-460,060.09 864.33	
	Financial year n-4	16,217 63	0.00	16,217 63	16,217.63	50,081.90	-33,864.27	
	Financial year n-5 Financial year n-6	0.00	0.00	0.00		0.00	0.00	
	Financial year n-7	0.00	0.00	0.00		0.00 0.00	0.00	
	Financial year n-8	0.00	0.00	0.00	0.00	0.00	0.00	
	Financial year n-9	8,016,194.68	0.00	8,016,194.68		0.00	0.00	
IL.	OPERATING COSTS	0,010,134.00	0.00	0,010,194.68	8,016,194,68	3,885,132.66	4,131,062.02	
02.01	Official missions	352.68	0.00	352.68	352.68	56.76.	295.92	
02.02	Administrative support	0.00	0.00	0.00	0.00	0.00	0.00	
12.03 12.04	Hospitality Telecommunications	0.00	0.00	0.00		0.00	0.00	
02.05	Operating costs	8,082,247.32	0.00	0.00 8,082,247.32	0.00 8,082,247.32	0.00 1,130,290.21	0.00 6,951,957,11	
02.06 02.07	Construction Site Guard Materials Procurement	0.00	0.00	0.00	0.00	0.00	0.00	
12.10	Miscellaneous and unforeseen	0.00	0.00	0.00	0.00	0.00	0.00	
	Financial year n	8,082,600.00	0.00	8,082,600 00	8,082,600.00	1,130,346.97	6,952,253.03	
	Carried forward: Financial year n-1	5,447,311.38						
	Financial year n-2	5,447,311.38 39,484.78	0.00	5,447,311.38 39,484.78		5,473,768.46	-26,457.08	
	Financial year n-3	31,396.55	0.00	39,484.78	39,484.78 31,396.55	1,226,708.66 13,432.40	-1,167,224.08 17,964,15	
	Financial year n-4 Financial year n-5	49,573.79	0.00	49,573.79	49,573,79	50,094.60	-620.81	
	Financial year n-5	0.00	0.00	0.00	0.00	0.00	0.00	
	Financial year n-7	0.00	0.00	0.00	0.00	0.00	0.00	
	Financial year n-8	0.00	0.00	0.00	0.00	0.00	0.00	
	Financial year n-9	13,650,366,50	0.00	0.00	0.00	0.00	0.00	
IN.	INTELL POTILAL APPRICA	13,030,300.50	0.00	13,650,366.50	13,650,366.50	7,894,351,29	5.756,015.21	
3.01	INTELLECTUAL SERVICES Consultants & studies	707,085.00	0.00	707 005 00				
3.02	Project management team	8,980,561,00	0.00	707,085.00 8,980,561.00	707,085.00 8.980,561.00	545,085.00 2,511,340.00	162,000.00 6.469.221.00	
3.04	Concept design team	0.00	0.00	0.00	0.00	2,011,340.00	0.00	
3.05	Overall CDT fees on addit Constr W Financial year n	9,687,646.00	0.00	0.00	0.00	0.00	0.00	
	Carried forward:	3,007,040,00	0.00	9,687,646.00	9,687,646.00	3,056,425.00	6,631,221.00	
	Financial year n-1	691,384.74	0.00	691,384.74	691,384.74	293,617,02	397,767,72	
	Financial year n-2 Financial year n-3	315,404.50 899,280.00	0.00	315,404.50 899,280.00	315,404.50 899,280.00	715,575.89	-400,171.39	
	Financial year n-4	256,560.05	0.00	256,560.05	256,560.05	44,375.18 14,201.00	854,904.82 242.359.05	
	Financial year n-5 Financial year n-6	0.00	0.00	0.00	0.00	0.00	0.00	
	Financial year n-7	0.00	0.00 0.00	0.00	0.00	0.00	0.00	
	Financial year n-8	0.00	0.00	0.00	0.00	0.00	0.00	
	Financial year n-9	0.00 11,850,275.29	0.00	11,850,275.29	0.00	0.00	0.00	
iv.	CONSTRUCTION WORKS	71,000,210.23	0.00	11,030,273.23	11,850,275.29	4,124,194.09	7,726,081.20	
	Works Requirements	38,421,983.00	0.00	38,421,983.00	38 431 683 60	20 120 000 10		
	Financial year n	38,421,983.00	0.00	38,421,983.00	38,421,983.00 38,421,983.00	20,120,902.10	18,301,080.90 18,301,080.90	
- 1	Carried forward: Financial year n-1	7,597,787.10	0.00	7.507.707.40				
	Financial year n-2	20,165,308.00	0.00	7,597,787,10 20,165,308.00	7,597,787.10, 20,165,308.00	5,613,524.14 5,471,771.54	1,984,262.96 14,693,536.46	
	Financial year n-3 Financial year n-4	7,387.69	0.00	7,387.89	7,387.89	679,078.67	-671,690.78	
	Financial year n-5	306,393.39 0.00	0.00 0.00	306,393.39 0.00	306,393.39	498,365.39 0.00	-191,972.00	
	Financial year n-6 Financial year n-7	0.00	0.00	0.00	0.00	0.00	0.00	
- 1	Financial year n-8	0.00	0.00	0.00	0.00	0.00	0.00	
	Financial year n-9	0.00	0.00	0.00	0.00	0.00	0.00	
-		66,498,859.38	0.00	66,498,859 38	66,498,859.38	32,383,641 84	34,115,217.54	
	SPECIAL EQUIPMENT							
	Special equipment Financial year n	25,789,291.00	0.00	25,789,291.00	25,789,291.00	14,561,366.10	11,227,924.90	
	Financial year n Carried forward:	25,789,291.00	0.00	25,789,291.00	25,789,291.00	14,561,366,10	11,227,924.90	
	Financial year n-1	20,614,370.49	0.00	20,614,370.49	20,614,370.49	13,627,089.99		
	Financial year n-2	770,577.86	0.00	770,577.86	770,577.76	978,538.65	6,987,280.50 -207,960.89	
	Financial year n-3	1,345,959.00	0.00	1,345,959 00	1,345,959.00	1,345,959.00	0.00	
	Financial year n-4 Financial year n-5	0.00	0.00	0.00	0.00	0.00	0.00	
	Financial year n-6	0.00	0.00	0.00	0.00	0.00	0.00	
l l	Financial year n-7	0.00	0.00	0.00	0.00	0,00	0.00	
	Financial year n-8	0.00	0.00	0.00	0.00	0.00	0.00	
1	Financial year n-9	0.00	0.00	0.00	0.00	0.00	0.00	
	GRAND TOTAL	48,520,198.35	0.00	48,520,198.35	48,520,198.25	30,512,953,74	18,007,244 51	
- I	Financial year n	86,171,939.00	0.00	86,171,939.00	86,171,939 00	39,817,597,52	46 354 344 45	
	Carried forward:			,,	-3,171,33510	Se,017,087,02	46,354,341.48	
	Financial year n-1 Financial year n-2	37,361,054.46	0.00	37,361,054 46	37,361,054.46	26,635,939.96	10,725,114.50	
	Financial year n-2 Financial year n-3	22,039,268.06 2,334,887.82	0.00	22,039,268 06	22,039,267.96	9,601,147.95	12,438,120.01	
F	inancial year n-4	628,744.86	0.00	2,334,887.82 628,744.86	2,334,887.82 628,744.86	2,132,845.30 612,742.89	202,042.52 16,001.97	
	Financial year n-5	0.00	0.00	0.00	0.00	0.00	0.00	
	Financial year n-6 Financial year n-7	0.00	0.00	0.00	0.00	0.00	0.00	
	inancial year n-8	0.00	0.00	0.00	0.00	0.00	0.00	
	inancial year n-9	0.00	0.00	0.00	0.00	0.00	0.00	
1							0.00	
	TOTAL TOTAL							

148,535,894.20

148,535,894,10

78,800,273.62

69,735,620.48

0.00

148,535,894.20

GRAND TOTAL

EXPLANATORY NOTES TO NEW NATO HEADQUARTERS PROJECT 2018 FINANCIAL STATEMENTS

NOTE 1: GENERAL INFORMATION

In 1999, Heads of State of the NATO member countries decided at the Washington Summit to build a New NATO Headquarters (NNHQ) to meet Alliance requirements for the 21st century. For this New NATO HQ Project a separate budget was established in 2000.

The budget for the common funded part is approved on an annual basis by the North Atlantic Council, further to screening and recommendation by the Budget Committee and the Resource Policy and Planning Board (RPPB). The project is managed following NSIP procedures.

The main construction project, the electronic security services and the audio-visual infrastructure contracts are managed by the Belgian Ministry of Defence Host Nation Project Management Team (PMT) under the provisions of the NATO-Belgium MOU, signed on 8 December 2004.

NCIA acts as Host Nation for the Active Network Infrastructure contract. NATO-International Staff (IS) is the Host Nation for the Furniture contract and for the Business Data and Applications Migration Project (BDAM).

NATO is represented by the IS Defence Investment Division Headquarters Project Office (HQPO), which is in charge of programme management, coordination, approval procedures and the definition of requirements. HQPO also represents the interests of Nations in all dealings with the Host Nation.

A Transition Office within the IS Executive Management Division was created in 2011 to manage the practical and organisational aspects of the transition from the current headquarters to the new one.

NATO member nations maintain oversight of the project through the Deputies Committee (DPRC), a Board comprised of the Deputy Permanent Representatives. HQPO is responsible for financial management and for coordination with the DPRC, the Budget Committee, the RPPB, and the North Atlantic Council.

The overall programme budget ceiling is EUR 1,179 million.

During the first half of 2018, NATO moved to its new premises further to the handover from the Host Nations (Belgium and NCIA) to NATO of the all of the main elements of the projects that enabled operations in the new building. As a consequence, and as per the provisions of the NATO Accounting Framework (C-M(2016)0023), all assets that were recorded as work in progress have been transferred to the NATO International Staff, or the NCIA (for the IT assets).

NOTE 2: ACCOUNTING POLICIES

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

Declaration of conformity

The New NATO Headquarters financial statements have been prepared in accordance with the NATO Accounting Framework (which adapts a small number of IPSAS standards to better suit the specific requirements of the Alliance) and with the NATO Financial Regulations (NFR), the Financial Rules and Procedures (FRP).

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Basis of preparation

These statements have been prepared on a going-concern basis and the amounts shown in these financial statements are presented in EUR. The New NATO Headquarters Project will continue in operation for the foreseeable future.

The following IPSAS have no material effect on the 2018 financial statements of the New NATO Headquarters Project Office:

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 18: Segment reporting

IPSAS 21: Impairment of non-cash generating assets

IPSAS 26: Impairment of Cash-Generating Assets

IPSAS 27: Agriculture

IPSAS 32: Service Concession Arrangement: Grantor

The Cash Flow Statement has been prepared using the indirect method.

Segment Reporting

A segment is a distinguishable activity or group of activities for which it is appropriate to separately report financial information. No segments are identified in this project and are therefore not reported in these financial statements.

Changes in Accounting Policy

Furniture which up to 2017 had been capitalised has been fully expended in 2018, prior to transfer of the non-current assets to NATO International Staff, in consideration of the fact that each individual item is below the capitalisation threshold.

Reclassification of financial statements of previous years

None to report.

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 work in progress, provisions, 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 New NATO Headquarters Project's budget is authorized and managed in EUR so contribution calls are made in EUR. Foreign currency transactions as required are accounted for at the NATO parity 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 parity rates applicable at 31 December.

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 Non-Current Liabilities.

Financial risks

The New NATO Headquarters Project Office uses only non-derivative financial instruments as part of its normal operations. These financial elements include cash, bank accounts, deposit accounts, accounts receivable and Funds Managed for Third Parties.

All the financial instruments are recognised in the statement of financial position at their fair value.

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

Foreign currency exchange risk

The exposure to foreign currency risk is limited as the majority of the New NATO Headquarters Project's expenditures are made in EUR, the currency of its budget. All bank accounts are held in EUR.

Credit risk

The New NATO Headquarters Project incurs credit risks from cash and cash equivalent held with banks and from receivables.

The maximum exposure as at 31 December 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.

Concerning cash and cash equivalent the New NATO Headquarters Project 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:

Credit Ratings as at 01/03/2019

ING Bank	Fitch	Moody's	S&P
Short term	F1	P1	A-1

The New NATO Headquarters Project's outstanding accounts receivable are managed by maintaining control procedures over receivables. Most cash receivables are due from NATO member nations, which are considered credit worthy.

Liquidity risk

The liquidity risk, also referred to as funding risk, is based on the assessment as to whether the New NATO Headquarters Project 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 New NATO Headquarters Project budget. Some limited risk could be due to the accuracy of budget forecasts or to late payment of Nations' contributions.

Interest rate risk

Except for certain cash and cash equivalent balances, the New NATO Headquarters' financial assets and liabilities do not have associated interest rates. The New NATO Headquarters is restricted from

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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

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.

Cash held on behalf of third parties corresponding to amounts called and received in relation to the nationally funded elements and the fit-out of delegations, and amounts corresponding to anticipated contributions, are reported separately.

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. The same policy applies for contributions related to the nationally funded elements and to the fit-out of delegations. No allowance for loss is recorded with respect to Member countries' assessed contributions receivable.

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. In the case of the New NATO Headquarters Project, advance payments are essentially related to the pre-financing of PMT and NCIA expenses. The terms of the MOU prevent Host Nation Belgium (PMT) from pre-financing any aspect of the project.

Other Current Assets

Other Current Assets relate to miscellaneous amounts due to the Project such as accrued interest, counterpart of untaken leave, etc. This item may include other assets that do not result from the standard order to cash process, such as miscellaneous transactions to be regularized between entities managed by the IS Office of Financial Control.

Inventories

NATO has adapted a number of IPSAS Standards to better suit the requirements of the Alliance, resulting the NATO Accounting Framework (NAF) NATO's adaptations of IPSAS are spelled out in C-M(2016)0023 of April 2016, which included IPSAS 12 Inventories. Furthermore, C-M(2017)0043 of September 2017, approved the NATO Accounting Policy for Inventory.

When it comes to assessing the control of NATO Inventory, these documents define a set of 10 criteria to be used in assessing the level of control of an Inventory 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 capitalisation threshold. This is applied from January 2013, under the initial NATO Accounting Framework C-M(2013)0039 of July 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.

The NNHQ Project 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 enduser 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.

The NNHQ Project 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.

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

The introduction of this adaptation to IPSAS 12 has no impact on the way these financial statements are presented. The value of NNHQ inventories is immaterial both in value and in terms of the nature of the items held. Consequently, inventory is fully expensed when goods are received.

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Non-Current Assets:

Property, Plant & Equipment and Intangible Assets:

As mentioned above NATO's adaptation of IPSAS are spelled out in C-M(2016)0023 of April 2016 among which were specific items addressing IPSAS 17 PPE. Furthermore, C-M(2017)0022(INV) approved the NATO accounting policy for Property, Plant and Equipment.

When it comes to assessing the control of NATO over PPE these documents define a set of 10 criteria to be used in assessing the level of control of a tangible 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 capitalisation threshold. This is applied from January 2013, under the initial NATO Accounting Framework C-M(2013)0039 of July 2013

2012 was the first year during which construction works related to the nationally funded elements were performed. These works are recognized as non-current assets (Assets under construction, PPE: Property, Plant and Equipment) held on behalf of third parties, at least during the construction period. The reasoning stems from a number of factors. The NHQ building constitutes a coherent and global building whose purpose is to bring together member nations in order to enable an efficient and effective consultation process. This situation whereby dedicated National Representations are present on site is very specific to NATO and does not really exist in other comparable international organizations. The member nations are not considered, from a legal perspective, as having direct property rights on the parts of the building corresponding to their own delegation premises, but rather having an exclusive right of use. In this respect the different funding cost shares cannot be deemed a factor justifying a specific accounting treatment. The situation also carries certain restrictions, such as the inability to execute works affecting or altering the basic structure of the building, or to use the premises for purposes different than housing their national delegation to NATO, or to independently sell their premises. Additionally, it is difficult to accurately distinguish the value between these common and nationally funded elements. However, their inclusion provides useful and clear information which contributes to financial transparency.

Common funded and nationally funded construction works are managed as a single project. At this point, and from an accounting standpoint, the fact remains that the economic benefit or the service potential is measured by the contribution to consensus building and therefore it cannot be separated from NATO's purpose. Therefore, this would not justify a separate accounting treatment.

It should be noted that this approach does not apply to the national fit-out segment, for which four nations have decided to act separately. The impact on previous years' financial statements is not material as no related works had been performed and therefore no fixed assets were recognised.

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

The principles of valuing and depreciating fixed assets are the following:

Buildings are shown at fair value based on internal valuations at the reporting date. Valuation is done based on judgment using the best available information from relevant sources. With regard to land on which the buildings are erected, see note on Leases.

All other non-current assets, Property, Plant and Equipment (PPE) and intangible assets are recorded at their historical cost less accumulated depreciation and any recognized impairment loss.

The introduction of this adaptation to IPSAS 17 has no impact on the way these financial statements are presented. Although the adaptation to IPSAS allows one to consider PPE acquired prior to 1 January 2013 as fully expensed, it was decided not to do so: amounts considered as PPE work in progress prior to 1 January 2013 remain capitalized in the interest of disclosing relevant and complete information regarding the value of the future NNHQ.

In the case of the New NATO Headquarters Project to date, PPE has been accounted for as "work in progress". In the course of 2017 and 2018 all of the main elements of the PPE that would enable NATO to move to and operate on the new premises have been handed over from the Host Nations (PMT and NCIA) to HQPO and in turn immediately to NATO International Staff. Consequently these non-current assets were transferred and will now appear in the books of the latter except for the IT part which in accordance with the NATO Accounting Framework is to be considered an NCIA asset. There are no longer any PPE or IT assets appearing on the statement of financial position of the NNHQ.

Intangible Assets:

As mentioned above, NATO's adaptations of IPSAS are spelled out in C-M(2016)0023 of April 2016, which included IPSAS 31 Intangible Assets. Furthermore, C-M(2017)0044 approved the NATO accounting policy for intangible assets.

When it comes to assessing the control of NATO over Intangible Assets, these documents define a set of 10 criteria to be used in assessing the level of control of an Intangible 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 capitalisation threshold. This is applied from January 2013, under the initial NATO Accounting Framework C-M(2013)0039 of July 2013.

NATO Intangible Assets Capitalization Thresholds - the NNHQ Project will capitalize 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

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

The NNHQ Project will capitalize integrated systems and include research, development, implementation and can include both software and hardware elements. But the NNHQ Project will not capitalise the following types of intangible assets in its financial statements:

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

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The NNHQ Project will capitalize other types of intangible assets acquired after 1 January 2013 including:

- Copyright
- Intellectual Property Rights
- Software development

The NNHQ may consider Intangible Assets acquired prior to 1 January 2013 as fully expensed.

The NNHQ Project 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 capitalize 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.

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.

The introduction of this adaptation to IPSAS 31 has no impact on the way these financial statements are presented.

For the practical consequences resulting from the handovers from Host Nations Belgium and NCIA, please see above under PPE.

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 Position (during the construction process) in the year concerned.

Current liabilities

Payables

Payables are amounts due to third parties, including Participating Nations, based on goods received or services provided that remain unpaid. These include estimates of accrued obligations to third parties for goods and services received but not yet invoiced. Amounts due to Participating Nations in the context of their budget contributions are booked under Other Current Liabilities.

Advances and Deferred Revenue

Deferred Revenue represents participating Nations' contributions related to approved annual budgets that have not yet been recognised as revenue in the absence of matching expenses, but which have been called for current common funded budgets and for nationally funded construction works. Funds are called in advance of requirements because the New NATO Headquarters Project has no capital that would allow it to pre-finance any of its activities.

Advances are contributions called related to future years' budgets. There have been no such advances called for 2019. Voluntary advances made outside of the call for contributions process are accounted as funds managed for third parties.

Other Current Liabilities

Other Current Liabilities include in particular the surplus as per the NATO Financial Regulations (lapsed credits + net interests + miscellaneous income). In authorizing the New NATO Headquarters Project budget, Nations agreed that it would be a special budget extending over several years. Nations agreed that financial closure would take place only when the Project has been fully realised. Consequently, it

was agreed that credits and the refundable surplus can be maintained with the entity until the Project's completion (C-M(2000)36). Amounts which would have been normally returned to contributing Nations in the framework of the standard NATO Financial Regulations' provisions – such as net interest earned, miscellaneous receipts, lapsed credits, accumulated surplus - remain on the entity's accounts.

This item may include other liabilities that do not result from the standard procure-to-pay process, such as miscellaneous transactions to be regularized between entities managed by the IS Office of Financial Control.

This item also includes the valuation of staff untaken leave.

Funds Managed for Third Parties (National Funds)

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

As a consequence of the recognition of the nationally funded elements as non-current assets, contributions called from the Nations with regard to the nationally funded elements are treated in a way comparable to that of budgetary contributions. Amounts called and amounts not converted to unearned revenue, which fund the related works, are included as liabilities

Non-Current Liabilities

The long term unearned revenue is unearned revenue in relation to net carrying amounts of Property, Plant and Equipment and Intangible Assets. Revenue is recognised over the estimated life cycle of the Property, Plant and Equipment and The Intangible Assets.

Revenue and expense recognition

All the costs incurred under the New NATO Headquarters Project since its inception, except those related to the Transition Office and furniture, qualify to be capitalized as PPE Work in Progress. This includes personnel and operating costs. The matching budget resources provided by Nations to fund these Works in Progress are recognised as a liability in the Statement of Financial Position as Long Term Unearned Revenue. No revenue is recognised in the Statement of Financial Performance, except for the part attributable to the Transition Office and furniture.

The task of the Transition Office is to plan and execute the transition from the previous NATO HQ to the new NATO HQ. Its purpose is to transform the way NATO HQ operates to make best use of the facilities and technologies in the new NATO HQ; to relocate staff, NATO agencies and national delegations; and to return the current NATO HQ campus to Belgium. Transition Office related costs consist mainly in salaries of its staff and the costs of consultancy services to determine the best ways to conduct operations in the new building. Therefore they do not fulfil the criteria set by IPSAS 17 to qualify as directly attributable costs of the asset under construction. As a consequence Transition Office costs are expended rather than capitalized.

Revenue from exchange and non-exchange transactions

There is no revenue from exchange transactions, as the contributions by Nations are based on a fixed cost-share of reimbursable costs for the construction of the New NATO Headquarters Project. They are considered as a liability for long term unearned revenue funding assets in progress.

Long Term Unearned Revenue

After the transfer of the building to the NATO International Staff, earned revenue will be progressively recognised from long term unearned revenue, in an amount equal to annual depreciation of the related PPE, Intangible Assets etc. of the building, as future economic benefits and service potential will flow to the NATO International Staff when the building is operational.

Non-budgetary contributions called from Nations corresponding to the nationally funded construction works are treated as Long Term Unearned Revenue in an amount equal to the estimation of works completed.

NOTE 3: CASH AND CASH EQUIVALENTS

The current bank accounts are held in EUR. Deposits are held in interest-bearing bank current accounts, immediately available.

Derogations to NATO Financial Regulations were approved by the Council (C-M(2000)36 and BC-D(2000)20). In particular paragraphs 4.4 of the latter document introduce flexible arrangements for national contributions to allow Nations to make anticipated contributions. No ceiling is applicable to the amount of cash holdings.

To meet the Project's payment for the fit-out and nationally funded elements under the NSIP rules and procedures, the IS Office of Financial Control has issued separate contribution calls for the fit-out and for nationally funded parts of the Project. The planning foresees that the Nations pay contributions in advance of the quarterly payment request. A matching liability is posted against the amount of cash held on behalf of the Nations concerned and of the amount of uncollected related contributions called for the nationally funded construction works.

These funds also includes amounts relating to anticipated contributions made by some nations.

There are also funds from Eurocontrol as the remainder of its contribution to works for a secure pedestrian access between its headquarters and the NNHQ site.

(amounts in EUR)	2018	2017
Common Funded	14,913,687.79	24,967,233.84
Nationally Funded	2,506,172.56	11,672,450.95
Fit-Out	7,372,589.24	9,632,088.70
TOTAL	24,792,449.59	46,271,773.49

NOTE 4: SHORT TERM INVESTMENTS

Short Term Invested Funds

(amounts in EUR)	2018	2017
Common Funded	40,001,828.11	45,000,731.22
Nationally Funded	600,000.00	600,000.00
Fit-Out	0.00	0.00
TOTAL	40,601,828.11	45,600,731.22

NOTE 5: ACCOUNTS RECEIVABLE

Contributions receivable from member Nations are funds requested from the Nations to finance the Common Funded Budget, the Nationally Funded component and the Fit-Out. Usually a single call is issued at the beginning of the year for each component.

No call for contributions was issued at the end of 2018. Expenses in relation to the project until its completion to be incurred mainly in 2019 will be covered by credits carried forward. This explains the decrease in receivables end 2018. Whereas there has been an increase in receivables end 2017 due to the issuance at the end of 2017 of an additional call for contributions linked to the increase in the planning ceiling.

There may be other receivables from Nations concerning amounts due for cases other than contributions to the NNHQ budget or nationally funded elements.

Other Receivables may relate to miscellaneous amounts due to the Project (e.g. reimbursement of operating costs, insurance claims, advances to staff for education allowances etc.).

End 2018, all receivables were from Participating Nations.

NOTE 6: PREPAYMENTS

Receivables from the PMT relate to advance payments made to the PMT which are not regularised at year end as they do not correspond to works completed. The terms of the MOU prevent the Host Nation from pre-financing any aspect of the Project. On a cash basis, at year end 2018, PMT held EUR 6,417,972.37 received from NHQPO as advance payments (EUR 33,913,997.37 at year end 2017). On an accruals basis, including provisions, taking into account amounts due by PMT, the net advance to be regularised amounted to EUR 6,260,931.71 (EUR 31,278,209.37 at year end 2017).

Similarly, at year end 2018, NHQPO has advanced funds to the NCIA in an amount of EUR 7,497,135.92 (EUR 4,173,931.45 at year end 2017) on an accruals basis.

Prepayments to suppliers (i.e. other than the two Host Nations mentioned above) amounted to EUR 0 (EUR 0 at year end 2017).

Prepayments to staff in relation to education allowance advances amounted to EUR 38,505.16 end 2018 (EUR 64,826.21 end 2017).

NOTE 7: OTHER CURRENT ASSETS

Other Current Assets correspond, end 2017, essentially to reciprocal bank transactions between the New NATO HQ Project and NATO International Staff accounts and transactions to be regularised. Other Current Assets also include the counterpart of untaken leave (EUR 73,382.26; EUR 32,835.72 end 2017) as a valuation of the potential budgetary contribution that would be required if this untaken leave were to be paid. However, as indicated in the note on Employee Disclosure, untaken leave is normally not paid.

NOTE 8: NON-CURRENT ASSETS

Although parts of the building and its systems had been handed over from the PMT to NATO International Staff during 2017, the handover process was not complete by end 2017; elements still remained in the hands of the PMT and of the NCIA. NATO International Staff did not yet benefit from the service potential of the building at year end 2017.

As explained above, by early 2018 all of the main elements of the PPE that would enable NATO to move to and operate on the new premises have been handed over from the Host Nations (PMT and NCIA) to NATO International Staff. Consequently these assets have been transferred and will now appear in the books of the latter except for the IT part which in accordance with the NATO Accounting Framework is to be considered an NCIA asset. There are no longer any PPE or IT assets appearing on the statement of financial position of the NNHQ. In the tables below, the reduction in the value of non-current assets under "Other Changes" reflects this transfer of assets between two NATO entities, under the same legal personality, which was done as direct balance sheet transactions, impacting similarly the Long Term Unearned Revenue.

Up until this transfer, costs charged as PPE Work in Progress cover the common funded PPE and the nationally funded construction works held on behalf of the member Nations which during the execution of the project are considered not separable from the overall amount of fixed assets.

The following tables reconcile works related PPE amounts at the beginning and at the end of 2018 (and of 2017).

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(amounts in EUR)	Carrying Amount end 2017	Additions	Disposals	Depreciation	Other Changes	Carrying Amount end 2018
COMMON FUNDED						
Personnel (chapter 1)	22,412,209	891,433			(23,303,642)	0
Operating Costs (chapter 2)	50,840,175	3,311,193			(54,151,368)	
Professional fees (chapter 3)	137,330,474	637,871			(137,968,345)	
Works (chapter 4)	636,830,828	7,180,289			(644,011,117)	
Special Equipment (chapter 5)	11,575,136	2,136,981			(13,712,117)	
SUB-TOTAL COMMON FUNDED	858,988,822	14,157,767	0	0	(873,146,589)	
						0
NATIONALLY FUNDED						0
Works	99,025,316	0			(99,025,316)	0
SUB-TOTAL NATIONALLY FUNDED	99,025,316	0	0	0	(99,025,316)	
						0
TOTAL	958,014,138	14,157,767	0	0	(972,171,905)	0

(amounts in EUR)	Carrying Amount end 2016	Additions	Disposals	Depreciation	Other Changes	Carrying Amount end 2017
COMMON FUNDED						
Personnel (chapter 1)	20,756,606	1,655,603				22,412,209
Operating Costs (chapter 2)	49,055,622	1,784,553				50,840,175
Professional fees (chapter 3)	126,827,696	10,502,778				137,330,474
Works (chapter 4)	567,966,416	68,864,412	-			636,830,828
Special Equipment (chapter 5)	7,384,627	4,190,509				11,575,136
SUB-TOTAL COMMON FUNDED	771,990,967	86,997,855	0	0	0	858,988,822
NATIONALLY FUNDED		0				r
Works	95,840,593	3,184,723				99,025,316
SUB-TOTAL NATIONALLY FUNDED	95,840,593	3,184,723	0	0	0	99,025,316
TOTAL	867,831,560	90,182,578	0	0		958,014,138

For 2018, included is an amount of EUR 2,592,179 corresponding to accrued costs estimated by the PMT for invoices it had not yet received but relating to completed works end 2018.

The following table reconciles the ANWI Assets amounts at the beginning and at the end of 2018 (and of 2017).

(amounts in EUR)	Carrying Amount end 2017	Additions	Disposals	Depreciation	Other Changes	Carrying Amount end 2018
COMMON FUNDED						
Personnel (chapter 1)	0	0				0
Operating Costs (chapter 2)	0	0	***			0
Professional fees (chapter 3)	15,076,004	5,993,979			(21,069,983)	0
Works (chapter 4)	0	0			(21,000,000)	0
Special Equipment (chapter 5)	87,337,602	(927,555)			(86,410,047)	0
TOTAL COMMON FUNDED	102,413,606	5,066,424	0	0	(107,480,030)	

(amounts in EUR)	Carrying Amount end 2016	Additions	Disposals	Depreciation	Other Changes	Carrying Amount end 2017
COMMON FUNDED						
Personnel (chapter 1)	0	0				0
Operating Costs (chapter 2)	0	0				0
Professional fees (chapter 3)	12,222,447	2,853,557				15,076,004
Works (chapter 4)	0	0				10,070,004
Special Equipment (chapter 5)	52,166,751	35,170,851				87,337,602
TOTAL COMMON FUNDED	64,389,198	38,024,408	0	0	0	102,413,606

A series of contracts have been entered into in relation to non-current assets, mainly by the PMT and the NCIA as Host Nations, and for smaller amounts by NHQPO. The main contractual commitments, excluding short term non-works related contracts (such as for security and guard services), which are now almost totally settled, are the following.

The main construction contract including Passive Network Infrastructure was let in June 2010, at the price set in January 2010 of approximately MEUR 360 (MEUR 438 including National Funding). This base price does not include adjustments for price revisions. Further to a claim introduced end 2013 and settled in 2014, an agreement was reached to pay additional MEUR 85 and to extend the construction period by 4.5 months. In 2017, further to the revised financial assessment for the completion of the NNHQ the amount was increased by MEUR 20. This takes the total of authorised contingencies approved to PMT for the main construction contract including passive network to MEUR 194.

The Concept Design Team contract was transferred to the PMT and has an LTPB planned cost of MEUR 85.845 which represents a reduction of MEUR 1.9 from the previous LPTB.

The PMT awarded in 2013 the contract for the Electronic Security System in an amount of MEUR 14.9 (2013 value). The 4.5 month extension agreed with the general construction contractor implied an estimated EUR 1.54 million additional cost and further to the revised cost to complete the work, an additional MEUR 1.99 was authorised in 2017. Regarding the contract for the Audio Visual Infrastructure in an initial amount of MEUR 26.4 (2013 value), estimated additional costs of MEUR 1.28 were agreed to compensate the 4.5 months delay and additional MEUR 1.8 in 2017 further to the revised cost to complete assessment .

Contracts were awarded by NHQPO for Furniture Supply (MEUR 8.9) and for Business Data and Applications Migration (MEUR 5.4 in the revised LTPB).

There are Project Support and Engineering Fees for NCIA in relation to the Active Network Infrastructure, in an estimated amount of MEUR 18 and MEUR 0.9 respectively.

The MOU between NATO and the Host Nation provides that management fees (National Administrative Expenses, NAE) equal to 3% of the works will be paid (LTPB total amount: MEUR 22.434).

NOTE 9: PAYABLES

Payables and accrued expenses may be to commercial suppliers, staff, Member Nations and other NATO bodies.

Payable to suppliers

Payable to suppliers relates to goods and services for which an invoice has been received, checked, and queued for payment but for which payment was still pending at year-end.

Payable to personnel

Payable to personnel relates to amounts due to staff in relation to remuneration of interns or temporary staff, travel expenses and hospitalities.

Payable to Nations

A payable of EUR 1,513,305.90 (EUR 1,513,305.90 end 2017) is in relation to the reimbursable salaries due to the United States for a civilian staff member who is paid directly by the United States government. This amount can be used by the United States by applying it against its annual Project contribution.

Accruals

Accrued expenses correspond to the estimated accrual obligation to third parties for goods and services received but not yet invoiced

NOTE 10: DEFERRED REVENUE

Deferred Revenue from Budgetary Appropriations

Deferred Revenue from budgetary appropriations corresponds to contributions called in relation to approved budgets up to 2018 but for which corresponding expenses will be incurred after the reporting

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date of 31 December 2018. The Unearned Revenue includes principally those amounts of contributions which will be spent in subsequent years on the New NATO Headquarters Project budget as credits carried-forward resulting from the budget execution in accordance with the NATO Financial Regulations (and the specific waiver thereto applicable to this project) and advances made to the PMT and the NCIA.

Other Deferred Revenue

There are also National Funds corresponding to funds managed on behalf of Nations outside of the standard call for Common Funded budgetary contributions process which are the counterpart of specific contributions called from Nations to meet the Project's payment for the Fit-Out or for Nationally Funded elements.

NOTE 11: ADVANCES

Advances Related to the Budgetary Process

Up to 2013 there were no such advances received as there had not been calls for advance budgetary contributions. However, when setting up the funding framework related to the settlement of the claim introduced end 2013, it was agreed that Nations could opt for providing funding beyond what was needed for the part corresponding to the 2014 budget. This has resulted in EUR 20,768,632 being called. This amount was allocated to the calls issued in 2017, 2016 and in 2015 and to additional contributions.

At the time of the call for contributions related to the 2017 Revised Budget, some Nations requested to pay advances (total amount EUR 18,814,083.00).

No advances were called in relation to the 2018 or 2019 budgets.

Other Advances

Nations may, in addition, make ad hoc voluntary additional contributions in relation to the Common Funded budget (EUR 0.00 end 2018; EUR 316,924.50 end 2017), to their Nationally Funded component (EUR 3,045,754.49 end 2018; EUR 9,245,956.12 end 2017) or to their Fit-Out.

NOTE 12: OTHER CURRENT LIABILITIES:

Other Current Liabilities linked to the budget process

Lapsed credits are budget funds for which no legal liability exists. They cannot be spent in subsequent years. Lapsed credits are normally deducted from the contributions due from Nations in the call of the following year.

Receipts linked to interest, foreign exchange difference gain and bank charges are normally deducted from the contributions due by Nations in the following year.

The standard budgetary process provides that amounts corresponding to the current year budgetary surplus (lapsed credits + net interests + miscellaneous income) are considered a liability towards the contributing nations. The settlement does not follow the normal accounts payable process, since the standard approach is to return them to contributing nations via a deduction of the following year's call for budget contributions. In the case of the NNHQ Project member nations have decided that this rule would not apply until completion of the project and that all available appropriations at the end of each year would be carried forward. Consequently, calls for contributions are equal to the gross amount of the approved budget with no deductions for any surplus.

Project Accumulated Surplus

Project Accumulated Surplus resulting from previous years' budget execution, which amounted to EUR 13,339,622.00 end 2013, remained until then in the entity's accounts in accordance with the

specific budget funding rules approved by Nations, according to which surpluses are not returned to contributing Nations before the completion of the project.

This amount can be broken down into the following components:

(cumulative amounts since the beginning of the project until 2013)

lapsed credits (including frozen)	12,213,702.50
net overcall (minus = undercall)	-4,588,528.69
interest earned	5,700,330.32
miscellaneous income	14,117.87
Total	13,339,622.00

When assessing, end 2014, the funding impact of the settlement of the claim with the contractor and related additional costs, Nations decided to use the surplus as of end 2013 and to allocate it as a resource in order to reduce contributions to be called in this respect. As a consequence, end 2014, the surplus available from previous years was nil.

Since then, in the absence of lapsed credits, the surplus related to the Project's Common Funded is limited to net financial revenue and miscellaneous revenue (EUR 468,851).

Other Current Liabilities linked to Accrued Costs

End 2017, there was an amount of EUR 29,112,000 corresponding to accrued costs incurred by the PMT to completion of the works and for which no budget transactions had been registered yet, nor payments claimed by the PMT to the NHQPO. This transaction was reversed in 2018.

Untaken Leave

This item includes the counterpart of the valuation (EUR 73,382.26 end 2018; EUR 32,835.72 end 2017) of untaken leave (which has no impact on the current budget of the Project).

NOTE 13: NON-CURRENT LIABILITIES: PROVISIONS

None.

NOTE 14: LONG TERM UNEARNED REVENUE

This revenue corresponds to the contributions, budgetary and non-budgetary, that funded fixed assets work in progress.

For common funded PPE and Intangible Assets, the amount originates from budget contributions.

Funding provided for the nationally funded elements matching completed related works is also considered long term unearned revenue during the construction period.

As explained above, in the course of 2017 and 2018 all of the main elements of the PPE that would enable NATO to move to and operate on the new premises have been handed from the Host Nations (PMT and NCIA) to NATO International Staff. Consequently these assets were transferred and will now appear in the books of the latter except for the IT part which in accordance with the NATO Accounting Framework is to be considered an NCIA asset. There are no longer any PPE or IT assets appearing on the statement of financial position of the NNHQ. The reduction in the value of the Long Term Unearned Revenue reflects the transfer of the long term funding related to these assets. This operation between two NATO entities, under the same legal personality, was done via direct balance sheet transactions.

Since the NNHQ accounts no longer hold any non-current assets, there is no Long Term Unearned Revenue.

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NOTE 15: REVENUE

Budgetary revenue is matched to recognised expenses relating to the activities of the Transition Office.

Any interest gained is attributed to the funding of the construction itself and is therefore not recognised in the statement of financial performance.

NOTE 16: EXPENSES

The only expenses recognised are those related to the Transition Office. They consist mainly of the salaries of staff, administrative expenses and miscellaneous consultancy studies conducted in order to optimize the use of the future building. Consultancy services are included under the item "salaries" to be consistent with the budget breakdown, which explains the changes from year to year (Transition Office staffing remaining almost unchanged).

Banking costs are not recognised as expenses but are deducted from interests earned.

All items of purchased furniture have been expensed (EUR 10,595,743). This approach is based on the fact that the acquisition cost of each individual furniture item is less than the capitalization threshold prescribed by the NATO Accounting Framework. Also the moveable and interchangeable nature of these furniture items does not justify the amount of resources that would be required to put in place a complete recognition and depreciation system. Therefore, expenses related to the purchase of office furniture are also included in the statement of financial performance.

NOTE 17: NET RESULT OF THE PERIOD

Given that revenue stemming from budgetary resources is recognised in an equal amount to expenses, the result of the year is nil.

NOTE 18: CASH FLOW STATEMENT

The cash flow statement is presented following the indirect method.

NOTE 19: BUDGET INFORMATION AND RECONCILIATION WITH CASH FLOWS

Presently, NATO budgets are not publicly available.

Presentation of budget information in the financial statements

Besides NATO Financial Regulations and Financial Rules and Procedures as well as elements of the NSIP procedure, the New Headquarters Project is governed by the following:

- a. Project Authorization to Ministry of Defense BE: C-M(2007)0076-AS1,
- b. MOU between Ministry of Defense BE and NATO: SG(2004)1220-REV4,
- CDT Contract signed between Belgium and CDT in December 2004 (PMT responsibility),
- d. Council derogation to NATO Financial Regulations (C-M(2000)36) and Budget Committee derogation to NFR (BC-DS(2007)0005). The derogation concerns, in particular: committed, or to be committed credits, which may be carried forward until the closure of the Project; the only limitations to cash holdings being the actual funding requirements.

There are three types of funding:

- NATO Common Funding (CF) for Common Infrastructure requirements: based on an approved Cost Sharing Formula specific to the New NATO HQ Project (SG(99)1707, C-M(2004)0061 and BC-D(2009)0008-ADD1).
- National Funding (NF) for Construction of Private Space of Delegations: calculated on the basis
 of actual 'shell and core' costs based on the number of gross square meters of occupied space,

 National Funding for Fit-Out of Delegations: based on actual costs to fit-out the occupied space of each Delegation.

The initial budget in NATO corresponds to the credits that are initially authorised by the North Atlantic Council annually at the end of the previous financial year. During the year the budget is adjusted as required. The final authorisation is the credit situation as reported at the end of the financial year including approved budgetary increases/decreases and transfers approved by the IS Financial Controller (between Chapters of the New NATO HQ budget up to 5% of the credits initially granted for the receiving chapter) or by the Budget Committee.

There are two types of credits: Cash Credits (CC) are approved credits against which payments can be made during the budget year; Contract Authority Credits (CA) are approved credits to enter into a legal obligation for multi-year contracts. No payment may be made against CA prior to its conversion into CC.

The New NATO Headquarters Project 2018 initial budget authorization for the Common Funded part amounted to EUR 26,290,845. In addition, an amount of EUR 69,735,620 related to credits carried over from the previous financial years. There were no requirements for National Funding in 2018 nor for the Fit-Out programme.

No specific budget will be approved for future years: operations will be funded through the carry-forward of unused funds.

The New NATO Headquarters Project 2017 initial budget authorization for the Common Funded part amounted to EUR 55,335,292. In addition, an amount of EUR 62,363,955 related to credits carried over from the previous financial years. The National Funding component for 2017 was approved in the amount of EUR 516,950. The Fit-Out programme was foreseen at EUR 766,290 to which changes could be done depending on nations' involvement in the furniture programme.

In December 2017, as a consequence of delays in the delivery of the NNHQ buildings and systems, the overall budget ceiling was increased from EUR 1.124 million to EUR 1.179. Accordingly the Common Funded budget was revised to the total amount of EUR 86,171,939, an increase of EUR 30,836,647. The National Funding component remained unchanged. The Fit-Out programme was increased by EUR 553,025.

It should be noted that the credits approved for 2018, as for previous budget years, do not correspond to the full extent of the annual costs, including for Salaries and Operations and Maintenance. Credits carried forward from previous years were used, with the agreement of Nations, to fund 2018 commitments and expenses.

Budget execution statements for 2018 and 2017 are provided at Annex 5.

The Revised LTPB 2017-2018 (DPRC-N(2017)0076 and COR1) is shown in Addendum 1 at the end of these notes. It corresponds to the most recent update of the LTPB.

Reconciliation of the Budget Execution Statement and the Financial Performance Statement

The budget is prepared for the same period (1 January to 31 December) and encompasses the same entity as these financial statements but the basis and the presentation format are different.

The New NATO HQ Project budget is prepared and executed on a commitment basis. The commitment of credits is the advance acceptance and recording of the financial consequence resulting from a legal obligation incurred during the financial year. Unliquidated commitments are carried forward and added to the budget of the following financial year to the extent of existing legal liabilities or if a special agreement is given by the Budget Committee. The balance of unused budgetary credits (not committed) lapses but is not returned to nations at year-end, in accordance with the derogation agreed by the NAC.

The budget classification is based on the economic nature of the expenses broken down into five chapters as follows:

NATO UNCLASSIFIED

ANNEX 6 to FC(2019)0059

BUDGET EXECUTION

Budget Execution Expenses

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Chapter I: Personnel Expenses Chapter II: Operating Expenses Chapter III: Intellectual Services

Chapter IV: **Demolition/Construction Works**

Chapter V: Special Equipment

However, in these financial statements all costs, with the exception of those relating to the Transition Office, are considered as investing activities.

The New NATO HQ budget, like all the other NATO budgets, contains budget chapters and items corresponding to capital expenditure. The latter result in increases of non-current assets (essentially PPE) and in changes to the level of advances made to the Host Nations given the specific operating model of the NNHQ Project concerning the construction of the building and its IT systems.

All budget expenses related to the Host Nations are, in practice, advances. In this respect, the budget execution remains largely cash based and, concerning the relation with the Host Nations, does not correspond to an accruals approach, contrary to the spirit of the changes introduced by the new NATO Financial Regulations applicable to the other NATO entities as from 2015. The previous approach continued to be applied to the NNHQ Budget. Prepayments to suppliers, in the context of the standard accounts payable process, are not taken into account for the purpose of this reconciliation.

Concerning the budget execution statement, it must be noted that the approved budget concerns exclusively the Common Funded component of the building. The Nationally Funded component is not strictly speaking a budget (see below) but, the execution of its expenses in a quasi-budget context does result in increases of the related non-current assets and changes in related cash advances to the Host Nations.

Also, carried forward credits, in the case of the NNHQ Project, correspond to unused funds (see Council derogation above); only budget expenses have a financial impact. As a consequence the reconciliation of the budget execution statement should be made between the budget expenses on one side, and, on the other side, the statement of financial performance, changes in the level of non-current assets and of advances to Host Nations, taking into account the distinction between the Common Funded and the Nationally Funded components. Such is the purpose of the table below.

The table below reconciles the budget execution with statement of financial performance for 2018. It shows that an absolute reconciliation could not be made by an immaterial amount. Under Other Elements is the reversal of the similar item of 2017 (see Note 12) and the adjustment for over accruals end 2017.

Reconciliation of Budget to Financial Performance Common Funded National Funded Total Total budget (including Carry-forward from Previous year) (a) 96,026,465,47 96,026,465,47 Credits Carried Forward in Following Year (b) 49,238,023.25 0.00 49,238,023,25

(c) = (a-b)

46,788,442.22

0.00 46.788.442.22

RECONCILIATION		Common Funded	National Funded	Total
Financial Performance Expenses (excluding Depreciation, Financial and Other costs)	(d)	24,906,898.14		
Increase in Non-Current Assets	(e)	8,628,448.22		,,
Change in Advances to Host Nations	(f)	-21,036,365,77		-21,036,365,7
Other Elements	(g)	34,289,276.46		34,289,276.40
Sub-Total Sub-Total	(h) = (d+e+f+g)			46,788,257.0
Difference to Budget Expenses	(c-h)	185.17		185.1

The table below reconciles the budget execution with statement of financial performance for 2017. It shows that an absolute reconciliation could not be made by an immaterial amount.

Reconciliation of Budget to Financial Performance

BUDGET EXECUTION		Common Funded	National Funded	Total
Total budget (including Carry-forward from Previous year)	(a)	148,535,894.20		149,052,844.20
Credits Carried Forward in Following Year	(b)	69,735,620.48		
Budget Execution Expenses	(c) = (a-b)	78,800,273.72		79,317,223,72

RECONCILIATION		Common Funded	National Funded	Total
Financial Performance Expenses (excluding Depreciation, Financial and Other costs)	(d)	8,778,641.93		8,778,641.93
Increase in Non-Current Assets	(e)	125,022,263.03		128,206,986.03
Change in Advances to Host Nations	(f)	-25,888,856.49	-77	-28,556,629,49
Other Elements	(g)	-29,112,000.00	.,,	-29,112,000.00
Sub-Total Sub-Total	(h) = (d+e+f+g)			
Difference to Budget Expenses	(c-h)	225.25	,	.,,

Nationally Funded Component

Although not considered as a common funded budget, specific amounts are approved for the nationally funded component (excluding Fit-Out). Related expenses are apportioned using physical criteria (such as surface, number of parking spaces) rather than the cost-shares applicable to the Common Funded Component. The table below compares the cumulative approved amounts, related advances to the PMT and accrued expenses.

11 1 2212						(2	amounts in EUR)
Up to 2012	2013	2014	2015	2016	2017	2018	Cumulative
37,790,467	12,756,605	25,327,510	21,211,531	1,422,252	516,950	0	99.025.315
12,000,000	27,099,999	26,500,000	16,000,000	16,908,366	516,950	0	99,025,315
11,423,370	22,126,329	22,168,519	21,948,229	18,174,145	3,184,723	0	99,025,315
	12,000,000	37,790,467 12,756,605 12,000,000 27,099,999	37,790,467 12,756,605 25,327,510 12,000,000 27,099,999 26,500,000	37,790,467 12,756,605 25,327,510 21,211,531 12,000,000 27,099,999 26,500,000 16,000,000	37,790,467 12,756,605 25,327,510 21,211,531 1,422,252 12,000,000 27,099,999 26,500,000 16,000,000 16,908,366	37,790,467 12,756,605 25,327,510 21,211,531 1,422,252 516,950 12,000,000 27,099,999 26,500,000 16,000,000 16,908,366 516,950	Up to 2012 2013 2014 2015 2016 2017 2018 37,790,467 12,756,605 25,327,510 21,211,531 1,422,252 516,950 0 12,000,000 27,099,999 26,500,000 16,000,000 16,908,366 516,950 0

Fit-Out

Operations related to the Fit-Out of national delegations are not executed in the context of a budget framework; they result in outflows of cash to the PMT for settlement of related invoices.

NOTE 20: WRITE-OFFS

Nothing to report.

NOTE 21: LEASES

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 related to the NATO New Headquarters Project. The annual fee is EUR 250. NATO is the full owner of all constructions made. Belgium remains the sole and full owner of the land, which is military public domain. The concession ends 180 days after NATO has left the buildings and facilities. In such case, if Belgium would decide to use the building and facilities, it shall pay a fair indemnity to NATO. If Belgium should decide to demolish them, it will not be obliged to pay an indemnity to NATO neither will NATO have to contribute to demolition costs. At the end of the concession, there would 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 New NATO Headquarters Project does not have any financial leases.

NOTE 22: RESTRICTIONS ON FIXED ASSETS

There are no restrictions on fixed assets.

NOTE 23: CONTINGENCY CREDITS AND CONTINGENT LIABILITIES

Contingency credits overview (budgetary approach)

The LTPB includes several types of contingencies for different kinds of purposes and following different procedures:

- Authorized to the Host Nation (HN), available for the HN during the execution of the works.
 These contingencies are allocated initially at 5% when the related contracts are awarded.
- Additional contingencies to be used with prior approval of the DPRC
- Additional contingencies on the ICT Programme, to be allocated to the Host Nation, based on justification and with prior approval of the DPRC

In the past the contingency budget line at the disposal of the DPRC has been typically supplemented by budgetary savings as they became known. For instance, this has been the case further to contract awards, and mainly as a result of lower than expected impacts of contractual price adjustment formula (i.e. compared to a long term forecast of 3%). Conversely it has in the past been used to mitigate adverse impacts of the contractual price adjustment factors.

The table below shows all the budget lines including contingencies as they were re-assessed further to the approval of the most recent LTPB covering the period 2017-2018:

(amounts in KEUR) LTPB 2017-LTPB LTPB Budget Item Domain Controlled by 2018 2016-2017 2017-2018 31DEC18 04 01 02 00 Construction works HN BE 155,469 168,286 190,024.54 04 01 02 00 5% PNWI HN BE 1,871 2,425 3,658 04 01 02 01 5% ESS works HN BE 1,917 1,917 5,159 04 01 03 00 5% Audiovisual works HN BE 2,601 2,601 4,616 05 01 01 00 5% ICT - ANWI **NCIA** 3,988 3.988 3,988 05.01.03.00 Furniture IS 1,200 1,200 1,200 04 01 02 02 Additional Contingencies **DPRC** 30,959 19.363 21,516 04 01 02 03 Potential changes of scope **DPRC** 895 895 04 01 02 04 Transition Programme DPRC 1,400 2,495 542 04 01 02 04 Transition Programme one-time requirements **DPRC** 2,528 2,528 2,384 05 01 01 00 5% ICT- ANWI **DPRC** 3,988 3,988 3,988 05 01 01 00 ICT Programme **DPRC** 11,275 11,275 9,617 05 01 03 00 Furniture DPRC 675 675 400 TOTAL 218,766 221,636 247,092

The contingency line (04-01-02-00) for construction, ESS and Audio-Visual works and PNWI is fully authorized to Host Nation Belgium (PMT). Under the Memorandum of Understanding between Belgium and NATO, when 90% of these funds are committed, PMT will introduce a request to increase its contingencies. The DPRC and the Budget Committee are regularly updated on the status of the use of such funds.

End September 2018 (most recent assessment), out of the total KEUR 247,092 contingency funds, an amount of KEUR 210,566 was committed, KEUR 3,976 was identified but not yet committed and KEUR 32,550 was available. It is expected that out of the latter up to MEUR 16 may not be needed by Host Nation Belgium.

A series of risks have been identified in November 2018, resulting in an estimated maximal financial exposure of KEUR 4,934 (compared to KEUR 19,229 end 2017).

Contingent Liabilities

The stakeholders of the Project are regularly informed at DPRC level about potential claims under discussion between PMT and its suppliers, possible related legal disputes and their financial consequences on the course of the Project.

It is also mentioned that there was a litigation between the general contractor and one of its subcontractors on-going in the Belgian Courts concerning a discrepancy in the structural works (execution of piles) where the general contractor had involved Host Nation Belgium in the Court process as a third party. The issue was resolved by amicable settlement for an amount within contingencies already authorised to the Host Nation.

NOTE 24: CONTINGENT ASSETS

There are no material contingent assets.

NOTE 25: 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 2018, New NATO Headquarters Project Office had an approved Personnel Establishment of 13 positions (17 for 2017) funded by its budget. Eleven positions related to the Transition Office. For administrative and project management purposes two posts dedicated to the Building Z Project are attached to the HQPO but have a specific funding mechanism with no impact on the New NATO Headquarters project.

Positions	Total Approved Posts	Total Filled Positions
Civilian	13	13
Voluntary National Contributions	-	-
Temporary Staff	-	10
Interns	-	-
Others	-	_

The NATO-IS centrally manages three pension programs, namely the Defined Benefit Pension Scheme (DBPS), the Provident Fund and the Defined Contribution Pension Scheme (DCPS), as well as the Retiree 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.

Ten staff members participate in the DCPS administered by NATO (nine end 2017). The DCPS provides that the New NATO Headquarters Project budget makes a 12% monthly matching contribution to the staff members' contributions for current service. Three employees participate in the DBPS: a deduction of 9.5% of their salaries is made and contributed to the annual financing of this Plan (four end 2016). In addition, the New NHQPO budget makes a matching contribution to the DBPS equal to 19% of their basic salaries, which in accordance with (BC-WP(83)3(Revised) and C-M(83)34) is deemed to provide the necessary funds for the subsequent pensions liability of the NHQPO. These contributions are expensed during the year in which the services are rendered and represent the total pension obligation of the entity (find reference). Consequently, the NHQPO has neither DBPS nor DCPS liability for its staff members.

The contributions for pensions paid are as follows.

		2018			2017	
amounts in EUR	Staff	Employer	Total	Staff	Employer	Total
Provident Fund	-	-	-	-	-	-
Co-ordinated Pension Scheme	22,335.00	44,670.00	67,005.00	20,132.01	40,264,02	60,396,03
Defined Contribution Pension Scheme	57,128.26	74,887.16	132,015.42	95,459.57	132,454.97	227,914,54
TOTAL	79,463.26	119,557.16	199,020.42	115,591.58	172,718.99	288,310.57

Paid leave is an employee benefit and as such part of overall personnel expenses. In accordance with personnel regulations, the remaining balance at year end may be carried forward but must be taken before 30 April of the following year. It can be exceptionally expanded to 31 October in accordance with Civilian Personnel Regulations art. 42.3.5 and 42.3.6. After this date it lapses and is not paid to staff. For these financial statements, untaken leave is specifically reported if its monetary value is more than 10% of the total annual leave entitlement. The cost of untaken leave days is usually absorbed during the year through the monthly salaries; leave to be taken carried forward into the next year constitutes a

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liability towards the future and would notionally require funding from Participating Nations. Estimates end 2018 amount to EUR 73,382.26 (EUR 32,835.72 end 2017).

Further to an analysis covering the last years of the history of death in service risks in relation to premiums paid by the Organisation during 2012-2015, a compensation of EUR 6 million at the NATO-wide level was agreed by the insurance company. End 2018, the NATO Secretary General decided that a fraction of this amount (circa EUR 1.7 million) should be paid to NATO staff who were members of the DCPS during the period 2012-2015 in proportion to the contributions they made to the DCPS. Staff employed by the New NATO HQ Project during the period 2012-2015 and affiliated to the DCPS are therefore entitled to a payment to be made from the NATO DCPS accounts. A decision still has to be taken concerning the remaining amount of the compensation, which may result in a proportional payment to the New NATO HQ Project.

NOTE 26: KEY MANAGEMENT PERSONNEL

The Deputies Committee (DPRC) is responsible for the oversight of the New NATO HQ Project management. The DPRC took over this responsibility from the DPRHQB which was disbanded in 2010. Members of the DPRC 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 New NATO HQ Project consists of the Director of the NHQPO. This position is remunerated in accordance with its NATO A6 grade.

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

NOTE 27: RELATED PARTIES

NATO Bodies

For administrative purposes the NHQPO Transition Team is attached to the NATO International Staff Defense Investment Division. The Assistant Secretary General of the Defense Investment Division chairs the DPRC when it addresses issues related to the Project.

In 2018, NATO International Staff charged the NHQPO an amount of EUR 207,301 for administrative support costs (EUR EUR 207,301 in 2017). The specific operating costs related to the PMT (around EUR 4,000) are absorbed by the Civil Budget in exchange of the occupancy of the CDH building by the International Staff

The NCI Agency is the Host Nation in charge of equipping the New NATO HQ with modern and cost effective Information and Communication Technologies solutions, to include voice, video and data management, processing and storage through the Active Network Infrastructure (ANWI) project, for an authorized amount of MEUR 90,505 including contingencies. Additional MEUR 10.939 have been authorised by DPRC to Host Nation NCIA up to 31 December 2018 from the 5% ICT-ANWI contingencies and 5% Programme contingencies.

An amount of MEUR 19.424 is approved in the LTPB for NCIA Project Service Costs for ANWI representing an increase of MEUR 7.308 from the previous LTPB. NCIA provided also some specific consultancy services (EUR 0.866 million approved in the LTPB).

The IS acts also as a Host Nation concerning the procurement of Furniture (MEUR 10.1 including contingencies in the LTPB) and the Business Data and Applications Migration Project (MEUR 5.379 in the LTPB). The IS receives no related remuneration fees.

Member Nations

NATO Security Investment Programme (NSIP) procedures are the management process for the New NATO HQ. Belgium is the Host Nation for the construction, the passive network infrastructure, the building management system, the electronic security system and audio visual infrastructure. In

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ANNEX 6 to FC(2019)0059

exchange for this service, Belgium receives fees (National Administrative Expense (NAE) equal to 3% of works) the total amount of which is estimated EUR 21.7 million over the duration of the project.

The DPRC agreed that Construction Surveillance Technician Team required to support the construction project should be manned by personnel from Nations on a reimbursable basis.

Each delegation's fit-out is the financial responsibility of the Nation concerned. Twenty four Nations agreed to the have their delegations' fit-out undertaken by the PMT. Specific advance contributions are requested from the Nations concerned to cover the related costs (C-M(2006)0096). The other four Nations have decided to have their fit-out done nationally without the intervention by the PMT.

* * * * *

List of Acronyms:

DPRC: Deputy Permanent Representatives Committee

HN: Host Nation. IS: International Staff

LTPB: Long Term Program Budget MOU: Memorandum of Understanding

NCIA: NATO Communication and Information Agency NSIP: NATO Security Investment Programme OFC: International Staff Office of Financial Control

PMT: Project Management Team
PPE: Property, Plant and Equipment

2017-2018 LONG TERM PROGRAMME BUDGET (REVISION SEPTEMBER 2017) SUMMARY OF COMMON AND NATIONAL FUNDING REQUIREMENTS (CF + NF) (EXCLUDING FIT-OUT) PER CISI AND PER YEAR- IN KEUR-

Chapter Item Sub-Item (CISI)	Description of requirements	Actuals 2000- 2015	Actuals 2016	Revised 2017	Request 2018	P.	R	(CF + NF) TOTAL CASH FLOW	CURRENT	CHANGES
CHAPTERIPE	CHAPTER I PERSONNEL COSTS									
01-01 to 01-03	01-01 to 01-03 Personnel costs (except Transition Management)	18.511	2775	1 899	275	23 ABD	0	22 460	007 00	1
01-01 to 01-03	Transition Support Office - NATO Staff Posts	3.772	720	791	1 258	6 540	5 0	23,460	23,460	0
01-01-06-00	Transition Management - Staff Restructuring		1 000	1 500	1,530	270,0	0	0,042	5,134	1,408
01-01-04-01	Transition Management - Staff Training	1 203	1,689	200	200	2,734		2,794	2,500	294
01-02-05-00	Transition Support Office - Consultants	2.115	492		000	2,323	0	2,929	2,891	388
	Sub-total I	25,601	6,676	4,190	1,865	38,332	0	38.332	36.592	1 740
CHAPTER II O	CHAPTER II OPERATING EXPENSES									
02-01 to 02-10	02-01 to 02-10 Operat. Exp. excl. Security / Renovat. Works / Trans Marmt	A 255	7007	010	-	1	Ī			
02-01-00-01	Transition Management - Travel costs	202,0	1004	000	0	c00',	0	7,005	6,655	350
02-02-00-00	Transition Management - Admin Current to 10	600	ຄຸ	0	0	70	0	70	20	0
02-05-01-01	Transition Management Ocean 8 Maintain	184	42	0	125	351	0	351	226	125
02 05 00 00	Dozonico of Litization Applied a Maillien, Overlap COSIS	0	4,374	4,000	7,778	16,152	0	16,152	8,374	7,778
02-03-02-00	Terrovation of buildings AZ/A12 on new construction site	749	0	0	0	749	0	749	749	C
00-00-00-00	I ransition Management - Disposal of current HQ site	340	829	2,750	181	4.100	0	4.100	3 919	181
02-02-04-00	Transition Management - New HQ LAUNCH	340	2,076	983	230	3.628	0	3 628	2,513	1 175
02-05-10-00	Security Equipment for Site Guards	109	0	0	0	109	0	109	100	2
02-06-00-00	Site Security Guards labour	35,891	7,545	0	0	43,436	0	43,436	45.236	-1.800
	Sub-total III	43,932	15,270	8.083	8.314	75 600	6	75 600	67 404	0
						2	,	יייייייייייייייייייייייייייייייייייייי	165'70	8,109

CHAPTER III II	CHAPTER III INTELLECTUAL SERVICES									
03-01-01-00	Construction Security Planning	66		0	0	66	0	66	66	C
03-01-02-00	Geotechnical Survey of Site	326		0	0	۳ 	0	326	6.	P
03-01-03-00	Environmental Impact Study	206		0	0		0	206		
03-01-04-00	Legal consultant - PMT	490	09	06	0	L	0	640		0
03-01-04-01	Legai consultant - NATO	150	0	0	0	150	0	150		C
03-01-05-00	Stability & Quality Control	1,600	0	0	0	1,600	0	1,600	+	, r
03-01-06-00	Fire & Physical Safety Control	689	0	0	0	689	0	689		C
03-01-07-00	Furniture Programme Management	378	0	0	0	378	0	378		-72
03-01-08-00	Cost and Change Management	4,677	298	0	0	4,975	0	4.975	5	-30
03-01-08-01	Data Management System	1,127	85	88	0	1,301	0	1,301		0
03-01-08-02	Encryptors/Collaboration Tools NCIA	902	15	0	0	721	0	721		-145
03-01-09-00	Technical Consultancy IBAN	74	0	ı	0	74	0	74	74	c
03-01-10-00	Web Site Design	22	0	0	0	22	0	22		0
03-01-11-00	Topographic & Blast Study	88	0	0	0	88	0	88	88	0
03-01-12-00	Miscellaneous Consulting - NATO	1,294	0	0	0	1,294	0	1.294	1.2	4
03-01-12-01	Specialized consulting - PMT	94	0	0	0	94	0	94		0
03-01-13-00	ICT Consultancy	1,196	0	0	0	1,196	0	1.196	12	-23
03-01-13-01	ICT - Programme Management -	3,490	400	162	0	4.052	0	4.052		
03-01-14-00	Surveillance of Works	8,779	2,407	298	0	11,553	0	11,553	•	320
03-01-15-00	SITE/Plant Laboratory Testing	105	0	0	0	105	0	105		C
03-01-16-00	Logistics Study	09	0	0	0	09	0	909		C
03-01-18-00	Space Management Consulting	238	0	0	0	238	o	238	238	
03-02-00-00	Belgian PMT National Admin Expenses (NAE)	17,639	2,000	2,525	270	22,434	0	22.434	21.676	758
03-02-01-00	ICT - ANWINCIA Fees	10,635	1,000	6,455	0	18,090	0	18.090	12 116	5 974
	ICT- ANWI Engineering Services	810	99	0	0	998	0	866	866	-
03-03-00-00	MDC	1,008	0	0	0	1.008	0	1 008	1 008	
03-03-05-00	JURY HONORAIRES	85	0	0	0	85	0	85	85	P
03-03-03-00	UIA HONORAIRES	126	0	0	0	126	0	126	126	
03-03-04-00	INDEMNISATION POUR NON RETENUES	1,370	0	0	0	1,370	0	1.370	1.370	
03-04-00-00	Concept Desitn Fees + Amendments	80,730	5,007	0	108	85,845	0	85,845	87,745	-1.900
03-02-00-00	Overall fees on additional Contingencies	36	0	0	0	36	0	36	989	-650
	Sub-total	138,326	11,328	9,688	378	159,720	0	159,720	155,497	4,223

APPENDIX to ANNEX 6 to FC(2019)0059

04-01-01-00	Demolition works - Lot 1	9,589	0	0	0	9.589	0	9.589	9 5RO	
04-01-02-00	Construction Works (CF+NF)excl.PNWI	400,398	14,623	4,579	1.257	3	76.147	420.858	420 858	
	Contingencies on Construction Works authorised to PMT	152,268	4,861	27,896	5.000		11.746	190,025	171 056	18 969
	Annual revision	40,369	0	0	0		8.428	40.369	40.369	200
04-01-02-00	Passive Network Infrastructure (PNIVII) (CF+NF)	13,212	4,217	0	0	15,137	2,292	17,429	17 429	
	Contingencies on PNVM works	752	1,253	1,654	0	3,544	115	3.658	2,425	1 233
	Amual revision	1,537	127	0	0	1.367	297	1,664	1 664	
04-01-02-02	Additional Contingencies of construction works and PNWI (on DPRC release)	9,855	0	3,185	8,651	21,691	0	21,691	10,434	11,257
04-01-02-03	Potential Changes of Scope (on DPRC release)	0	0	0	0	0	0	0	370	-370
04-01-02-04	Transition Programme Contingencies on DPRC release	0	0	542	0	542	0	542	1 447	900
04-01-02-05	Transition Programme Contingencies on DPRC release for one-time requirements	0	2,384	0	0	2,384	0	2,384	2,384	0
04-01-02-01	Electronic Security Systems (ESS) [CF]	7,952	6,913	0	0	14.865	0	14 865	14 865	
	Contingencies (ESS)	3,287	1,558	314	0	5,159	0	5,159	3.167	1 992
	Annual revision (ESS)	452	215	0	0	299	0	299	299	
04-01-03-00	Audiovisual (AV) Equipment	11,516	14,009	521	385	26,431	0	26,431	26,431	
	Contingencies (AV)	1,973	2,434	209	0	4,616	0	4.616	2,852	1 764
	Annual revision (AV)	290	710	39	38	1,377	0	1.377	1377	
04-01-04-00	Construction of Mock-ups	300	0	0	0	300	0	300	300	
04-01-05-00	Construction Security Programme-Equipment		103	0	0	946	0	946	1,032	-86
04-01-06-00	Construction Surveillance Team (CST) on reimbursable basis	11,125	6,200	0	0	17,325	0	17,325	17,325	0
04-01-07-00	Connection of utilities (sewage, elec, gas, water)	980	0	0	0	980	0	086	1,050	-70
	Sub-total IV	666,999	29,607	38,939	15,331	681,851	99,025	780,876	747,092	33,784
HAPTER V S	CHAPTER V SPECIAL EQUIPMENT				le l					
	ICT - Active Network Infrastructure	37,168	27,000	21,939	0	86.107	0	86 107	79 766	6 341
	ICT- Independent Verification & Validation	1,815	195	0	0	2,010	0	2,010	2.010	0
05-01-01-00	ICI-5% Contingencies HN	3,208	780	0	0	3,988	0	3,988	3,988	0
	ICI-3% Commigencies NATO	3,208	780	200	0	3,988	0	3,988	3,988	0
	ICI - Programme contingencies	7,472	145	2,000	0	9,617	0	9,617	10,775	-1,158
05-01-02-00	ICT - Application Migration	2,352	2,553	350	124	5,379	0	5,379	4,405	974
0000	Furniture either internal or external (loose)	0	8,900	0	0	8,900	0	8,900	8.900	0
05-01-03-00	Contingencies on Furniture Programme	0	1,200	0	0	1,200	0	1,200	1.200	0
00 00	Contingencies on Furniture under DPRC	0	400	0	0	400	0	400	400	0
05-01-03-00	Sports or recreational equipment	0	0	0	0	0	0	0	0	0
05-01-04-00	Kelocation costs and movement of turniture	205	1,087	1,000	278	2,867	0	2,867	2,087	780
00-01-0-0	Nor-Fixed Equipment	0	0	0	0	0	0	0	0	0
	Sub-total V	55,726	42,539	25,789	402	124,457	0	124,457	117,519	6,938
	GRAND TOTAL	930,584	135.420	86.689	26 291	1 079 959	90 025	4 479 004	4 424 400	24.704
						חחחים וחיו	20,050	1,110,304	1,124,190	54,794



NORTH ATLANTIC TREATY ORGANIZATION ORGANISATION DU TRAITÉ DE L'ATLANTIQUE NORD

International Board of Auditors for NATO Collège international des Auditeurs externes de l'OTAN

NATO UNCLASSIFIED



IBA-A(2019)0104 28 August 2019

To: Secretary General

(Attn: Director of the Private Office)

Cc: Assistant Secretary General, Executive Management Division

Financial Controller, International Staff

Chairman, Resource Policy & Planning Board

Branch Head, Secretariat and Finance Branch, NATO Office of Resources

Private Office Registry

Subject: International Board of Auditors for NATO (IBAN) Auditor's Report on the audit of the NATO Provident Fund's Financial Statements for the year ended 31 December 2018 – IBA-AR(2019)0023

IBAN herewith submits its approved Auditor's Report (Annex 2) and Letter of Observations and Recommendations (Annex 3) with a Summary Note for distribution to the Council (Annex 1).

IBAN's report sets out an unqualified opinion on the NATO Provident Fund's Financial Statements and an unqualified opinion on compliance for financial year 2018.

Yours sincerely,

Dr. Hans Leijtens

Chairman

Attachments: As stated above.

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ANNEX 1

Summary Note for Council by the International Board of Auditors for NATO (IBAN) on the audit of the Financial Statements of the NATO Provident Fund for the year ended 31 December 2018

IBAN audited the NATO Provident Fund which provides retirement benefits to civilian staff who joined NATO before 1 July 1974, and who are not members of the NATO Pension Scheme. There was no value of the Fund's net assets available for benefits at 31 December 2018. As at that date, there was no more member contributing to the Fund. The last member of the fund left in April 2018. Therefore, the Provident fund is closed and will not continue operating for the future.

IBAN issued an unqualified opinion on the NATO Provident Fund's Financial Statements and an unqualified opinion on compliance for the year ended 31 December 2018.

During the audit, IBAN made no observations.

IBAN followed up on the status of observations from the previous year's audit and noted that all outstanding recommendations were closed.

The Auditor's Report (Annex 2) and the Letter of Observations and Recommendations (Annex 3) were issued to the International Staff, who replied that they had no factual or formal comments.

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ANNEX 2 IBA-AR(2019)0023

28 August 2019

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF

THE NATO PROVIDENT FUND

FOR THE YEAR ENDED 31 DECEMBER 2018

ANNEX 2 IBA-AR(2019)0023

INDEPENDENT AUDITOR'S REPORT TO THE NORTH ATLANTIC COUNCIL

Report on the Audit of the Financial Statements

Opinion on the Financial Statements

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of the NATO Provident Fund for the 12 month period ended 31 December 2018, issued and submitted to IBAN on 31 march 2019. These Financial Statements comprise the Statement of Net Assets Available for Benefits as at 31 December 2018, the Statement of Changes in Net Assets Available for Benefits and the Explanatory Notes, including a summary of significant accounting policies.

In our opinion, the Financial Statements give a true and fair view of the statement of Net Assets Available for Benefits of the NATO Provident Fund as at 31 December 2018, and of its statement of Changes in Net Assets Available for Benefits ended 31 December 2018, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework and International Accounting Standard (IAS) 26, Accounting and Reporting by Retirement Benefit Plans.

Emphasis of matter

We draw your attention to Note 2 of the Financial Statements "The Provident Fund is no longer a going concern due to the departure of its last member in 2018. Its financial statements have been prepared taking into account the closure of the Provident Fund which will not continue operating for the future". Our opinion is not modified in respect to this matter.

Basis for Opinion on the Financial Statements

In accordance with the NATO Financial Regulations (NFRs), external audit of the NATO bodies pursuant to the North Atlantic Treaty shall be performed by IBAN.

We have conducted our audit in accordance with the International Standards of Supreme Audit Institutions (ISSAIs 1000-1810) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

We are independent in accordance with the INTOSAI Code of Ethics and we have fulfilled our other ethical responsibilities in accordance with these requirements. The

ANNEX 2 IBA-AR(2019)0023

responsibilities of the members of IBAN are more extensively described in the section «Auditor's Responsibilities for the Audit of the Financial Statements» and in our Charter. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's Responsibility for the Financial Statements

Management's responsibility for the financial statements is laid down in the NFRs. The Financial Statements of NATO Provident Fund are drawn up in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework as approved by the Council and International Accounting Standard (IAS) 26, Accounting and Reporting by Retirement Benefit Plans. The Financial Controller is responsible for submitting the Financial Statements for audit to IBAN not later than 31st March following the end of the financial year.

The Financial Statements are signed by the Head of the NATO body and the Financial Controller. In signing the Financial Statements, the Head of NATO body and the Financial Control confirm the establishment and maintenance of financial governance, resource management practices, internal controls and financial information systems to achieve the efficient and effective use of resources.

This confirmation covers the design, implementation and maintenance of internal controls relevant to the preparation and presentation of financial statements that are auditable and free from material misstatement, whether due to fraud or error. This also covers reporting on the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there are plans to liquidate the entity or to cease its operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

The objectives of the audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes an opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgement and maintain professional scepticism throughout the planning and performance of the audit.

ANNEX 2 IBA-AR(2019)0023

This involves taking into account Considerations Specific to Public Sector Entities. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting
 and, based on the audit evidence obtained, whether a material uncertainty exists
 related to events or conditions that may cast significant doubt on the entity's ability to
 continue as a going concern. If we conclude that a material uncertainty exists, we are
 required to draw attention in our auditor's report to the related disclosures in the
 financial statements or, if such disclosures are inadequate, to modify our opinion. Our
 conclusions are based on the audit evidence obtained up to the date of our auditor's
 report.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We are required to communicate with the bodies charged with governance, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our Independent External Auditor's Report is prepared to assist North Atlantic Council in carrying out its role. We are therefore responsible solely to the North Atlantic Council for our work and the opinion we have formed.

ANNEX 2 IBA-AR(2019)0023

Report on Compliance

Opinion on Compliance

Based on the procedures we performed, nothing has come to our attention, as part of our audit of the Financial Statements that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations.

Basis for Opinion

We have conducted our compliance audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 4000) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

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

Management's Responsibility for Compliance

All NATO staff, military and civilian, are obligated to comply with the NATO Financial Regulations, associated Financial Rules and Procedures and internal implementing directives. These include the NATO Civilian Personnel Regulations.

The Secretary General is responsible and accountable for sound financial management. The financial administration of NATO bodies must incorporate the principles of propriety, sound governance, accountability, transparency, risk management and internal control, internal audit, external audit, and fraud prevention and detection.

Auditor's Responsibilities for Compliance

In addition to the responsibility to provide reasonable assurance about whether the financial statements as a whole are free from material misstatement, the IBAN Charter requires IBAN to provide independent assurance and report annually to the North Atlantic Council about whether funds have been properly used for the settlement of authorised expenditure (propriety) and are in compliance with the regulations in force (regularity). Propriety relates to the observance of the general principles governing sound financial management and the conduct of public officials. Regularity concerns the adherence to formal criteria such as relevant regulations, rules and procedures.

ANNEX 2 IBA-AR(2019)0023

This responsibility includes performing procedures to obtain independent assurance about whether funds have been properly used for the settlement of authorized expenditure and whether they have been used in compliance with the regulations in force. Such procedures include consideration of the risks of material non-compliance.

Brussels, 28 August 2019

Dr. Hans Leijtens Chairman

ANNEX 3 IBA-AR(2019)0023

28 August 2019

INTERNATIONAL BOARD OF AUDITORS FOR NATO

LETTER OF OBSERVATIONS AND RECOMMENDATIONS

FOR THE NATO PROVIDENT FUND

FOR THE YEAR ENDED 31 DECEMBER 2018

ANNEX 3 IBA-AR(2019)0023

Introduction

The International Board of Auditors for NATO (IBAN) audited the NATO Provident Fund Financial Statements for the year ended 31 December 2018, and issued an unqualified opinion on the financial statements and on compliance.

Observations and Recommendations

During the audit, IBAN had no observations and there were also no observations from previous years' audits to follow up on.

NATO PROVIDENT FUND

Financial Statements 2018

Table of Contents

Annex 1	Net Assets Available for Benefits

- Annex 2 Statement of Changes in Net Assets Available for Benefits
- Annex 3 Notes to the Financial Statements

Jens STOLTENBERG
Secretary General

Stephane CHAGNOT Financial Controller

NATO UNCLASSIFIED

Annex 1 to FC(2019)0041

The NATO Provident Fund Statement of Net Assets Available for Benefits (AFTER CLOSURE)

(All amounts in EUR)	Notes	Current Year	Prior Year
		31-Dec-2018	31-Dec-2017
Assets			
Cash and Cash Equivalents	(3)	0.00	7,543.51
Investments	(4)	0.00	405,720.27
Accounts Receivable	` '		,
Outstanding Contributions	(5)	0.00	0.00
Other Receivables	(6)	0.00	0.00
Bank interest accrued	(7)	0.00	0.00
Total assets		0.00	413,263.78
Liabilities			
Payable to former staff	(8)	0.00	0.00
Payable to other NATO bodies	(9)	0.00	0.00
Bank charges to be paid	(7)	0.00	555.17
Miscellaneous Gains/Losses	(10)	0.00	0.00
Total Liabilities		0.00	555.17
Net assets available for benefits		0.00	412,708.61

Annex 2 to FC(2019)0041

The NATO Provident Fund Statement of Changes in Net Assets Available for Benefits (AFTER CLOSURE)

(All amounts in EUR)	Notes	Current Year	Prior Year
		31-Dec-18	31-Dec-17
Increase in net assets			
Change in value of the Fund	(11)	4,752.97	26,692.48
Contributions	(12)	2,696.04	16,578.36
Housing loan reimbursements	(13)	0.00	0.00
Miscellaneous	(14)	0.00	0.00
Total increase in net assets available for benefits		7,449.01	43,270.84
Decrease in net assets			
Accounts closed (Staff)	(15)	413,267.36	1,579,821.82
OAP, Housing Loans and Advances on Full Settlement	(16)	0.00	306,916.51
Bank costs	(7)	0.00	561.22
Surplus transferred to IS (closure)	(17)	6,890.26	0.00
Total decrease in net assets available for benefits		420,157.62	1,887,299.55
Net change for the year		-412,708.61	-1,844,028.71
Net assets available for benefits, beginning of year		412,708.61	2,256,737.32
Net assets available for benefits, end of year		0.00	412,708.61

EXPLANATORY NOTES TO THE 2018 FINANCIAL STATEMENTS OF THE NATO PROVIDENT FUND

NOTE 1: GENERAL INFORMATION

Description of the Provident Fund

The NATO Provident Fund (the Fund) 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.

The rules and principles governing the Provident Fund are provided under Annex VII of the NATO Civilian Personnel Regulations.

The Provident Fund is a cash purchase pension scheme. Both staff and NATO contribute to the Scheme. There is no long term liability for NATO related to the Provident Fund.

An account is opened for each member of the Fund. Contributions are invested according to a strategy approved by the Provident Fund Board of Supervisors and applicable to all members. Contributions are invested in a single fund, currently transferred to an insurance company which guarantees a minimum rate of return. Members can check the status of their accounts via a secure web portal.

Upon departure, the member's account is disinvested.

Over the last years the number of affiliates has been decreasing steadily. At end 2017, only one staff member was affiliated to the Fund. In 2018 the last affiliate retired and was paid her dues. The Provident Fund was subsequently closed down. Remaining funds (EUR 7K) were transferred to the NATO International Staff with the agreement of the North Atlantic Council.

Financing

Monthly contributions are made by staff and NATO, being 7% and 14% respectively of basic salary.

Governance

The Fund is administered in accordance with the NATO Civilian Personnel Regulations (CPRs), Annex VII (A, B and C). The NATO Secretary General is responsible for its administration and is assisted by a consultative committee (Board of Supervisors) to carry out this task.

The CPRs (Annex VII.A. Article 3) state that the Board is chaired by the Assistant Secretary General, Executive Management as Chairman of the Board is responsible for the administration and management of the Fund.

The Board consists of the Chair, six representatives of the administrative services of various NATO bodies, and six representatives of staff affiliated to the Provident Fund. Board members do not receive any additional remuneration for their responsibilities or access to benefits from NATO.

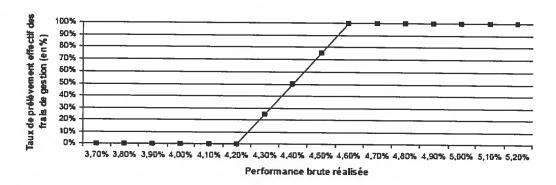
In 2013, in consideration of the reduced number of members, the Board decided it would only meet in cases of significant or unforeseen events affecting the Fund. As a consequence, it has not met since.

Investment Strategy

In 2007, per PO(2007)0059), Council approved rules adapting the governance of the Fund as well as a new financial management approach in order to address the issue of the decreasing number of affiliates.

Throughout the years, the Fund has consistently been managed with the aim of obtaining a steady return against a low degree of risk. In 2008, the Board approved a solidarity-based investment strategy to address the investment needs of the Fund and following an open call for bids, an insurance company, SOGECAP, was selected on 4 June 2009. SOGECAP's insurance contract guarantees the capital and a minimum net annual return of 3%.

SOGECAP is contractually committed to reduce its fees if the gross return is below 4.6%. The diminution is gradual (see graph below) if the gross return is lower. No management fees are charged if the gross return is less than 4.2%.



NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

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

Declaration of conformity

The financial statements of the NATO Provident Fund have been prepared in accordance with the NATO Financial Regulations and International Accounting Standard 26, "Accounting and Reporting by Retirement Benefit Plans". The NATO Accounting Framework, which is an adapted version of the International Public Sector Accounting Standards (IPSAS), does not have a specific standard for accounting and reporting by retirement benefit plans.

The accounting system currently used by the Fund is accrual based.

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ANNEX 3 to FC(2019)0041

Basis of presentation

The Provident Fund is no longer a going concern due to the departure of its last member in 2018. Its financial statements have been prepared taking into account the closure of the Provident Fund which will not continue operating for the future.

In accordance with the Regulations of the Provident Fund all amounts are expressed in Euro.

Changes in accounting policy

There are no changes to report.

Reclassification of financial statements of previous years

Nothing to report.

Foreign currency transactions

All contributions are made and accounted for in euro.

The amounts standing to the credit of affiliates should be paid in the currency of the country where the body employing them is located. All affiliates are currently employed in bodies based in the Euro zone. However, depending on their nationality, staff might request the redemption of their holdings in a currency other than Euro. Transfers are made at the NATO parity rates prevailing on the date the account is closed.

Cash and Equivalents

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

Invested Funds

At the end of each reporting period, a valuation of the Fund is made by the insurance company at market value.

Contributions

Employer and employee contributions are jointly received on the Provident Fund account from the various NATO payroll centres on a monthly basis. They are received and accounted for in euro. An accrued amount is booked for amounts due but not received by year end.

Receivables

Receivables are stated at net realisable value. No allowance for loss is recorded for receivables relating to NATO bodies' statutory contributions.

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Payables

Payables are amounts due to third parties based on goods received or services provided that remain unpaid. This includes, as required, an estimate of accrued obligation for goods received or services provided but not yet invoiced.

Financial Risks

The following disclosures related to risk only apply to the period of activity of the Provident Fund. There were no outstanding financial risks further to the closure of the Provident Fund.

Financial instruments

The Provident Fund uses only non-derivative financial instruments as part as its normal operations. These financial elements include cash bank accounts, deposit accounts, accounts receivable and funds invested with SOGECAP.

All financial instruments are recognised in the statement of financial position at their fair value.

The Provident Fund, until it was closed down, was exposed to a variety of financial risks, including credit risk, market (price) risk and liquidity risk. The maximum exposure as at 31 December 2018 is nil since remaining cash was transferred to the NATO International Staff.

Credit risk

The Provident Fund incurs credit risks from cash and cash equivalents held with banks and from receivables. There is very limited credit risk associated with the realization of these elements.

Concerning cash and cash equivalents, the Provident Fund 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 22/02/2018

	Fitch	Moody's	S&P
Short term	F1	P-1	A-2

SOGECAP was rated A for long-term and A-1 for short-term counterparty credit risk and insurer financial strength by S&P on 22 February 2018.

SOGECAP is wholly owned by SOCIETE GENERALE which is rated as follows:

Société Générale	Credit Ratings as at 22/02/2018		
	Fitch	Moody's	S&P
Short term	F1	P1	A-1
Long term	A+	A2	Α

Concerning receivables, the credit risk is managed by maintaining control procedures over receivables. These consist essentially of contributions due by NATO agency payroll centres. This risk is considered limited since these agencies are funded by member nations which

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ANNEX 3 to FC(2019)0041

are considered creditworthy. Prior to its closure the Provident Fund had collected all outstanding receivables.

Currency risk

The Provident Fund is exposed to foreign currency exchange risk arising from fluctuations in currency rates. This risk is limited since the scheme receives contributions only in Euro, the investments underlying the insurance contract are in Euro and members' holdings are accounted for in Euro. However, staff may request payment of their holdings in a currency other than Euro and currency fluctuations may occur between the date the staff formally retires and the date the payment is made.

Liquidity risk

A liquidity risk could arise from a short term liquidity requirement. There is a very limited exposure to liquidity risk because contributions needed to pay the insurance premiums are paid by NATO bodies which receive contributions from member states funding the related budgets, or income from their customers which generally are other NATO bodies funded through their approved budgets. On occasion, NATO-IS makes cash advances to ease-up payment procedures. With regard to capital, the insurance contract guarantees the payment of the affiliates' accounts due upon closure of their account in the Provident Fund.

Interest rate risk

The Provident Fund is restricted from entering into borrowings.

The contract with the insurance company guarantees a minimum rate of return of 3% per annum. The contract renews automatically at the end of each year from 31 December 2016 forward unless terminated in writing by one of the parties.

NOTE 3: CASH AND CASH EQUIVALENTS

Besides the funds managed by SOGECAP, the Provident Fund holds one bank account to collect contributions to be transferred to SOGECAP for investment and to transfer funds to the affiliates after redemption by SOGECAP. This amount corresponds to the funds held on the bank account at the year end.

Cash held at the end of the year is typically made of the net result of treasury operations with the International Staff and of staff member contributions for the month of December waiting to be transferred.

Prior to its liquidation the Provident Fund held an amount of EUR 6,890.26 in cash. The North Atlantic Council agreed that such amount be transferred to the NATO International Staff and be treated as miscellaneous income in consideration of the small amount.

NOTE 4: INVESTMENTS

The decrease in the invested amounts is due to the reduction in the number of Provident Fund members.

The information below is provided pro memoria and relates to year end 2017. The last member left the Fund during 2018 and was paid all her dues. As a consequence there are no risks linked to investments at the date of closure of the Provident Fund.

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In 2017 the gross and net returns to NATO were both 3.00% (3.00% in 2016). In accordance with the contract, SOGECAP received no management fee.

The funds underlying the insurance contract are invested in the "Top Croissance 6" mutual fund, which had a total market value of assets under management of EUR 12.8 billion. At 31 December 2017, the asset distribution was as follows:

Asset Allocation

	% end 2017
Fixed Income (fixed rate)	81.5
Fixed Income (variable rate)	1.9
Convertible Bonds	0
Equities and Equity Mutual Funds	10.0
Mutual funds (bonds)	0.0
Real Estate	4.4
Liquidity	2.2
Total	100.0

Bond portfolio rating breakdown:

RATING	% end 2017
AAA	8.7
AA	51.7
Α	23.7
BBB	13.8
BB	1.9
В	0.1
	100.0

Sovereign bond allocation by country:

Sovereign bonds country allocation	% end 2017
Australia	0.0
Austria	0.6
Belgium	4.4
Canada	1.9
Finland	0.2
France	69.9
Germany	0.0
Ireland	1.0
Italy	0.0
Luxembourg	6.2
Netherlands	0.1

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Norway	0.0
Spain	8.8
Sweden	0.0
Other	6.9
United Kingdom	0.0
USA	0.0
	100.0

NOTE 5: OUTSTANDING CONTRIBUTIONS RECEIVABLE

Contributions are paid on a monthly basis. Receivables relate to outstanding contributions due at the end of the year but paid in the following year. As at 31 December 2018, there were no receivables related to contributions.

NOTE 6: OTHER RECEIVABLES

None.

NOTE 7: INTERESTS AND BANK CHARGES

This corresponds to interest earned on the transition bank account and received during the following year and to related bank charges due.

NOTE 8: PAYABLE TO FORMER STAFF - CLOSED ACCOUNTS TO BE SETTLED.

This corresponds to the value of the affiliates' accounts closed in December and loans to current affiliates to be paid to them at the beginning of the following year. The reduction of the amount from year to year is linked to the number of staff in such situation and their respective holdings. All amounts due to affiliates were settled prior to the closure of the Provident Fund.

NOTE 9: PAYABLE TO OTHER NATO BODIES

Corresponds to amounts due to NATO bodies who, in accordance with Provident Fund regulations, have advanced 1/3 of staff members' accounts before final settlement.

Amounts may be due to the NATO International Staff for advances it may make to enable the Provident Fund to settle the accounts of affiliates. There were no such advances end 2018. The advances end 2016 were reimbursed in early 2017.

NOTE 10: MISCELLANEOUS GAINS/LOSSES

This corresponds to the cumulative amount of miscellaneous net income, essentially interest net of bank charges and fees on premiums. The Board of Supervisors agreed that the balance of bank interest above Euro 5,000.00 be distributed to affiliates' accounts rather than be used for payment of bank fees. (CSCP-R(2011)0001 dated 4 March 2011).

NOTE 11: GAIN/LOSS IN VALUE OF THE FUND

The change in the value of the Fund is calculated as follows:

	2018	2017
Balance beginning of year	412,708.61	2,256,737.32
Contributions	2,696.04	l ' ' '
Loan reimbursements	0.00	·
Accumulated interest invested	0.00	0.00
Accounts closed	-413,267.36	-1,579,821.82
OAP, loans and advances	0.00	
Administrative expenses	0.00	0.00
Bank charges	0.00	-561.22
(a)	2,137.29	386,016.13
Net assets available end of year	6,890.26	412,708.61
Regularizations	0.00	0.00
(b) Net assets available end of year (before liquidation)	6,890.26	412,708.61
(b) - (a) Change in value of the fund	4,752.97	26,692.48

NOTE 12: CONTRIBUTIONS

Monthly contributions are made by staff and NATO, being 7% and 14% (netted as required from any OAP contribution, see Note below) respectively of basic salary. They are to be transferred as premiums to the insurance company and are credited to the individual accounts of the affiliates. The decrease in contributions is due to the declining membership of the Provident Fund. All contributions were received prior to the closure of the Provident Fund.

Contributions (in EUR)	2018	2017
Employer	1,797.36	11,052.24
Employee	898.68	5.526.12
TOTAL	2,696.04	16,578.36

NOTE 13: HOUSING LOAN REIMBURSEMENTS BY STAFF

According to the CPRs, Articles 54.1 and 54.2, each member of the Fund is entitled to withdraw an amount from his (her) account: for payment to an old-age pension scheme (OAP) or the pension scheme applying in his (her) national administration; or to ease a housing problem.

Housing Loan reimbursements are usually handled via deductions from salaries and amounts are re-credited to the member's account. Staff may make exceptional reimbursement.

There were no such transactions or outstanding amounts prior to the closure of the Provident Fund.

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ANNEX 3 to FC(2019)0041

NOTE 14: MISCELLANEOUS

There were no miscellaneous transactions.

NOTE 15: ACCOUNTS CLOSED

Corresponds to the final settlement for staff who left the Organisation in the course of the year.

NOTE 16: OLD AGE PENSIONS, HOUSING LOANS AND ADVANCES ON FULL SETTLEMENT PAID TO STAFF

Staff can request to have one-third of the amount of their individual account paid in advance (not earlier than three months prior to their date of departure). The advance is made by each NATO entity and is reimbursed when the affiliates' portfolio is disinvested.

According to the CPRs, Articles 54.1 and 54.2, each member of the Fund is entitled to withdraw an amount from his (her) account: for payment to an Old Age Pension scheme (OAP) or the pension scheme applicable in his (her) national administration, or to ease a housing problem.

The breakdown between OAP contributions, housing loans and advances on Full Settlements paid to affiliates at their request is as follows:

In EUR	2018	2017
Old Age Pensions	0.00	0.00
Housing Loans	0.00	0.00
Advances on Full Settlement	0.00	306,916.51
TOTAL	0.00	306,916.51

NOTE 17: SURPLUS TRANSFERRED TO THE NATO INTERNATIONAL STAFF

Prior to its liquidation the Provident Fund held an amount of EUR 6,890.26 in cash. The North Atlantic Council agreed that such amount could be transferred to the NATO International Staff and be treated as miscellaneous income in consideration of the small amount.

NOTE 18: CONTINGENT ASSETS

None to report.

NOTE 19: CONTINGENT LIABILITIES

There are no material contingent liabilities arising from legal actions and claims that are likely to result in significant liability to the Provident Fund.

NOTE 20: RELATED PARTY TRANSACTIONS

The following party transactions took place during the year ended 31 December 2018.

ANNEX 3 to FC(2019)0041

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NATO International Staff, in particular Executive Management – Human Resources and the Office of Financial Control, are responsible for the day-to-day management of the Provident Fund.

Administrative support provided by NATO International Staff for the administration of the Fund is charged to other NATO bodies according to a cost share which takes into account the number of their affiliates. This includes the cost of International Staff - Office of Financial Control personnel (15% Full Time Equivalent of a B5 grade staff). Costs related to the outsourced administration of affiliates' holdings (including Internet services so that affiliates can see the value of their Fund on a monthly basis) are funded through the NATO Civil Budget.

In specific circumstances cash advances were made by the International Staff to ease-up payment procedures. Reimbursement to the NATO International Staff account was done as soon as technically possible.

The Fund does not hold any securities of the employer sponsor or, directly, of its related parties.

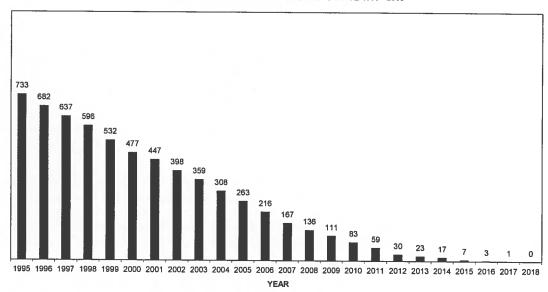
NOTE 21: KEY MANAGEMENT PERSONNEL

For the purpose of these financial statements, key management personnel are considered to be the Assistant Secretary General for Executive Management and the Financial Controller of the International Staff. Their remuneration is entirely covered by the NATO International Staff.

Members of the Provident Fund Board of Supervisors do not receive any additional remuneration or benefits in return for their responsibilities. The Board of Supervisors is chaired by the Assistant Secretary General for Executive Management. The International Staff Financial Controller is a member of the Board.

NOTE 22: STATISTICAL INFORMATION

NUMBER OF AFFILIATES TO THE PROVIDENT FUND NOMBRE D' AFFILIES AU FONDS DE PREVOYANCE 1995 - 2018



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ANNEX 3 to FC(2019)0041

* * * * *

List of acronyms:

CPR: Civilian Personnel Regulations
FTE: Full Time Equivalent
IPSAS: International Public Sector Accounting Standards
OAP: Old Age Pension

PF: Provident Fund



NORTH ATLANTIC TREATY ORGANIZATION ORGANISATION DU TRAITÉ DE L'ATLANTIQUE NORD

INTERNATIONAL BOARD OF AUDITORS FOR NATO COLLEGE INTERNATIONAL DES AUDITEURS EXTERNES DE L'OTAN



NATO UNCLASSIFIED

IBA-A(2019)0107 28 August 2019

To: Secretary General

(Attn: Director of the Private Office)

Cc: Assistant Secretary General, Executive Management Division

Financial Controller, International Staff

Acting Moral & Welfare Manager, NATO Staff Centre

Chairman, Resource Policy & Planning Board

Branch Head, Secretariat and Finance Branch, NATO Office of Resources

Private Office Registry

Subject: International Board of Auditors for NATO (IBAN) Auditor's Report and

Letter of Observations and Recommendations on the audit of the Financial Statements of the NATO Staff Centre for the year ended

31 December 2018 - IBA-AR(2019)0015

IBAN submits herewith its approved Auditor's Report (Annex 2) and Letter of Observations and Recommendations (Annex 3) with a Summary Note for distribution to the Council (Annex 1).

IBAN's report sets out an unqualified opinion on the Financial Statements of the NATO Staff Centre and on compliance for financial year 2018.

Yours sincerely,

Dr. Hans Leijtens

Chairman

Attachments: As stated above.

ANNEX 1

Summary Note for Council by the International Board of Auditors for NATO (IBAN) on the audit of the Financial Statements of the NATO Staff Centre for the year ended 31 December 2018

The Staff Centre was established by Council in 1970. It is composed of the Sports Centre, the Restaurant, and the Shops and Medical Centre. It provides a service for the sporting and cultural activities of NATO Military and Civil International Staff and their families, the personnel of Delegations and Military Representations, Partner Nations and NATO retirees. The Staff Centre operations and activities are funded from membership fees, sports and social subscriptions, from trading and commercial activities, and from indirect support from the Civil Budget. The revenue of the Staff Centre for 2018 was about EUR 1 million.

In 2015, NATO member nations agreed to transition the Staff Centre from its current structure towards a new structure, as summarised in the NATO HQ commercial operations Business Plan (C-M(2015)0069). The current Staff Centre closed in September 2018 and a new restructured Staff Centre opened in the new NATO HQ.

IBAN issued an unqualified opinion on the Financial Statements and on compliance for the year ended 31 December 2018.

IBAN included an Emphasis of matter paragraph in the Report on the Audit of the Financial Statements.

IBAN also followed up on the status of observations from its previous years' audit and noted that they were all closed.

The Auditor's Report (Annex 2) and the Letter of Observations and Recommendations (Annex 3) were issued to the International Staff who replied that they had no comments.

ANNEX 2 IBA-AR(2019)0015

28 August 2019

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF THE NATO STAFF CENTRE FOR THE YEAR ENDED 31 DECEMBER 2018

ANNEX 2 IBA-AR(2019)0015

INDEPENDENT AUDITOR'S REPORT TO THE NORTH ATLANTIC COUNCIL

Report on the Audit of the Financial Statements

Unqualified Opinion on the Financial Statements

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of Staff Centre for the 12 month period ended 31 December 2018, issued and submitted to IBAN on 31 march 2019. These Financial Statements comprise the Statement of Financial Position as at 31 December 2018, the Statement of Financial Performance, the Statement of Changes in Net Assets/Equity and the Statement of Cash Flow, for the 12 month period ended 31 December 2018, including a summary of significant accounting policies and other explanatory notes.

In our opinion, the Financial Statements give a true and fair view of the financial position of the Staff Centre as at 31 December 2018, and of its financial performance, its cash flows for the 12 month period ended 31 December 2018, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework.

Emphasis of matter

We draw your attention to Note 2 of the Financial Statements "liquidation of the Staff Centre" where it is described that NATO member nations agreed, in September 2015, to transition the Staff Centre from its current structure towards a new structure, as summarised in the NATO HQ commercial operations Business Plan. As agreed, the Staff Centre closed in September 2018. The final financial closure date was established as 31 December 2018. All assets and liabilities were transferred to the NATO International Staff accounts as of 1 January 2019. The main cost items related to the closure and the settlement of any net outstanding liabilities will be funded from the NATO Civil Budget through the use of lapsed prior year appropriations. Currently, these liabilities are estimated to be approximately EUR 2.1 million (BC-D(2018)0067-FINAL). Our opinion is not modified in respect to this matter.

Basis for Unqualified Opinion on the Financial Statements

In accordance with the NATO Financial Regulations (NFRs), external audit of the NATO bodies pursuant to the North Atlantic Treaty shall be performed by IBAN.

We have conducted our audit in accordance with the International Standards of Supreme Audit Institutions (ISSAIs 1000-1810) developed by the International Organisation of

ANNEX 2 IBA-AR(2019)0015

Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

We are independent in accordance with the INTOSAI Code of Ethics and we have fulfilled our other ethical responsibilities in accordance with these requirements. The responsibilities of the members of IBAN are more extensively described in the section «Auditor's Responsibilities for the Audit of the Financial Statements» and in our Charter. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's Responsibility for the Financial Statements

Management's responsibility for the financial statements is laid down in the NFRs. The Financial Statements of Staff Centre are drawn up in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework as approved by the Council. The Financial Controller is responsible for submitting the Financial Statements for audit to IBAN not later than 31st March following the end of the financial year.

The Financial Statements are signed by the Head of the NATO body and the Financial Controller. In signing the Financial Statements, the Head of NATO body and the Financial Control confirm the establishment and maintenance of financial governance, resource management practices, internal controls and financial information systems to achieve the efficient and effective use of resources.

This confirmation covers the design, implementation and maintenance of internal controls relevant to the preparation and presentation of financial statements that are auditable and free from material misstatement, whether due to fraud or error. This also covers reporting on the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there are plans to liquidate the entity or to cease its operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

The objectives of the audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes an opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually

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or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgement and maintain professional scepticism throughout the planning and performance of the audit. This involves taking into account Considerations Specific to Public Sector Entities. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. Please refer to the emphasis of matter which states that the 31 December 2018 is the final financial closure of the Staff Centre.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We are required to communicate with the bodies charged with governance, among other

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matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our Independent External Auditor's Report is prepared to assist North Atlantic Council in carrying out its role. We are therefore responsible solely to the North Atlantic Council for our work and the opinion we have formed.

Report on Compliance

Unqualified Opinion on Compliance

Based on the procedures we performed, nothing has come to our attention, as part of our audit of the Financial Statements that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations.

Basis for Unqualified Opinion

We have conducted our compliance audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 4000) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

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

Management's Responsibility for Compliance

All NATO staff, military and civilian, are obligated to comply with the NATO Financial Regulations, associated Financial Rules and Procedures and internal implementing directives. These include the NATO Civilian Personnel Regulations.

The Secretary General is responsible and accountable for sound financial management. The financial administration of NATO bodies must incorporate the principles of propriety, sound governance, accountability, transparency, risk management and internal control, internal audit, external audit, and fraud prevention and detection.

Auditor's Responsibilities for Compliance

In addition to the responsibility to provide reasonable assurance about whether the financial statements as a whole are free from material misstatement, the IBAN Charter requires IBAN to provide independent assurance and report annually to the North Atlantic

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Council about whether funds have been properly used for the settlement of authorised expenditure (propriety) and are in compliance with the regulations in force (regularity). Propriety relates to the observance of the general principles governing sound financial management and the conduct of public officials. Regularity concerns the adherence to formal criteria such as relevant regulations, rules and procedures.

This responsibility includes performing procedures to obtain independent assurance about whether funds have been properly used for the settlement of authorized expenditure and whether they have been used in compliance with the regulations in force. Such procedures include consideration of the risks of material non-compliance.

Brussels, 28 August 2019

Dr. Hans Leijtens Chairman

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28 August 2019

INTERNATIONAL BOARD OF AUDITORS FOR NATO

FOR THE NATO STAFF CENTRE FOR THE YEAR ENDED 31 DECEMBER 2018

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Introduction

The International Board of Auditors for NATO (IBAN) audited the NATO Staff Centre's Financial Statements for the year ended 31 December 2018, and issued an unqualified opinion on the financial statements and an unqualified opinion on compliance.

Observations and Recommendations

During the audit, IBAN had no observations. We followed up on the status of observations from previous years' audits and noted that all observations were closed.

IBAN also issued a Management Letter (IBA-AML(2019)0010) to the Chairman of the Staff Centre Executive Board with advice based on lessons learnt from the audit of the Staff Centre and with the follow-up of prior years' observations.

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FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

IBAN followed up on the status of observations from the previous years' audit. The observations, actions taken by the auditee as reviewed by IBAN, and their status are summarised in the table below.

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
(1) STAFF CENTRE FY 2017 IBA-AR(2018)0016, paragraph 2 INACCURACIES AND MATERIAL		Observation Closed.
ERRORS IDENTIFIED IN THE FINANCIAL STATEMENTS		Observation Glosed.
Board's Recommendation The Board recommends the IS to establish robust verification procedures of the figures and other information disclosed in the financial statements before its final issuance in order to comply with the NATO Accounting Framework.	The preparation of the financial statements has been improved for the year 2018. IBAN did not find material errors and inaccuracies in information disclosed in the financial statements.	
(2) STAFF CENTRE FY 2015 IBA-AR(2016)16, paragraph 3		
PROPER CLOSURE OF CURRENT STAFF CENTRE BUSINESS NEEDS TO BE ENSURED		Observation Closed.
Board's Recommendation The Board recommends the IS to ensure sufficient resources are allocated to the closure of the current Staff Centre. The IS should ensure that necessary actions are taken to ensure proper closure of the accounts of the current Staff Centre, proper hand over of supplier equipment and proper procedures for write of and disposal of equipment. Furthermore, the IS should ensure that all contracts are terminated on time and in accordance with contract terms and conditions.	The Staff Centre is closed since September 2018. IBAN did not find material issues related to the closure of accounts, termination of staff contracts and concession contracts and write-off and disposal of asset during the audit of the 2018 Staff Centre Financial Statements.	

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OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
(3) STAFF CENTRE FY 2011 IBA-AR(2013)05, paragraph 5.2.6		
DIFFERENCES BETWEEN FINANCIAL STATEMENTS AND DETAILED DATA – UNDERSTATEMENT OF PROPERTY, PLANT & EQUIPMENT (PP&E) AND REVENUE IN PRIOR YEARS		Observation Closed.
Board's Recommendation The Board recommends the Staff Centre to make proper corrections ensuring that the values of PP&E are correct. Also, the Board recommends the Staff Centre to regularly (at least annually) ensure the reconciliation of sub-ledgers and general ledgers to identify errors in PP&E.	IBAN noted that the differences have been cleared by the IS OFC as part of the closure of the accounts of the Staff Centre in 2018.	

The Open status is used for recommendations that are open and for which no notable progress has been achieved to date. The In-progress status is used for open recommendations when the NATO Body has started to implement the recommendation or when some (but not all) sub-recommendations are closed. The Closed status is used for recommendations that are closed because they have been implemented, are superseded, or have lapsed.

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NATO STAFF CENTRE FINANCIAL STATEMENTS AS AT 31/12/2018 FINANCIAL YEAR 2018

Annexes:

- 1 Statement of financial position
- 2 Statement of financial performance
- 3 Cash Flow Statement
- 4 Statement of changes in net assets
- 5 Explanatory notes to the financial statements

Jens STOLTENBERG
Secretary General

Stephane CHAGNOT Financial Controller

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Nato Staff Center Statement of Financial Position For the year ended 31 December 2018

		EUR	EUR	EUR
	Notes	Current year	Current year	Variance
		31-Dec-18	31-Dec-17	CY-PY
ASSETS				
CURRENT ASSETS				
Cash and Cash equivalents	4			
Cash and Cash equivalents	4	0.00	1 130 00	4 400 00
Current bank accounts			_,	-1,120.00
Total Cash and Cash Equivalents		223,526.52 223,526.52		152,906.19
		223,320.32	71,740.33	151,786.19
Receivables	5			
Accounts receivable	,	286,753.06	335,351.90	40 500 04
Other Receivables		0.00	0.00	-48,598.84 0.00
Total Receivables		286,753.06	335,351.90	-48,598.84
			,	10,000.01
Miscellaneous Assets				
Bank interest accrued		0.00	0.00	0.00
Total Miscellaneous Assets		0.00	0.00	0.00
Inventories	6			
Inventory sports		0.00	1,140.95	-1,140.95
Inventory restaurant		0.00	0.00	0.00
Inventory commercial area		0.00	0.00	0.00
Total inventories		0.00	1,140.95	-1,140.95
TOTAL CURRENT ASSETS		510,279.58	408,233.18	102,046.40
NON CURRENT ASSETS	-			
MON COMMENT AGGETS	7			
Receivables		0.00	0.00	2.20
		0.00	0.00	0.00
Infrastructure, Plant and Equipment		0.00	0.00	0.00
Land and buildings		0.00	0.00	0.00
Other		0.00	0.00	0.00
TOTAL NON CURRENT ASSETS		0.00	0.00	0.00
			- 0.00	0.00
TOTAL ASSETS		510,279.58	408,233.18	102,046.40
LIABILITIES				
CHROCATILABILITIES				
CURRENT LIABILITIES Payables	_			
•	8			
Payable to Third Parties		552,505.83	1,029,417.27	-476,911.44
Current portion of debts payable after one year		·	-,,	770,511.77
Other Liabilities		0.00	0.00	0.00
		0.00	0.00 96,000.00	
Total Payables		0.00	0.00	0.00
Total Payables		0.00	0.00 96,000.00	0.00 -96,000.00
Total Payables Equity		0.00 0.00 552,505.83	0.00 96,000.00 1,125,417.27	0.00 -96,000.00
Total Payables Equity Commercial input - at front money		0.00 0.00 552,505.83	0.00 96,000.00 1,125,417.27	0.00 -96,000.00
Total Payables Equity Commercial input - at front money Total Equity		0.00 0.00 552,505.83 0.00 0.00	0.00 96,000.00 1,125,417.27 0.00 0.00	0.00 -96,000.00 - 572,911.44
Total Payables Equity Commercial input - at front money Total Equity		0.00 0.00 552,505.83	0.00 96,000.00 1,125,417.27	0.00 -96,000.00
Total Payables Equity Commercial input - at front money Total Equity TOTAL CURRENT LIABILITIES		0.00 0.00 552,505.83 0.00 0.00	0.00 96,000.00 1,125,417.27 0.00 0.00	0.00 -96,000.00 - 572,911.44
Total Payables Equity Commercial input - at front money Total Equity TOTAL CURRENT LIABILITIES NON CURRENT LIABILITIES	9	0.00 0.00 552,505.83 0.00 0.00 552,505.83	0.00 96,000.00 1,125,417.27 0.00 0.00 1,125,417.27	0.00 -96,000.00 -572,911.44
Total Payables Equity Commercial input - at front money Total Equity TOTAL CURRENT LIABILITIES NON CURRENT LIABILITIES Long-term Pension debt and charges	9	0.00 0.00 552,505.83 0.00 0.00 552,505.83	0.00 96,000.00 1,125,417.27 0.00 0.00 1,125,417.27	0.00 -96,000.00 -572,911.44 -572,911.44 423,207.74
Total Payables Equity Commercial input - at front money Total Equity TOTAL CURRENT LIABILITIES NON CURRENT LIABILITIES Long-term Pension debt and charges	9	0.00 0.00 552,505.83 0.00 0.00 552,505.83	0.00 96,000.00 1,125,417.27 0.00 0.00 1,125,417.27	0.00 -96,000.00 -572,911.44
Total Payables Equity Commercial input - at front money Total Equity TOTAL CURRENT LIABILITIES NON CURRENT LIABILITIES Long-term Pension debt and charges Long-term loan	9	0.00 0.00 552,505.83 0.00 0.00 552,505.83 1,152,786.32 817,898.75	0.00 96,000.00 1,125,417.27 0.00 0.00 1,125,417.27 729,578.58 261,898.75	0.00 -96,000.00 -572,911.44 -572,911.44 423,207.74 556,000.00
Total Payables Equity Commercial input - at front money Total Equity TOTAL CURRENT LIABILITIES NON CURRENT LIABILITIES Long-term Pension debt and charges Long-term loan	9	0.00 0.00 552,505.83 0.00 0.00 552,505.83	0.00 96,000.00 1,125,417.27 0.00 0.00 1,125,417.27	0.00 -96,000.00 -572,911.44 -572,911.44 423,207.74
Total Payables Equity Commercial input - at front money Total Equity TOTAL CURRENT LIABILITIES NON CURRENT LIABILITIES Long-term Pension debt and charges Long-term loan TOTAL NON CURRENT LIABILITIES	9	0.00 0.00 552,505.83 0.00 0.00 552,505.83 1,152,786.32 817,898.75	0.00 96,000.00 1,125,417.27 0.00 0.00 1,125,417.27 729,578.58 261,898.75	0.00 -96,000.00 -572,911.44 -572,911.44 423,207.74 556,000.00
Total Payables Equity Commercial input - at front money Total Equity TOTAL CURRENT LIABILITIES NON CURRENT LIABILITIES Long-term Pension debt and charges Long-term loan TOTAL NON CURRENT LIABILITIES	9	0.00 0.00 552,505.83 0.00 0.00 552,505.83 1,152,786.32 817,898.75 1,970,685.07	0.00 96,000.00 1,125,417.27 0.00 0.00 1,125,417.27 729,578.58 261,898.75 991,477.33	0.00 -96,000.00 -572,911.44 -572,911.44 423,207.74 556,000.00
Total Payables Equity Commercial input - at front money Total Equity TOTAL CURRENT LIABILITIES NON CURRENT LIABILITIES Long-term Pension debt and charges Long-term loan TOTAL NON CURRENT LIABILITIES TOTAL LIABILITIES	9	0.00 0.00 552,505.83 0.00 0.00 552,505.83 1,152,786.32 817,898.75 1,970,685.07	0.00 96,000.00 1,125,417.27 0.00 0.00 1,125,417.27 729,578.58 261,898.75 991,477.33	0.00 -96,000.00 -572,911.44 -572,911.44 423,207.74 556,000.00
Total Payables Equity Commercial input - at front money Total Equity TOTAL CURRENT LIABILITIES NON CURRENT LIABILITIES Long-term Pension debt and charges Long-term ioan TOTAL NON CURRENT LIABILITIES TOTAL LIABILITIES NET ASSETS Surplus/deficit of the period		0.00 0.00 552,505.83 0.00 0.00 552,505.83 1,152,786.32 817,898.75 1,970,685.07	0.00 96,000.00 1,125,417.27 0.00 0.00 1,125,417.27 729,578.58 261,898.75 991,477.33 2,116,894.60	0.00 -96,000.00 -572,911.44 -572,911.44 423,207.74 556,000.00
Total Payables Equity Commercial input - at front money Total Equity TOTAL CURRENT LIABILITIES NON CURRENT LIABILITIES Long-term Pension debt and charges Long-term loan TOTAL NON CURRENT LIABILITIES TOTAL LIABILITIES NET ASSETS Surplus/deficit of the period Previous results		0.00 0.00 552,505.83 0.00 0.00 552,505.83 1,152,786.32 817,898.75 1,970,685.07	0.00 96,000.00 1,125,417.27 0.00 0.00 1,125,417.27 729,578.58 261,898.75 991,477.33 2,116,894.60	0.00 -96,000.00 -572,911.44 -572,911.44 423,207.74 556,000.00
Total Payables Equity Commercial input - at front money Total Equity TOTAL CURRENT LIABILITIES NON CURRENT LIABILITIES Long-term Pension debt and charges Long-term loan TOTAL NON CURRENT LIABILITIES TOTAL LIABILITIES NET ASSETS Surplus/deficit of the period Previous results Current result		0.00 0.00 552,505.83 0.00 0.00 552,505.83 1,152,786.32 817,898.75 1,970,685.07	0.00 96,000.00 1,125,417.27 0.00 0.00 1,125,417.27 729,578.58 261,898.75 991,477.33 2,116,894.60	0.00 -96,000.00 -572,911.44 -572,911.44 423,207.74 556,000.00 979,207.74 406,296.30
Total Payables Equity Commercial input - at front money Total Equity TOTAL CURRENT LIABILITIES NON CURRENT LIABILITIES Long-term Pension debt and charges Long-term loan TOTAL NON CURRENT LIABILITIES TOTAL LIABILITIES NET ASSETS Surplus/deficit of the period Previous results Current result Capital subsidies		0.00 0.00 552,505.83 0.00 0.00 552,505.83 1,152,786.32 817,898.75 1,970,685.07 2,523,190.90	0.00 96,000.00 1,125,417.27 0.00 0.00 1,125,417.27 729,578.58 261,898.75 991,477.33 2,116,894.60	0.00 -96,000.00 -572,911.44 -572,911.44 423,207.74 556,000.00 979,207.74 406,296.30
Total Payables Equity Commercial input - at front money Total Equity TOTAL CURRENT LIABILITIES NON CURRENT LIABILITIES Long-term Pension debt and charges Long-term loan TOTAL NON CURRENT LIABILITIES TOTAL LIABILITIES NET ASSETS Surplus/deficit of the period Previous results Current result Capital subsidies		0.00 0.00 552,505.83 0.00 0.00 552,505.83 1,152,786.32 817,898.75 1,970,685.07 2,523,190.90	0.00 96,000.00 1,125,417.27 0.00 0.00 1,125,417.27 729,578.58 261,898.75 991,477.33 2,116,894.60	0.00 -96,000.00 -572,911.44 -572,911.44 423,207.74 556,000.00 979,207.74 406,296.30
Total Payables Equity Commercial input - at front money Total Equity TOTAL CURRENT LIABILITIES NON CURRENT LIABILITIES Long-term Pension debt and charges Long-term loan TOTAL NON CURRENT LIABILITIES TOTAL LIABILITIES NET ASSETS Surplus/deficit of the period Previous results Current result Capital subsidies Total Net Assets		0.00 0.00 552,505.83 0.00 0.00 552,505.83 1,152,786.32 817,898.75 1,970,685.07 2,523,190.90	0.00 96,000.00 1,125,417.27 0.00 0.00 1,125,417.27 729,578.58 261,898.75 991,477.33 2,116,894.60 -1,477,864.05 -230,797.37 0.00 -1,708,661.42	0.00 -96,000.00 -572,911.44 -572,911.44 423,207.74 556,000.00 979,207.74 406,296.30 -230,797.37 -73,452.53 0.00 -304,249.90
Total Payables Equity Commercial input - at front money Total Equity TOTAL CURRENT LIABILITIES NON CURRENT LIABILITIES Long-term Pension debt and charges Long-term loan TOTAL NON CURRENT LIABILITIES TOTAL LIABILITIES NET ASSETS Surplus/deficit of the period Previous results Current result Capital subsidies		0.00 0.00 552,505.83 0.00 0.00 552,505.83 1,152,786.32 817,898.75 1,970,685.07 2,523,190.90	0.00 96,000.00 1,125,417.27 0.00 0.00 1,125,417.27 729,578.58 261,898.75 991,477.33 2,116,894.60 -1,477,864.05 -230,797.37 0.00 -1,708,661.42	0.00 -96,000.00 -572,911.44 -572,911.44 423,207.74 556,000.00 979,207.74 406,296.30 -230,797.37 -73,452.53 0.00
Total Payables Equity Commercial input - at front money Total Equity TOTAL CURRENT LIABILITIES NON CURRENT LIABILITIES Long-term Pension debt and charges Long-term loan TOTAL NON CURRENT LIABILITIES TOTAL LIABILITIES NET ASSETS Surplus/deficit of the period Previous results Current result Capital subsidies Total Net Assets		0.00 0.00 552,505.83 0.00 0.00 552,505.83 1,152,786.32 817,898.75 1,970,685.07 2,523,190.90	0.00 96,000.00 1,125,417.27 0.00 0.00 1,125,417.27 729,578.58 261,898.75 991,477.33 2,116,894.60 -1,477,864.05 -230,797.37 0.00 -1,708,661.42	0.00 -96,000.00 -572,911.44 -572,911.44 423,207.74 556,000.00 979,207.74 406,296.30 -230,797.37 -73,452.53 0.00 -304,249.90
Total Payables Equity Commercial input - at front money Total Equity TOTAL CURRENT LIABILITIES NON CURRENT LIABILITIES Long-term Pension debt and charges Long-term loan TOTAL NON CURRENT LIABILITIES TOTAL LIABILITIES NET ASSETS Surplus/deficit of the period Previous results Current result Capital subsidies Total Net Assets		0.00 0.00 552,505.83 0.00 0.00 552,505.83 1,152,786.32 817,898.75 1,970,685.07 2,523,190.90 -1,708,661.42 -304,249.90 0.00 -2,012,911.32 -2,012,911.32	0.00 96,000.00 1,125,417.27 0.00 0.00 1,125,417.27 729,578.58 261,898.75 991,477.33 2,116,894.60 -1,477,864.05 -230,797.37 0.00 -1,708,661.42 -1,708,661.42	0.00 -96,000.00 -572,911.44 -572,911.44 423,207.74 556,000.00 979,207.74 406,296.30 -230,797.37 -73,452.53 0.00 -304,249.90
Total Payables Equity Commercial input - at front money Total Equity TOTAL CURRENT LIABILITIES NON CURRENT LIABILITIES Long-term Pension debt and charges Long-term loan TOTAL NON CURRENT LIABILITIES TOTAL LIABILITIES NET ASSETS Surplus/deficit of the period Previous results Current result Capital subsidies Total Net Assets		0.00 0.00 552,505.83 0.00 0.00 552,505.83 1,152,786.32 817,898.75 1,970,685.07 2,523,190.90	0.00 96,000.00 1,125,417.27 0.00 0.00 1,125,417.27 729,578.58 261,898.75 991,477.33 2,116,894.60 -1,477,864.05 -230,797.37 0.00 -1,708,661.42	0.00 -96,000.00 -572,911.44 -572,911.44 423,207.74 556,000.00 979,207.74 406,296.30 -230,797.37 -73,452.53 0.00 -304,249.90

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Nato Staff Center Statement of Financial Performance For the year ended 31 December 2018

	Notes	EUR Current year 31-Dec-18	EUR Current year	EUR Variance
REVENUE	11	21-Dec-19	31-Dec-17	CY-PC
Sales		885,246,96	1,507,874.61	-622,627.65
Consession		151,890.92		-193,087.92
Financial Renvenue		125.23	•	-1,903.61
Other revenue		30,090.37	,	-127,797.74
TOTAL REVENUE		1,067,353.48	2,012,770.40	-945,416.92
Expenses	12		0.00	
Wages, salaries and employee benefits		338,104.97	606,948.09	-268,843.12
Outsourced Services		693,869.26	852,170.52	-158,301.26
Operating costs		18,260.18	•	-36,229.94
Costs of Goods Sold		411,107.49	605,652.73	-194,545.24
Other costs		917.66	32,379.21	-31,461.55
Depreciation and amortization expense		5,343.82		-86,583.28
Reversal of provision		-96,000.00	·	
TOTAL EXPENSES		1,371,603.38	2,243,567.77	-775,964.39
TOTAL BALANCE	10	-304,249.90	-230,797.37	-169,452.53

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Nato Staff Centre Statement of Cash Flow For the year ended 31 December 2018

	EUR Notes Current year 31-Dec-18		EUR Current year 31-Dec-17	EUR Prior Year 31-Dec-13	
Cash flows from perating activities (indirect method)					
Profit (loss)before taxation		-304,249.90	-230,797.37	3,350.64	
Adjustments for:		-304,243.30	-230,797.37	3,330.04	
Depreciation		0.00	0.00		
Loss on sale of PPE		0.00	0.00		
Cash from operations before working capital changes		-304,249.90	-230,797.37	3,350.64	
Increase in accounts receivable		48,598.84	-17,599.20	-127,807.97	
Decrease in inventories		1,140.95	22,424.14	84.94	
Increase in accounts payable		-572,911.44		154,251.41	
Cash generated from operations		-827,421.55	-182,523.29	29,879.02	
interest paid		017,111.00	102,323.23	25,675.02	
Dividends paid					
Income taxes paid					
Net cash from operating activities		-827,421.55	-182,523.29	29,879.02	
Cash flows from investing activities					
Purchase of PPE		0.00	0.00	4 670 40	
Proceeds from sale of PPE		0.00	0.00	-1,679.10	
Net cash used in investing activities		0.00	0.00	-1,679.10	
				2,073.20	
Cash flows from financing activities					
Proceeds from issue of share capital		423,207.74	43,536.48	-222,981.46	
Payments of long term borrowings		556,000.00	0.00	,	
Proceeds from finance lease liabilities		0.00	0.00		
Net cash from financing activities		979,207.74	43,536.48	-222,981.46	
Net increase in cash and cash equivalents		151,786.19	-138,986.81	-194,781.54	
Cash and cash equivalents at beginning of period		71,740.33	210,727.14	540,329.09	
Cash and cash equivalents at end of period		223,526.52	71,740.33	345,547.55	

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Nato Staff Centre Statement of Changes in Net Assets For the period ended 31 December 2018

	Accumulated supluses
Balance at 31/12/2016	-1,477,864.05
Revaluation of investments	0.00
Net surplus for the period	-230,797.37
Balance at 31/12/2017	-1,708,661.42
Revaluation of investments	0.00
Net surplus for the period	-304,249.90
Balance at 31/12/2018	-2,012,911.32

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EXPLANATORY NOTES TO THE NATO STAFF CENTRE 2018 FINANCIAL STATEMENTS

NOTE 1: GENERAL INFORMATION

These financial statements cover the financial operations relating to the NATO Staff Centre.

The NATO Staff Centre provided morale, welfare, and recreational activities and services at NATO Headquarters in Brussels for the personnel and families of the NATO International Staff, International Military Staff, NATO Agencies, member nations' Delegations and Military Representations, to personnel and families of Partner Nations, and to other approved users.

The NATO Staff Centre was located on the premises of the NATO Headquarters in Brussels.

The NATO Staff Centre shares the legal status of NATO.

The NATO Staff Centre was considered a part of the NATO International Staff. The budgetary resources of the NATO International Staff and for the operations of the NATO Headquarters in Brussels are provided through the Civil Budget which is approved by the North Atlantic Council.

The NATO Staff Centre was officially closed in September 2018; it is no longer a going concern. Further to its financial closure on 31 December 2018 its net assets were transferred to the NATO International Staff. The settlement of the outstanding balances will be done in the course of 2019.

Governance:

On 3 October 2013, the North Atlantic Council approved under reference C-M(2013)0054 a new "Staff Centre Governance and Mandate" with the objective of achieving a substantial decrease in the level of contribution from the Civil Budget from 2014 onwards and moving to a fully customer funded model after the move to the New NATO Headquarters.

Governance can be summarised as follows:

- The Staff Centre Executive Board is responsible for the oversight and guidance of the Staff Centre, its proper administration and management. It is chaired by the Assistant Secretary General for Executive Management (NATO International Staff). Members of the Executive Board are the Assistant Secretary General for Executive Management, the Director Staff Centre, the Deputy Assistant Secretary General for Headquarters Support and Transformation, the Deputy Assistant Secretary General for Human Resources, the International Military Staff Executive Coordinator, and the Head, Budget and Planning and Analysis, International Staff. Two members of the Budget Committee attend ex-officio and therefore do not take part in the decision making.
- The Staff Centre Customer Service Board, chaired by the Assistant Secretary General for Human Resources, exercises oversight and quality control over customer service and activities at the Staff Centre. Members of the Executive Board comprise representatives of management and customers of the Staff Centre.
- The Director Staff Centre is responsible for the day-to-day management of the Staff Centre and reports to the Assistant Secretary General for Executive Management. The Director is an ex-officio member of the Executive and Customer Services Boards.

The post Director Staff Centre was deleted in 2015. The Deputy Director has been acting.

Funding:

The Staff Centre Mandate defines the funding guidelines of the NATO Staff Centre and in particular the activities that can receive support from Civil Budget funding.

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Activities which support the mission of the Organisation, staff members and families and foster community environment (Category A activities) may be eligible for common-funded budgetary contributions from NATO (Civil Budget funding). Activities which provide indirect support to the mission of the Organisation, provide convenience to staff members and families, or generate revenue (Category B activities), are to be funded by membership and user fees, income from commercial concessions, and not through common-funded budgetary contributions from NATO (Civil Budget funding).

Activity:

The NATO Staff Centre had a membership of about 2,600. The Restaurant department served meals and organised banquets. The Sports department organised sports activities and lessons for adults and children (tennis, swimming, squash, fitness, etc.). The Commercial Services Area had a variety of shops and services managed through concession agreements (optician, pharmacy, retail store, bank, medical centre, jewelry, showroom) and a perfume shop which was run directly by the Staff Centre.

Restructuring

On 2 October 2015, the North Atlantic Council approved a NATO HQ Commercial Operations Business Plan 2015-2019 (C-M(2015)0069) which foresees a substantial change in the management of a series of services and/or concessions presently handled by the Staff Centre. In particular, the number of established posts, which was 33 at the beginning of 2015, has decreased to 3 by end 2017 and eventually all posts were deleted when the Staff Centre was closed in September 2018. In order to transition to the future setup for commercial operations in the new NATO HQ, restructuring costs were incurred, in particular Loss of Job Indemnities. The latter were borne by the NATO Civil Budget using lapsed credits from 2014 that would otherwise have been returned to member Nations (C-M(2015)0088 and PO(2015)0602). In addition, the NATO Civil Budget for 2018 has set aside resources from lapsable appropriations to settle the net outstanding liabilities related to the closure of the Staff Centre. These resources were carried forward to 2019 in the amount of EUR 2.1 million.

NOTE 2: ACCOUNTING POLICIES

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

Basis of preparation

The financial statements are presented in EUR.

The financial year begins on 1 January and ends on 31 December of the same year.

Declaration of conformity

The NATO-Staff Centre financial statements have been prepared on the basis of the NATO Accounting Framework as approved by nations under C-M(2013)0039 on 2 August 2013 and revised under C-M(2016)0023 on 21 April 2016 (which adapts a small number of IPSAS standards to better suit the specific requirements of the Alliance), the Staff Centre Governance and Mandate, together with the NATO Financial Regulations (NFR) and the Financial Rules and Procedures (FRP).

IPSAS 6: Consolidated and Separate Financial:

The Staff Centre should be considered as controlled by the NATO International Staff in accordance with the control criteria set up by IPSAS 6 "Consolidated and Separate Financial Statements" paragraphs 38 to 42.

The adaptation to IPSAS 6 approved by the North Atlantic Council provides that "NATO reporting entities shall not consolidate Morale and Welfare Activities and/or Staff Association activities into their respective financial statements even when they are considered to be under the control, from a financial reporting perspective, of the NATO reporting entity" and that "where this requirement conflicts with another requirement of IPSAS this adapted requirement shall apply". It applies as from reporting year

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2013. As a consequence, the financial statements of the NATO Staff Centre are presented separately and not consolidated with those of the NATO International Staff.

The same adaptation provides that the NATO Reporting Entities "should present financial information in support of such activities by way of a disclosure note to their financial statements".

On the other hand, as indicated above the North Atlantic Council when approving the NATO Staff Centre Mandate and Governance decided that the NATO Staff Centre would issue its own and separate financial statements. The NATO Staff Centre's mandate provides that its financial statements should comply with IPSAS and should be "incorporated" into the financial statements of the NATO International Staff

This situation was further clarified by Nations in 2016 with the revised version of the NATO Accounting Framework. As a consequence, beyond a disclosure note in the statements of the International Staff, NATO Staff Centre financial statements are presented separately, rather than incorporated into those of the NATO International Staff, and apply the NATO Accounting Framework.

IPSAS 20 "Presentation of Budget Information in Financial Statement":

The NATO Staff Centre's financial activity is not controlled through a budgetary process resulting in a formal approval by NATO nations, contrary to most of the other NATO entities. The Staff Centre's mandate does not provide for such a budgetary mechanism. Although some form of forecasting/projection of income and expenditure is conducted for management and internal supervision purposes, there is no budget approval mechanism that would for instance establish a legal limit to expenditure according to different categories within which the NATO Staff Centre should operate; funding is not provided through calls for contributions from NATO member nations; there are no such concepts as appropriations, commitment of credits, etc. As a consequence, it is considered that IPSAS 20 "Presentation of Budget Information in Financial Statement" is not applicable to these financial statements.

The following IPSAS have no material effect on the 2018 financial statements of the NATO Staff Centre:

IPSAS 5: Borrowing Costs

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 indirect method.

Liquidation of the Staff Centre:

As indicated above, NATO member Nations decided to adopt a different operating model for Morale and Welfare Activities once the move to its new premises was completed. As a consequence, the Staff Centre was closed in September 2018 and it is no longer a going concern. The final financial closure date was established as 31 December 2018. All assets and liabilities were transferred to the NATO International Staff accounts as of 1 January 2019. The liquidation of the Staff Centre's net assets will take place during 2019 by using the appropriations set aside for that purpose in the NATO Civil Budget (EUR 2.1 million).

Segment Reporting

A segment is a distinguishable activity or group of activities for which it is appropriate to separately report financial information. For NATO Staff Centre the segment information is based on its principal

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activities, which have different means of funding and eligibility criteria for support from the NATO Civil Budget. In this instance, the following segments have been adopted: Sports, Restaurant, Commercial Services Area and Management/Overheads.

Changes in Accounting Policy

Nothing to report.

Restatement and Reclassification of previous years' financial statements

Nothing to report.

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

Foreign currency transactions, as required, are accounted for at the exchange rates prevailing on the date of the transaction. Monetary assets and liabilities at year-end denominated in foreign currencies are converted into EUR using the NATO exchange rates applicable at year-end.

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

The NATO-Staff Centre 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

There is very limited exposure to foreign currency risk. All of the NATO-Staff Centre's income is labelled and collected in Euro. With the exception of a small number of suppliers, all invoices are labelled and paid in Euros. The NATO Staff Centre's bank accounts are in Euros.

b. Credit risk

Concerning cash and cash equivalent, the NATO-Staff Centre 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) and with Banca Monte Paschi Belgio. The latter does not have specific ratings, being owned by Monte dei Paschi di Siena S.p.A. whose ratings are indicated below:

Credit Ratings as at 01/03/2019

ING Bank	Fitch	Moody's	S&P
Short term	F1	P1	A-1
Monte Paschi	Fitch	Moody's	S&P
Short term	В	Not rated	Not rated

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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.

The NATO Staff Centre is exposed to liquidity risk because its normal activities do not generate enough to cash for it to repay its pension liability to the NATO Coordinated Pension Scheme and because a source of commercial income (concessions) is subject of a litigation which deprives it from the related cash in-flow. In the short term, and in order to make compulsory payments, this may result in the necessity for the NATO International Staff to make cash advances and/or for the NATO Staff Centre to delay its payments of amounts due to the NATO International Staff.

d. Interest rate risk

Except for certain cash and cash equivalent balances, the NATO Staff Centre financial assets and liabilities do not have associated interest rates. The NATO Staff Centre is restricted from entering into borrowings and investments, and, therefore, there is an insignificant interest rate risk.

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.

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

NATO's adaptations of IPSAS are spelled out in C-M(2016)0023 of April 2016, which included IPSAS 12 Inventories. Furthermore, C-M(2017)0043 (September 2017) approved the NATO Accounting Policy for Inventory.

NATO-Staff Centre capitalises inventory which it controls in its financial statements. Inventory is essentially comprised of goods to be sold.

NATO-Staff Centre will include transportation costs involved in bringing the inventories to their present location and condition in the initial valuation of inventory.

Inventory may include items held prior to 1 January 2013.

The valuation of inventory is based on a weighted average calculation.

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When it comes to assessing the control of NATO Inventory, these documents define a set of 10 criteria to be used in assessing the level of control of an Inventory 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 capitalisation threshold. This is applied from January 2013 under the initial NATO Accounting Framework C-M(2013)0039 of July 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.

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

Property, Plant & Equipment

NATO's adaptation of IPSAS are spelled out in C-M(2016)0023 of April 2016 among which were specific items addressing IPSAS 17 PPE. Furthermore, C-M(2017)0022(INV) approved the NATO accounting policy for Property, Plant and Equipment.

When it comes to assessing the control of NATO over PPE these documents define a set of 10 criteria to be used in assessing the level of control of a tangible asset (same criteria as for Inventories). A positive response on six of the criteria will lead to the asset being capitalised in the Financial Statements if it is above the capitalisation threshold. This is applied from January 2013, under the initial NATO Accounting Framework C-M(2013)0039 of July 2013

The NATO Staff Centre accounts for PPE based on the expected useful life of the goods or works concerned. No threshold is applied. It includes fully depreciated items acquired before 1 January 2013.

In light of the forthcoming move to a New NATO HQ in 2018, it has been decided, in general, that core PPE relating to the current HQ premises, including the Staff Centre, 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 environment will be capitalized.

PPE items not reported as a consequence of this IPSAS adaptation include and PPE items purchased prior to 1 January 2013 of which the Staff Centre makes use comprise: a restaurant facility including kitchen, dining room, storage area and a bar; a series of sports facilities (swimming pool, fitness room, squash courts, gymnasium, tennis courts, football pitch), office space.

When NATO fully completes the move to the new HQ in 2018, the foregoing items, along with the rest of the former HQ premises, will be returned to Host Nation Belgium at no cost.

The premises also include infrastructure dedicated to commercial activities (pharmacy, retail shop, jewelry, perfume shop, bank) and office space for NATO retiree associations.

b. Intangible Assets

As mentioned above, NATO's adaptations of IPSAS are spelled out in C-M(2016)0023 of April 2016, which included IPSAS 31 Intangible Assets. Furthermore, C-M(2017)0044 approved the NATO accounting policy for intangible assets.

When it comes to assessing the control of NATO over Intangible Assets, these documents define a set of 10 criteria to be used in assessing the level of control of an Intangible 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 capitalisation threshold. This is applied from January 2013, under the initial NATO Accounting Framework C-M(2013)0039 of July 2013.

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

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

- Copyrights
- Intellectual Property Rights
- Software development

NATO Staff Centre may consider intangible assets acquired prior to 1 January 2013 as fully expensed.

NATO Staff Centre 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.

Current liabilities

a. Payables

Payables are amounts due 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

Advances are recognised when they are called if they result from an agreement or when received if the decision is in the hands of the paying entity.

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c. Provisions

Provisions are recognised when the Staff Centre has a present obligation (legal or constructive) as a result of past events when it is probable that it will have to bear the cost and when a reliable estimate of the amount of the obligation can be made. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the date of the present financial statements.

Loans

The NATO Staff Centre has not entered into any kind of loan from the banking sector. However, a cash advance received form the NATO International Staff has been recognised as a loan in consideration of the likely duration of such advance.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the leasee. The leased item is recorded as an asset in the statement of financial position and depreciated according to the rules applicable to the same category of assets. All other leases are classified as operating leases and are recognised in the statement of financial performance.

Non-current liabilities

These are amounts due by the Staff Centre but not to be paid in the following year and are essentially in relation to cash advances made by the NATO International Staff and to employer contributions to the Coordinated Pension Scheme.

Revenue recognition

Revenue from non-exchange transactions

There is no revenue from non-exchange transactions; the Staff Centre is not funded by assessed contributions from NATO member nations.

In-kind contributions of services are currently not recognised in the Statement of Financial Performance.

b. Revenue from exchange transactions

All revenue of the NATO Staff Centre is considered revenue from exchange transactions because of its commercial nature. Revenue comprises mainly sales of goods at the perfume shop, the sports shop and the restaurant, fees paid by users of the sports facilities, reimbursement of expenses and occupancy fees from concessionaires. Revenue is recognised to the extent that it is probable that the economic benefit will flow to the Staff Centre. It is measured at fair value of the consideration received or receivable and is recognised upon delivery of the service or on the date of the sale of goods.

Expense recognition

Expenses are recognised as goods are received and services delivered.

NOTE 3: IN-KIND CONTRIBUTIONS RECEIVED

The NATO Staff Centre benefited from a series of in-kind contributions from the NATO International Staff. These contributions are neither recognised in the statement of financial position nor in the statement of financial performance.

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Infrastructure:

The NATO Staff Centre operated on infrastructure that was originally funded by the NATO Civil Budget in the early 1970s. These were made available at no cost to the Staff Centre. They comprised: a restaurant facility (including kitchen, dining room), storage area, a bar, a series of sports installations (swimming pool, fitness room, squash courts, gymnasium, tennis courts, football pitch, bowling), and office space.

Further to NATO's move to its new premises in 2018, these items will form part of the overall premises returned to Host Nation Belgium at no cost.

The land on which this infrastructure is built is the object of a specific agreement between NATO and Host Nation Belgium. No rent or equivalent is charged by NATO to the Staff Centre.

Operating costs and minor investments:

Miscellaneous Operating and Maintenance expenses directly attributable to the Staff Centre's activity are charged to the NATO Civil Budget (such as fuel, water, gardening, communications, etc.) in the overall amount estimated around EUR 900 thousand on an annual basis. Some smaller Staff Centre expenses are commingled with the NATO Civil Budget where the contract does not allow for an accurate allocation of cost.

None of these expenses were charged back to the Staff Centre up to 2013. The Budget Committee decided that as from 2014, an increasing portion should be reimbursed by the Staff Centre (EUR 45,500 in 2014 and planned EUR 129,900 for 2015). However, in light of the financial situation of the Staff Centre, Nations agreed that these amounts should no longer be claimed including their 2017 (EUR 129.9K) and 2018 portions (C-M(2017)0064).

Administrative Support:

In addition, NATO-IS provided administrative support to the Staff Centre at an estimated cost of about EUR 200 thousand per annum.

NOTE 4: CASH AND CASH EQUIVALENTS

The current bank accounts are held in EUR. Deposits are held in interest-bearing bank current accounts that are immediately available.

NOTE 5: ACCOUNTS RECEIVABLE

Receivable from Nations

None: the Staff Centre is not funded by contributions from Nations.

On an individual basis national delegations may be clients of the Staff Centre in which case they are considered in the same way as the other clients.

Receivable from Clients

These are essentially amounts due by concessionaires in relation to the Commercial Services Area. Outstanding receivables consist mainly of amounts (EUR 284,236.86) due to the Staff Centre but seized in a context that NATO considers as a violation of its immunity of jurisdiction and execution.

Prepayments

None.

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NOTE 6: INVENTORIES

Inventories consisted mainly of minor sport items for sale (end 2017).

NOTE 7: NON-CURRENT ASSETS

Reconciliation of the carrying amount of non-current assets as at 31 December 2018 is presented below:

(amounts in EUR)	Carrying Amount end 2017	Additions	Disposals	Annual Depreciation	Impairment	Carrying Amount end 2018
Land and buildings	0.00	0.00	0.00	0.00	0.00	0.00
Installed Equipment	0.00	0.00	0.00	0.00	0.00	0.00
Office Equipment	0.00	0.00	0.00	0.00	0.00	0.00
Financial Leases	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL	0.00	0.00	0.00	0.00	0.00	0.00

(amounts in EUR)	Carrying Amount end 2016	Additions	Disposals	Annual Depreciation	Impairment	Carrying Amount end 2017
Land and buildings	0.00	0.00	0.00	0.00	0.00	0.00
Installed Equipment	0.00	0.00	0.00	0.00	0.00	0.00
Office Equipment	0.00	0.00	0.00	0.00	0.00	0.00
Financial Leases	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL	0.00	0.00	0.00	0.00	0.00	0.00

There has been no impairment or revaluation during 2018 and 2017.

Land and buildings

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

NATO Staff Centre facilities are located on a piece of land granted by Belgium to NATO by way of concession on which NATO is authorized to erect all necessary buildings and facilities needed to perform its functions. A symbolic price is paid by NATO International Staff to Host Nation Belgium 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 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. No rent related to land is charged by NATO International Staff to the NATO Staff Centre.

The main element of "Buildings" (now totally depreciated) is the building wherein the Staff Centre operated its Commercial Services Area (pharmacy, retail store, perfume shop, bank, jewelry), essentially by way of concession of premises to specific commercial entities, and is totally depreciated.

Financial Leases

A single financial lease was related to specific software for the restaurant and the management of memberships for the sports area. It was recognised in 2014 at its net value. By end 2016, the value was zero.

Material and non-recorded items purchased prior to 1 January 2013

The original buildings of the current NATO Staff Centre facilities are estimated as having a zero value in consideration of their age, the terms of the concession agreement, and the limited value for money of an evaluation study, and the planned move to new premises in 2018. There is also an extension to the restaurant dining room which was funded several years ago through a contribution by a major

supplier. These elements will be returned to Belgium with the rest of NATO's previous headquarters premises in accordance with the terms of the concession mentioned above.

Depreciation

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

NOTE 8: ACCOUNTS PAYABLE

Payables (in EUR)	2018	2017
Suppliers	352,505.83	397,658.47
Employees	-	22,825.66
Pension	200,000.00	600,000.00
Miscelleanous	-	8,933.14
TOTAL	552,505.83	1,029,417.27

There are no amounts payable to NATO member Nations since there is no specific financial process (e.g. budgetary) that involves NATO member Nations directly and globally with the Staff Centre.

In addition to amounts due to the suppliers directly linked to the Staff Centre's activity, this item includes amounts due to the NATO International Staff for miscellaneous operating costs (EUR 279,126.02 end 2018; EUR 271,041.06 end 2017 and EUR 246,123 end 2016).

The short term portion of the pension liability amounts to EUR 200,000.

NOTE 9: NON-CURRENT LIABILITIES

Long Term Pension Debt

The Staff Centre did not pay its employer contributions (currently 19% of basic salaries) to the NATO Defined Benefit Pension Scheme between 2001 and late 2010. The employee contributions, however, have always been paid. As from May 2011, further to an agreement with the NATO-International Staff Financial Controller, the Staff Centre was required to pay monthly contributions of EUR 25,000 towards its employer liability. This amount was about 50% more than its normal annual employer contributions and the amount was determined so as to strike a balance between a timely reimbursement of the liability and sustainability for the Staff Centre's financial situation. The annual payment of EUR 300,000 represented about 7% of the Staff Centre's annual turnover at that time. The original plan was that over time, as fewer Staff Centre employees participate in the Defined Benefit Pension Scheme (it was closed to new entrants on 1 July 2005), the amount of normal contributions due would decrease. Maintaining payments at EUR 300,000 per year would, therefore, accelerate the settlement of arrears and it was originally planned that the liability could be totally repaid by 2021. This plan has not been respected since 2015 due to the overall situation of the Staff Centre.

In 2015, an amount of EUR 324,000 – corresponding to an accumulated surplus related to sales of tax free petrol cards to NATO IS staff - was applied by the NATO International Staff to offset NATO Staff Centre pension contributions. The payment was done by NATO International Staff directly into the NATO Defined Benefit Pension Scheme's account. No other contributions have been made by the Staff Centre since then, which further increased the liability, due to its overall situation.

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Further to the payments made in the course of the year, the net liability of the Staff Centre on 31 December 2018 amounted to EUR 1,352,786.32 (EUR 1,329,578.58 on 31 December 2017, EUR 1,286,042.10 on 31 December 2016, EUR 1,225,267.42 on 31 December 2015, EUR 1,401,671.64 on 31 December 2014).

Loan from the International Staff

At the end of 2014, NATO International Staff made a cash advance (EUR 226,360) to the Staff Centre in order to temporarily compensate for funds due to the Staff Centre but seized in a context that NATO considers as a violation of its immunity of jurisdiction and execution. An additional advance was made in 2015 bringing the total advance to EUR 261,898.75. The seizure resulted in the Staff Centre's inability to collect related cash amounts. This situation has been reported to the Budget Committee. Given the likely long term nature of the underlying issue, this advance is considered as a loan. Considering that the litigation originates from a contract signed by another NATO body, the NATO International Staff will seek reimbursement of the advance from the latter. With the gradual decrease of activities in the Staff Centre and the impact of the losses incurred in recent years, additional cash advances had to be made during 2018 by the NATO International Staff (EUR 556,000), bringing to the total to EUR 817,898.75.

NOTE 10: NET ASSETS

The previous years' deficit is essentially due to the recognition of the non-payment by the Staff Centre of its employer contributions to the NATO Defined Benefit Pension Scheme between 2001 and 2010 (originally EUR 1.770 million due end 2010).

NOTE 11: 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.

Sales

Revenue is essentially derived from sales in the restaurant (until 2016 only) and the commercial area, and membership and usage fees from the sports area. The decline of sales is linked to the reduction in the Staff Centre's activity, in part because of the limitation, at times, of external clients' physical access to NATO HQ premises for security reasons. It was decided that the Staff Centre would no longer directly manage the restaurant as from 2016 and the sales of perfume and other miscellaneous items from 2015. These activities are now managed as concessions, and therefore there are no sales related to these activities.

Concession Revenue

The other main source of revenue corresponds to concession fees and reimbursements of costs from concessionaires located on the Staff Centre premises. There is also revenue from some concessions at NATO Headquarters. NATO member nations agreed that such income would be collected by the NATO International Staff and thereafter transferred to the NATO Staff Centre 36,011 (EUR 83,442.98 in 2017).

Financial Revenue

Financial revenue is essentially made of interest earned on bank accounts.

Other Revenue

This item corresponds mainly to services provided by the Staff Centre to the NATO International Staff for petrol sales and car plates (EUR 16,666.64) and to advertising.

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NOTE 12: 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 the Staff Centre's activities. The amounts include expenses for salaries and emoluments for approved NATO-Staff Centre positions, including overtime, and temporary personnel. The evolution of expenses is linked to the gradual deletion of posts.

During 2016, in the context of the NATO HQ Commercial Operations Business Plan 2015-2019, a number of posts were deleted. The financial impact for the Staff Centre depends on the date on which the posts were deleted and whether or not they were vacant. For staff whose post is deleted but who are on sick leave, the costs are borne by the NATO Civil Budget until the notification can be processed in accordance with Civilian Personnel Regulations. With the closure of the Staff Centre all posts were eventually deleted.

Outsourced Services:

Functions previously performed by staff employed under the temporary staff provisions of NATO's Civilian Personnel Regulations were outsourced as from 2014. The change, during 2017, from an outsourced management model to a concession for the restaurant resulted in a reduction of related service expenses, which explained the evolution between 2016 and 2017. However, in consideration of the effective activity of the restaurant NATO agreed that a capped compensation would be paid if the restaurant was run at a loss, which was the case.

Operating costs:

The operating costs relate primarily to costs necessary to the day to day operation of the Staff Centre, including sponsorship. The NATO Staff Centre management reduced expenses (in light of its reduced activity and of its financial situation).

Costs of goods sold:

These consist mainly in petrol coupons. Other minor items include vehicle registration plates and minor sports goods.

Depreciation

In accordance with the accounting policy depreciation of physical assets is limited to the PPE recognised as from 2013 and to the part corresponding to financial leases. For 2018 the amounts correspond to the value of write-offs (see related note).

Provision

The provision of EUR 96,000 was reversed in 2018. It corresponded to amounts due to the concessionaire of the restaurant, for the period May to December 2017, in accordance with the contract clauses that prescribe the payment of a capped compensation when the restaurant is run at a loss.

Financial costs

Financial costs include bank charges and credit card fees.

NOTE 13: SEGMENT INFORMATION

The breakdown of the pension liability is based on the pension scheme to which related staff belong, which in turn depends on the date the latter joined NATO. Therefore this breakdown does not reflect any other specific relationship between the management of the segments' activity and this liability. To a certain extent this liability could be considered as an unallocated central liability.

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The tables below provide segment information for financial position and financial performance for 2018.

	Sports	Restaurant	Commercial Area	Overhead	Eliminations	Total
Cash	256,291.08	-	-32,764.56			223,526.52
Receivables	86.00		286,667.06			286,753.06
Inventory	-	_	_		ŀ	
PPE and financial lease	-	-	-			
TOTAL ASSETS	256,377.08	0.00	253,902.50	0.00	0.00	510,279.58
Payables	73,380.21		479,125.62		0.00	552,505.83
Pension liability	705,271.19	422,608.87	0.00	24,906.26	0.00	1,152,786.32
Provisions		0.00		, in the		0.00
Advances			261,898.75	556,000.00		817,898.75
TOTAL LIABILITIES	778,651.40	422,608.87	741,024.37	580,906.26	0.00	2,523,190.90
NET ASSETS	-522,274.32	-422,608.87	-487.121.87	-580,906.26	0.00	-2,012,911.32

<u> </u>	Sports	Restaurant	Commercial Area	Overhead	Eliminations	Total
Revenue						
Sales	420,751.57	- =	464,495.39	-	-	885,246,96
Concessions	36,011.28	- 1	115,879.64	-	_	151,890.92
Financial revenue	- 1	-	-	125.23	_	125.23
Other revenue	540.76	-	29,549.61	-		30,090.37
TOTAL REVENUE	457,303.61	0.00	609,924.64	125.23		1,067,353.48

Expenses						
Wages, salaries and employee benefits	338,815.46	- 1	- -	710.49	-	338,104.97
Outsourced services	460,234.21	233,635.05	- [- 1	-	693,869.26
Operating costs	8,169.02	-	10,091.16	-	_	18,260.18
Cost of goods sold	13,186.40	_	397,921.09	-	-	411,107.49
Other costs	837.90	44.84	34.92	-	-	917.66
Depreciation and amortization	1,306.13	3,017.17	1,020.52	-		5,343.82
Provision		96,000.00	-	-	-	- 96,000.00
TOTAL EXPENSES	822,549.12	140,697.06	409,067.69 -	710.49	-	1,371,603.38
SURPLUS (DEFICIT) FOR THE PERIOD	-365,245.51	- 140,697,06	200.856.95	835.72		- 304 249 90

The tables below provide segment information for financial position and financial performance for 2017.

	Sports	Restaurant	Commercial Area	Overhead	Eliminations	Total
Cash	25,437.85	1,000.00	45,302.48			71,740.33
Receivables	7,336.67	103.90	318,962.13		8,949.20	335,351.90
Inventory	1,140.95	-	-			1,140.95
PPE and financial lease	1.2	-	-			-
TOTAL ASSETS	33,915.47	1,103.90	364,264.61	-	8,949.20	408,233.18
Payables	701,866.32	-	308,008.82	10,608.99	8,933.14	1,029,417.27
Pensions liability	446,350.09	267,465.53	_	15,762.96		729,578.58
Provisions		96,000.00				96,000.00
Advances			261,898.75			261,898.75
TOTAL LIABILITIES	1,148,216.41	363,465.53	569,907.57	26,371.95	8,933.14	2,116,894.60
NET ASSETS	- 1,114,300.94	- 362,361,63	- 205,642.96	- 26,371.95	16.06	- 1,708,661.42

	Sports	Restaurant	Commercial Area	Overhead	Eliminations	Total
Revenue						
Sales	681,873.43	219,904.76	606,096.42	-	-	1,507,874.61
Concessions	83,442.88		261,535.96	-	-	344,978.84
Financial revenue	1,039.33	989.51	-		-	2,028.84
Other revenue	32,967.07	30,186.28	64,131.35	30,603.41	-	157,888.11
TOTAL REVENUE	799,322.71	251,080.55	931,763.73	30,603.41		2,012,770.40
F						
Expenses						
Wages, salaries and employee benefits	318,234.20	68,441.26	99,211.83	121,060.80		606,948.09
Outsourced services	523,108.98	212,955.50	116,106.04	-		852,170.52
Operating costs	20,502.19	944.00	33,043.93	-	-	54,490.12
Cost of goods sold	3,602.13	83,687.29	518,363.31	-	-	605,652.73
Other costs	1,353.59	31,007.94	17.68	-	-	32,379.21
Provision, depreciation and amortization				91,927.10	-	91,927.10
TOTAL EXPENSES	866,801.09	397,035.99	766,742.79	212,987.90	-	2,243,567.77
SURPLUS (DEFICIT) FOR THE PERIOD	- 67,478.38	- 145,955.44	165,020.94	-182,384.49		- 230,797.37

Transactions in the Overhead segment correspond to the salaries of the Staff Centre management team.

NOTE 14: LEASES

Nothing to report.

NOTE 15: RESTRICTIONS ON FIXED ASSETS

There are no restrictions on fixed assets.

NOTE 16: 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.

Further to a litigation involving another NATO body and one of its suppliers, Belgian courts allowed seizure on behalf of this third party of amounts due by several vendors to the NATO Staff Centre (which partakes of NATO's legal personality). NATO considers this a violation of the special legal status it enjoys under the Agreement on the status of the North Atlantic Treaty Organization, national representatives and international staff, concluded in Ottawa on 20 September 1952 (the Ottawa Agreement), in particular the Organization's immunity of jurisdiction and of execution. Formal proceedings are still ongoing before several courts of the Host Nation.

This situation does not result from any wrongdoing or omission by the Staff Centre. If in the end any amounts are to be paid, they would be due from the NATO body concerned.

NOTE 17: CONTINGENT ASSETS

Nothing to report.

NOTE 18: WRITE-OFFS

In the context of the closure of the Staff Centre the following write-off took place.

Date	Location	Type of Items	Acquisition Value	Net Book Value	Reason for Write-off
28/11/2018	Staff Center	Receivables: Miscellaneous	4,202.87		Uncollectable collection vouchers
	Staff Center	Inventories balance as of 31 December 2018	1,140.95	1,140.95	Unidentified stock
TOTAL			5,343.82	1,140.95	

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NOTE 19: 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.

Contractual situation

In order to regularise the situation of staff employed under different contractual vehicles (e.g. temporary personnel), and in particular the concern that the NATO Civilian Personnel Regulations may not be fully designed for the activities undertaken by the Staff Centre, a series of measures have been taken in 2014.

Staff previously employed under the Temporary Staff provisions of the NATO Civilian Personnel Regulations, student jobs, etc. were gradually transferred according to their specific situation to permanent international civilian staff positions, manpower contracts or eventually under a technical assistance agreement with a third party supplier. As a consequence, Personnel Expenses decreased in 2014, whereas Operating Costs (for the part corresponding to the related outsourcing of services), increased. End 2015 there were no longer any staff employed under Temporary Staff provisions.

Establishment

In 2015, 10 posts were deleted and 1 creation was approved, resulting in an establishment of 24 posts at the end of the year. In 2016, 5 deletions took place in accordance with the NATO HQ Commercial Operations Business Plan 2015-2019 approved by the North Atlantic Council, resulting in an establishment of 19 posts end 2016. During 2017, 16 posts were deleted, resulting in an establishment of 3 at the beginning of 2018, which is the number foreseen to operate all commercial activities on the New NATO Headquarters campus. During 2018, all remaining posts were deleted.

In accordance with the NATO HQ Commercial Operations Business Plan 2015-2019 (C-M(2015)0069), three occupied posts which were deleted in 2015 required the payment of an amount of EUR 300,279.24 in Loss of Job Indemnities, funded by the NATO Civil Budget using lapsed credits from 2014 that would otherwise have been returned to member Nations (C-M(2015)0088 and PO(2015)0602). In 2016 another three Loss of Job Indemnities were paid out of the NATO Civil Budget in an amount of EUR 221,307.69. This budget allocation has been carried forward again to 2017, then to 2018, and is considered sufficient to allow for the possible need to pay for Loss of Job Indemnities (estimated in the amount of EUR 527K) to staff who could not be transferred into vacant posts elsewhere in the International Staff establishment. In 2018, EUR 283,895.58 were paid in Loss of Job Indemnities.

The NATO regulations allow for the carry forward of untaken leave to the following year. Any untaken days carried forward must be taken by 30 April of the following year unless an exception is granted by the Human Resources Department in which case untaken leave days are forfeited after 30 October. The vast majority of days are taken before 30 April. Untaken leave is accounted as a Payable to staff at year end. Further to the closure of the Staff Centre and termination of the contracts of its staff, there is no unpaid leave at the end of 2018.

As from 1 May 2016, the salary related cost of staff on long term sick leave are borne by the Civil Budget, in accordance with a decision taken by nations (PO(2016)0272).

Pension Contributions

The NATO International Staff centrally manages 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 International Staff Office of Financial Control for the three pension schemes and the RMCF; therefore, no related assets or liabilities are recognised in these financial statements.

There were no Staff Centre personnel affiliated to the NATO Provident Fund.

End August 2018, two members participate in the Defined Contribution Pension Scheme (DCPS) administered by NATO (5 end 2017). The DCPS provides that the NATO-Staff Centre budget makes a 12% monthly matching contribution to the staff members' contributions for current service.

End August 2018, two employees participate in NATO's Defined Benefit Pension Scheme (DBPS) (4 end 2017). A deduction of 9.5% of their salaries (9.0% in 2014) is made and contributed to the annual financing of this Plan. In addition, the NATO Staff Centre, in accordance with rules agreed for small size NATO entities, fully discharges its employer liability by making a monthly matching contribution of 19% to the DBPS (18% in 2014). These contributions are expensed during the year in which the services are rendered and represent the total pension obligation of the entity. The situation concerning amounts due in this respect of past years are analysed under Note 9.

The contributions for pensions are as follows (for amounts related to the Staff Centre DBPS employer contributions liability for past years and the specific fund transfer from the NATO International Staff, see Note 9):

	2018			2017		
amounts in EUR	Staff	Employer	Total	Staff	Employer	Total
Provident Fund	-		-	-	_	-
Co-ordinated Pension Scheme	11,603.87	23,207.74	34,811.61	21,768.24	43,536.48	65,304.72
Defined Contribution Pension Scheme	10,408.29	15,612.58	26,020.87	18,709.26	28,063.91	46,773.17
TOTAL	22,012.16	38,820.32	60,832.48	40,477.50	71,600.39	112,077.89

Further to an analysis covering the last years of the history of death in service risks in relation to premiums paid by the Organisation during 2012-2015, a compensation of EUR 6 million at the NATO-wide level was agreed by the insurance company. End 2018, the NATO Secretary General decided that a fraction of this amount (circa EUR 1, 7 million) should be paid to NATO staff who were members of the DCPS during the period 2012-2015 in proportion to the contributions they made to the DCPS. Staff employed by the Staff Centre during the period 2012-2015 and affiliated to the DCPS are therefore entitled to a payment to be made from the NATO DCPS accounts. A decision still has to be taken concerning the remaining amount of the compensation, which may result in a proportional payment to NATO International Staff since it will take over the net assets of the Staff Centre.

NOTE 20: KEY MANAGEMENT PERSONNEL

The Staff Centre Executive Board is the governing body of NATO Staff Centre. Its voting members are paid either from the Civil Budget or by their respective national authorities in the case of the International Military Staff representative. They do not receive any additional remuneration for their responsibilities or access to benefits from the NATO Staff Centre nor any other NATO body.

For the purposes of IPSAS 20 implementation, the key management personnel of the NATO Staff Centre are the Assistant Secretary General for Executive Management and the acting Director Staff Centre. Only the acting Director Staff Centre is paid by the NATO Staff Centre and his remuneration is based on the A2 salary scale as approved for NATO salaries in Belgium.

There are 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 NATO.

NOTE 21: RELATED PARTIES

The following concerns related parties.

NATO International Staff

The governance of the Staff Centre which involves some NATO senior management members is described under Note 1.

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NATO-IS provides certain administrative support and covers some operating and maintenance services, as described under Note 3, for a total estimated around EUR 1,100 thousand on an annual basis which was not charged to NATO Staff Centre. These are estimates based on physical criteria (surface, number of staff served etc.) and may not correspond exactly to the value of the service received by the Staff Centre.

As from 1 May 2016, the salary related cost of staff on long term sick leave are borne by the Civil Budget, in accordance with a decision taken by nations (PO(2016)0272).

In 2014, for the first time, NATO International Staff charged an amount of EUR 45,500 to the Staff Centre as a partial contribution towards the costs borne by the former in support of the latter. The plan was to increase this amount gradually with the expectation that the Staff Centre become fully customer funded before NATO moves to its new premises. However, in light of the financial situation of the Staff Centre, the Budget Committee agreed that these amounts should not be claimed for 2014 to 2016. As a consequence, amounts already paid (for 2014) by the Staff Centre to the NATO International Staff were reimbursed in 2015. Nations further agreed to the cancellation of this reimbursement for 2017 (estimated amount of EUR 130 thousand) and for 2018, for the same reasons.

NATO-IS has made cash advances (EUR 817,898.75) to the Staff Centre in order to temporarily compensate for funds due to the Staff Centre but seized in a context that NATO considers as a violation of its immunity of jurisdiction and execution (see Note 9).

The Staff Centre charges the NATO International Staff EUR 25,000 per annum for the services it provides in managing in the name of NATO International Staff -Executive Management — Human Resources. These are official activities linked to the registration of vehicles of individuals working at NATO.

Concession contributions owed by occupants of commercial areas in the NATO HQ are collected by the IS and transferred to the Staff Centre in accordance with decisions taken by the Budget Committee, although they are not concessions managed by the Staff Centre (EUR 36,011 in 2018).

Conversely the Staff Centre management may on occasion provide services to the NATO International Staff, at no cost.

In accordance with the NATO HQ Commercial Operations Business Plan 2015-2019 (C-M(2015)0069), occupied posts which were deleted and required the payment of Loss of Job Indemnities were paid out of the NATO Civil Budget.

NATO Defined Benefit Pension Scheme

As explained above, the Staff Centre has a long term liability towards the NATO Defined Benefit Pension Scheme in the amount of EUR 1,352,786.32 (EUR 1,329,578.58 end 2017).



NORTH ATLANTIC TREATY ORGANIZATION Organisation du traité de l'Atlantique Nord

International Board of Auditors for NATO Collège international des Auditeurs externes de l'OTAN

NATO UNCLASSIFIED



IBA-A(2019)0143 29 November 2019

To:

Secretary General

(Attn: Director of the Private Office)

Cc:

Financial Controller, International Staff Secretary, RMCF Supervisory Committee

Chairman, Resource Policy & Planning Board

Branch Head, Secretariat and Finance Branch, NATO Office of Resources (NOR)

Private Office Registry

Subject:

International Board of Auditors for NATO (IBAN) Auditor's Report and Letter of Observations and Recommendations on the audit of the Retirees Medical Claims Fund (RMCF) Financial Statements for the year

ended 31 December 2018 - IBA-AR(2019)0026

IBAN submits herewith its approved Auditor's Report (Annex 2) and Letter of Observations and Recommendations (Annex 3) with a Summary Note for distribution to the Council (Annex 1).

The IBAN report sets out an unqualified opinion on the Financial Statements of the RMCF and an unqualified opinion on compliance for financial year 2018.

Yours sincerely,

Daniela Morgante

Chairman

Attachments: As stated above.

ANNFX 1

Summary Note for Council by the International Board of Auditors for NATO (IBAN) on the audit of the Financial Statements of the NATO Retirees Medical Claims Fund (RMCF) for the year ended 31 December 2018

The NATO Retirees Medical Claims Fund (RMCF) was set up with effect from 1 January 2001 pursuant to Council approval of PO(2000)123. The purpose was to establish a reserve to ensure that sufficient funds are available for the years to come to enable NATO to meet its obligations to pay the medical expenses of eligible retired staff members and their recognised dependants.

The fund has a Supervisory Committee established to oversee the management of the fund. The Committee meets at least twice a year.

In 2018, contributions from NATO bodies and staff were EUR 25.0 million (in 2017, EUR 23.9 million). Insurance premiums paid out of these receipts were EUR 23.5 million in 2018 (EUR 21.2 million in 2017). At the end of 2018, the fund manager held EUR 314.6 million on behalf of NATO (at the end of 2017, EUR 323.2 million). The actuarial present value of the long term post-employment medical care obligation at the end of year 2018 was EUR 3.0 billion (at the end of 2017, EUR 2.1 billion).

IBAN issued an unqualified opinion on the financial statements and an unqualified opinion on compliance for the year ended 31 December 2018.

During the audit, IBAN made one observation which do not impact the audit opinion.

1. Need for NATO as a whole to disclose Post-Employment Liabilities to comply with the NATO Accounting Framework (IPSAS 39 Employee Benefits).

IBAN also followed up on the status of observations from previous years' audit reports and found that one observation were closed and one observation was in progress.

The Auditor's Report (Annex 2) and the Letter of Observations and Recommendations (Annex 3) were issued to the International Staff whose comments have been included, with the IBAN's position on those comments where necessary, see the Appendix to Annex 3.

ANNEX 2 IBA-AR(2019)0026

29 November 2019

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF

THE NATO RETIREES MEDICAL CLAIMS FUND (RMCF)

FOR THE YEAR ENDED 31 DECEMBER 2018

ANNEX 2 IBA-AR(2019)0026

INDEPENDENT AUDITOR'S REPORT TO THE NORTH ATLANTIC COUNCIL

Report on the Audit of the Financial Statements

Opinion on the Financial Statements

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of the NATO Retirees Medical Claims Fund (RMCF) for the 12 month period ended 31 December 2018, issued and submitted to IBAN on 31 march 2019. These Financial Statements comprise the Statement of Net Assets Available for Benefits as at 31 December 2018, the Statement of Changes in Net Assets Available for Benefits and the Explanatory Notes, including a summary of significant accounting policies.

In our opinion, the Financial Statements give a true and fair view of the statement of Net Assets Available for Benefits of the NATO Retirees Medical Claims Fund as at 31 December 2018, and of its statement of Changes in Net Assets Available for Benefits ended 31 December 2018, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework and International Accounting Standard (IAS) 26, Accounting and Reporting by Retirement Benefit Plans.

Emphasis of matter

We draw your attention to Note 14 of the Financial Statements, which states that "There are no material contingent liabilities arising from legal actions and claims that are likely to result in significant liability to the RMCF. A series of claims were introduced in relation to the deletion of the Civil Personnel Regulation provision concerning staff obtaining free medical coverage after 25 years of contributions. These cases have not yet been addressed by the NATO Administrative Tribunal. The related risk is not considered as having a material impact on these financial statements". Our opinion is not modified in respect to this matter.

Basis for Opinion on the Financial Statements

In accordance with the NATO Financial Regulations (NFRs), external audit of the NATO bodies pursuant to the North Atlantic Treaty shall be performed by IBAN.

We have conducted our audit in accordance with the International Standards of Supreme Audit Institutions (ISSAIs 1000-1810) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

ANNEX 2 IBA-AR(2019)0026

We are independent in accordance with the INTOSAI Code of Ethics and we have fulfilled our other ethical responsibilities in accordance with these requirements. The responsibilities of the members of IBAN are more extensively described in the section «Auditor's Responsibilities for the Audit of the Financial Statements» and in our Charter. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's Responsibility for the Financial Statements

Management's responsibility for the financial statements is laid down in the NFRs. The Financial Statements of NATO Retirees Medical Claims Fund are drawn up in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework as approved by the Council and International Accounting Standard (IAS) 26, Accounting and Reporting by Retirement Benefit Plans. The Financial Controller is responsible for submitting the Financial Statements for audit to IBAN not later than 31st March following the end of the financial year.

The Financial Statements are signed by the Head of the NATO body and the Financial Controller. In signing the Financial Statements, the Head of NATO body and the Financial Control confirm the establishment and maintenance of financial governance, resource management practices, internal controls and financial information systems to achieve the efficient and effective use of resources.

This confirmation covers the design, implementation and maintenance of internal controls relevant to the preparation and presentation of financial statements that are auditable and free from material misstatement, whether due to fraud or error. This also covers reporting on the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there are plans to liquidate the entity or to cease its operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

The objectives of the audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes an opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

ANNEX 2 IBA-AR(2019)0026

As part of an audit in accordance with ISSAIs, we exercise professional judgement and maintain professional scepticism throughout the planning and performance of the audit. This involves taking into account Considerations Specific to Public Sector Entities. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We are required to communicate with the bodies charged with governance, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

ANNEX 2 IBA-AR(2019)0026

Our Independent External Auditor's Report is prepared to assist North Atlantic Council in carrying out its role. We are therefore responsible solely to the North Atlantic Council for our work and the opinion we have formed.

Report on Compliance

Opinion on Compliance

Based on the procedures we performed, nothing has come to our attention, as part of our audit of the Financial Statements that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations.

Basis for Opinion on Compliance

We have conducted our compliance audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 4000) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

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

Management's Responsibility for Compliance

All NATO staff, military and civilian, are obligated to comply with the NATO Financial Regulations, associated Financial Rules and Procedures and internal implementing directives. These include the NATO Civilian Personnel Regulations.

The Secretary General is responsible and accountable for sound financial management. The financial administration of NATO bodies must incorporate the principles of propriety, sound governance, accountability, transparency, risk management and internal control, internal audit, external audit, and fraud prevention and detection.

ANNEX 2 IBA-AR(2019)0026

Auditor's Responsibilities for Compliance

In addition to the responsibility to provide reasonable assurance about whether the financial statements as a whole are free from material misstatement, the IBAN Charter requires IBAN to provide independent assurance and report annually to the North Atlantic Council about whether funds have been properly used for the settlement of authorised expenditure (propriety) and are in compliance with the regulations in force (regularity). Propriety relates to the observance of the general principles governing sound financial management and the conduct of public officials. Regularity concerns the adherence to formal criteria such as relevant regulations, rules and procedures.

This responsibility includes performing procedures to obtain independent assurance about whether funds have been properly used for the settlement of authorized expenditure and whether they have been used in compliance with the regulations in force. Such procedures include consideration of the risks of material non-compliance.

Brussels, 29 November 2019

Daniela Morgante Chairman

ANNEX 3 IBA-AR(2019)0026

29 November 2019

INTERNATIONAL BOARD OF AUDITORS FOR NATO

LETTER OF OBSERVATIONS AND RECOMMENDATIONS

FOR THE NATO RETIREES MEDICAL CLAIMS FUND

FOR THE YEAR ENDED 31 DECEMBER 2018

ANNEX 3 IBA-AR(2019)0026

Introduction

The International Board of Auditors for NATO (IBAN) audited the NATO Retirees Medical Claims Fund Financial Statements for the year ended 31 December 2018, and issued an unqualified opinion on the financial statements and an unqualified opinion on compliance.

Observations and Recommendations

During the audit, IBAN made one observation that does not impact the audit opinion.

1. Need for NATO as a whole to disclose Post-Employment Liabilities to comply with the NATO Accounting Framework (IPSAS 39 Employee Benefits).

IBAN followed up on the status of the observations from previous years' audits and found that one recommendation is closed and one recommendation is in progress.

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OBSERVATION, CONCLUSION AND RECOMMENDATION

1. NEED FOR NATO AS A WHOLE TO DISCLOSE POST-EMPLOYMENT LIABILITIES TO COMPLY WITH THE NATO ACCOUNTING FRAMEWORK (IPSAS 39 EMPLOYEE BENEFITS)

Reasoning

- 1.1 The NATO Retirees Medical Claims Fund (RMCF) was set up with effect from 1 January 2001 pursuant to Council approval of PO(2000)123. The purpose of the RMCF was to establish a reserve to ensure that sufficient funds are available for NATO to pay the medical expenses of eligible retired staff members and their recognised dependents. Financial services, including preparing the financial statements, are provided by the NATO International Staff (IS) Office of Financial Control (OFC).
- 1.2 As the NATO Accounting Framework (NAF) does not include a specific standard for accounting and reporting for pension and medical funds, the IS OFC applied the International Accounting Standard (IAS) 26 "Accounting and Reporting by Retirement Benefit Plans" for the accounting and presentation of the financial statements of the RMCF. The Financial Statements of the RMCF are therefore prepared in accordance with the NAF and with IAS 26. As the RMCF does not have any employees itself, International Public Sector Accounting Standards (IPSAS) 39 Employee Benefits does not apply to the financial statements.
- 1.3 According to IPSAS 39 Employee Benefits, "an entity shall recognize a liability when an employee has provided service in exchange for employee benefits to be paid in the future". Employee benefits are defined as future benefits granted by the employer to actual or former employees in exchange of their past service rendered. Post-employment benefits include benefits such as pensions and lump sum payments on retirement, post-employment life insurance and post-employment medical care.
- 1.4 The post-employment benefit liability disclosed in the notes to the financial statements is based on an actuarial valuation produced on an annual basis by the International Service for Remuneration and Pensions (ISRP). The ISRP is a common service platform for six Co-ordinated Organisations, including NATO, providing services for their pension schemes and remuneration policies. The actuarial valuation is based on comprehensive data provided by NATO of the affiliated population at the end of each year.

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Observation

- 1.5 The NAF requires NATO Bodies with employees contributing to the RMCF to comply with IPSAS 39 Employee Benefits and recognise a post-employment benefit liability in their financial statements. Therefore, all NATO Bodies with employees contributing to the RMCF need in principle to recognise their share of the approximately EUR 3 billion post-employment pension liability. Not doing so would normally require an adaptation to the NAF.
- 1.6 Note 3 to the RMCF Financial Statements discloses the post-employment benefit liability for all NATO Bodies and other relevant information extracted from the annual actuarial report submitted by ISRP. The IS OFC did not recognise a liability for the post-employment benefits related to the RMCF in its own Financial Statements, which is correct given that the Fund itself does not have any employees.
- 1.7 Although this does not impact the financial statements of the RMCF, IBAN found that the liability for the post-employment benefits and associated disclosures related to the RMCF are not included in any of the financial statements of NATO Bodies or Scheme.

Recommendation

1.8 IBAN recommends that the IS OFC, being the Financial Controller of the RMCF, define the recognition criteria for the post-employment liability, ensuring that this liability is recognised in accordance with the NATO Accounting Framework (IPSAS 39 Employee Benefits).

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FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

IBAN followed up on the status of observations from the previous years' audit. The observations, actions taken by the auditee as reviewed by IBAN, and their status are summarised in the table below.

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
(1) RMCF FY 2016 IBA-AR(2017)25, paragraph 1		
DISCLOSURE OF RESULTS OF THE ACTUARIAL VALUATION USING 2016 DATA		Observation Closed.
Board's Recommendation The Board recommends aligning the reporting timelines for the financial statements and the ISRP actuarial valuation of RMCF obligation for postemployment medical care in order to ensure that the financial statements include the data on actuarial valuation for the respective year.	IBAN has noted the progress and improvements to make the actuarial valuation for the year ended 31 December 2018 available for the issuance of the financial statements.	
(2) RMCF FY 2012 IBA-AR(2013)25, paragraph 5.1		
RETIREES MEDICAL CLAIMS FUND (RMCF) NET ASSETS INADEQUATE TO FUND PROMISED FUTURE EXPECTED BENEFITS		Observation In-progress.
Board's Recommendations The Board draws the attention of the Council that there are currently not sufficient funds available to enable NATO to meet its promised future obligations as was the intention of the plan, and recommends that, as was proposed in SG(2009)0302, on the basis of the results of the asset and liability study presented in the December 2012 Supervisory Committee and the related final report issued dated 30 April 2013, that the IS provides an estimate of the minimum financial injection necessary to make the RMCF sustainable. The Board recommends also that the IS provides all necessary information and any remedial actions undertaken to limit	An update on the financial status of the RMCF made by the IS Financial Controller, and approved by the Supervisory Committee, has been presented to the Chairman of the Budget Committee (BC) in December 2017. The report presents initiatives to increase the long term viability of the fund through managing the investments, the introduction of a profit-sharing mechanism, increasing the number of retirees who contribute, adjusting contributions, containing medical costs and injection of additional funds.	

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OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
the level of obligations. This should be presented to the nations as soon as possible in order to allow for appropriate remedial actions, where still feasible, to be made.	Also ISRP carried out the estimations of expenses to allow for the evaluation of whether the fund assets will be sufficient to meet obligations. Several scenarios for the return on assets have been explored. In conclusion, the report stated that the Supervisory Committee of the RMCF will continue to monitor the evolution of the Fund and to investigate possible additional measures to improve its sustainability in the long term.	
	During his last meeting held on 16 November 2018, the RMCF Supervisory Committee, noted that the BC had asked about measures existing in other Coordinated Organisations for pensioners and how to address the issue of the long term liabilities. The Confederation of NATO civilian Staff Committees (CNCSC) made some proposals as for example, increasing the eligibility threshold for the RMCF from 10 to 15 years for new staff.	
	The Supervisory Committee still needs to make decisions on remedial actions and strategic approaches for long term sustainability of the fund.	

The Open status is used for recommendations that are open and for which no notable progress has been achieved to date. The In-progress status is used for open recommendations when the NATO Body has started to implement the recommendation or when some (but not all) sub-recommendations are closed. The Closed status is used for recommendations that are closed because they have been implemented, are superseded, or have lapsed.

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INTERNATIONAL STAFF (IS) FORMAL COMMENTS ON THE LETTER OF OBSERVATIONS AND RECOMMENDATIONS AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS

OBSERVATION 1:

NEED FOR NATO AS A WHOLE TO DISCLOSE POST-EMPLOYMENT LIABILITIES TO COMPLY WITH IPSAS 39 EMPLOYEE BENEFITS

International Staff's formal comments

A. The point raised by IBAN does not concern the accounting treatment of the Retirees Medical Claims Fund (RMCF) but that of all NATO bodies who submit separate financial statements.

The RCMF is a post-employment benefit plans. There are no IPSAS standards for accounting and reporting by post-employment benefit plans. The NATO Accounting Framework does not have any specific provisions for post-employment benefit plans. As a consequence, the IS Office of Financial Control has applied International Accounting Standard 26 "Accounting and Reporting by Retirement Benefit Plans" for the related financial statements. We note that this observation and recommendation has no impact on the opinion on the accounts, neither on compliance, of the RMCF.

- B. Before 2006, in trying to get ready for IPSAS compliance, when analysing the implications of the then IPSAS 25 (now IPSAS 39), it was considered that no NATO body would disclose any proportion of the RMCF or of NATO Coordinated Pension Scheme liability. The practical reasons, were:
 - It would be difficult and costly to identify an objective set of criteria to break down the liability among the NATO bodies (e.g. some staff move from one NATO body to another; some NATO bodies are closed and no longer exist without transfer of liability to another NATO body);
 - Any breakdown would require fixing a number of arbitrary parameters that could be challengeable or considered irrelevant;
 - Breaking down the information into a number of tittle pieces (by NATO body) would blur the overall information;
 - Having each NATO body disclose a proportion of the liability would give the impression that each NATO body is individually liable, which is not the case.

More generally, the IS OFC believes that whilst each NATO body is responsible

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for paying the RMCF contributions related to its own staff, as provided by the NATO Civilian Personnel Regulations, its financial responsibility as an individual NATO body stops there. None of the NATO bodies to which IBAN refers and who issue their own financial statements has an obligation to pay future related benefits such as retirees' medical claims, be it for its former staff or any proportion of former NATO staff. In this respect, the IS OFC believes that each individual NATO body cannot be considered individually liable. We are not aware of any NATO regulations (NFR, CPR or other) that would have such provisions. We therefore believe that the idea (see paragraph 1.6 of the observation) according to which the individual NATO bodies would carry a share of the overall RMCF liability, and that therefore it should be disclosed, is not properly justified.

In consideration of the above, in order to avoid any confusion, we consider that a clarification at the level of the NATO Accounting Framework is preferable and should be sought.

IBAN's Position

IBAN acknowledges that the liability amounting to EUR 3 billion related to the RMCF is in practice borne centrally by NATO as a whole. This is because Nations have agreed that contributions for the RMCF are called up and paid centrally on behalf of all NATO Bodies. However, applying the reasoning described by the OFC has led to the current situation, whereby this significant liability is not recognised in any of the financial statements of NATO, which in overall terms cannot be compliant with IPSAS 39 and therefore with the NATO Accounting Framework. IBAN therefore has amended the observation and recommendation to reflect this point.

NATO RETIREES MEDICAL CLAIMS FUND FINANCIAL STATEMENTS

For the year ended 31 December 2018

Annexes	
1	Statement of Net Assets Available for Benefits
2	Statement of Changes in Net Assets Available for Benefits
3	Notes to the Financial Statements

Jens STOLTENBERG Secretary General

Stephane CHAGNOT Financial Controller

NATO UNCLASSIFIED

ANNEX 1 to FC(2019)0050

NATO RETIREES MEDICAL CLAIMS FUND Statement of Net Assets Available for Benefits

(All amounts in EUR)	Notes	Current Year	Prior Year
		31-Dec-18	31-Dec-17
Assets			
Cash and cash equivalent	(4)	1,397,570.31	3,007,418.90
Investments at market value	(5)	314,569,443.02	323,158,097.85
Accounts receivable	(6)	441,394.37	860,707.96
Total Assets		316,408,407.70	327,026,224.71
Liabilities			
Accounts payable	(7)	2,402,099.99	1,943,748.82
Total Liabilities		2,402,099.99	1,943,748.82
Net assets available for benefits		314,006,307.71	325,082,475.89

ANNEX 2 to FC(2019)0050

NATO RETIREES MEDICAL CLAIMS FUND Statement of Changes in Net Assets Available for Benefits

(All amounts in EUR)	Notes	Current Year	Prior Year
		31-Dec-18	31-Dec-17
Increase in net assets			
Net unrealized gain in market value of investments	(5)	-11,607,218.82	14,223,598.81
Contributions for current year	(8)	24,976,569.03	23,905,937.44
Profit sharing per agreement with insurer	(9)	0.00	0.00
Fund rebates	(5)	518,563.99	501,740.90
Interest income	(10)	0.00	0.00
Miscellaneous	(12)	1,690.00	0.00
Total increase in net assets available for benefits		13,889,604.20	38,631,277.15
Decrease in net assets			
Insurance premiums	(11)	23,480,363.55	21,178,700.00
Insurance management fee	(11)	1,469,660.34	1,398,625.86
Fund purchase fees/financial costs	(10)	4,621.48	4,226.26
Miscellaneous	(12)	11,127.01	3,598.42
Total decrease in net assets available for benefits		24,965,772.38	22,585,150.54
Net increase for the year		-11,076,168.18	16,046,126.61
Net assets available for benefits, beginning of year		325,082,475.89	309,036,349.28
Net assets available for benefits, end of year		314,006,307.71	325,082,475.89

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EXPLANATORY NOTES TO THE 2018 FINANCIAL STATEMENTS OF THE NATO RETIREES' MEDICAL CLAIMS FUND

NOTE 1: GENERAL INFORMATION

The Retirees' Medical Claims Fund (RMCF) was set up with effect from 1 January 2001 pursuant to Council approval of PO(2000)123. The purpose was to establish a reserve to ensure that sufficient funds are available for the years to come to enable NATO to meet its obligations to pay the medical expenses of eligible retired staff members and their recognised dependants.

Description of the Fund

Staff leaving the Organization after 10 consecutive years of service and having reached the age of 55 are eligible to reimbursement of medical costs for themselves and their recognized dependants (Article 51.2 of the Civilian Personnel Regulations (CPR)).

Until 31 December 2000, any staff who had at least 10 years consecutive service and reached 65, was covered for life for their medical expenses through Organization's insurers. However, with the rise in the number of retirees and the increasing medical costs, the insurers were no longer able to cover the expenses. Accordingly, the Organization assumed this responsibility as from 1 January 2001.

For this purpose, the Retirees' Medical Claims Fund was set up with effect from 1 January 2001 pursuant to Council approval of PO(2000)123. The Council agreed to the establishment of a reserve to ensure that sufficient funds are available for the years to come to enable NATO to meet its obligations.

However, on the date of the creation of the RMCF there existed a potential liability towards staff who filled the age and service conditions mentioned above but had not yet retired. No asset was provided to fund this initial liability; therefore, from its inception the RMCF was underfunded.

The Fund only finances retirees from the age of 65. Former staff between the ages of 55 and 65 are insured under a different financing scheme.

The RMCF is maintained primarily by the annual premiums paid as continuing insurance. The surplus funds collected are invested with the Investment Manager.

Financing

The Fund receives the following contributions:

- 4.5% of the active agents' emoluments (1/3 borne by the staff, 2/3 by NATO).
- 5% of the last basic salary of the retirees who are required to contribute (1/3 borne by the staff, 2/3 by NATO). This rate was increased, from 3%, as from 1 January 2013.

In 2015, changes to the Civilian Personnel Regulations were introduced to put an end to situations that enabled staff recruited before 1 January 2001 and having contributed at least 25 years not to pay a premium after the age of 65.

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Governance

The rules and principles governing the RMCF are provided at Annex XIII of the NATO CPRs. A consultative committee, called the Supervisory Committee, oversees the management of the RMCF with the object of ensuring that sufficient funds will always be available to cover medical costs until the last NATO pensioner or his/her dependants die. It acts as advisor to the NATO Secretary General.

The composition of the Supervisory Committee is as follows: a Chair appointed by the Secretary General (Director of Economics or Financial Controller, NATO-IS - the Chair shall be neutral); one representative of the International Staff (Director of Economics or Financial Controller, NATO-IS); two representatives for the NATO Production and Logistics Organisations; one representative for bodies governed by the Paris Protocol; two staff representatives appointed by the Confederation of NATO Civilian Staff Committees and two representatives appointed by the Confederation of NATO Retired Civilian Staff Associations.

The Fund, held in the name of NATO, is entrusted to an independent investment manager.

The Supervisory Committee determines the investment strategy and decides in which funds to invest. The Investment Manager executes purchases and sells according to instructions received from NATO-IS Treasury, which are in accordance with Supervisory Committee decisions.

The Investment Manager keeps the Supervisory Committee informed of all matters relating to the composition and performance of the funds through regular meetings with the Committee members.

Members of the RMCF Supervisory Committee do not receive any additional remuneration or benefits in return for their responsibilities.

Investment strategy

For 2018, as since 2009, the Supervisory Committee left unchanged the strategy of investing in index funds and maintaining holdings approximately as follows:

50% in European government (sovereign) bonds 25% in global equities 25% in European equities

Vanguard Investment Series plc, a prominent index-fund manager, buys and sells bonds and equities on behalf of the Fund within the objectives and restrictions set out in the contract signed with the Organisation. Investments are in Euro.

Management of the RMCF

NATO International Staff, in particular Executive Management – Human Resources and the Office of Financial Control, are responsible for the day-to-day management of the RMCF. Financial services are provided by the Office of Financial Control, NATO-IS. Administrative services and secretarial support are provided by Human Resources, Personnel Support.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

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

Declaration of conformity

The financial statements of the NATO RMCF have been prepared in accordance with the NATO Financial Regulations and International Accounting Standard 26, "Accounting and Reporting by Retirement Benefit Plans". The NATO Accounting Framework, which is an adapted version of the International Public Sector Accounting Standards (IPSAS), does not have a specific standard for accounting and reporting for post-employment benefits.

The accounting system currently used by the NATO RMCF is accrual based.

The financial statements summarize the transactions and net assets of the Fund. The statements do not take into account the liability to pay benefits that fall due after the year end of the reporting period. The actuarial position of the NATO RMCF, which takes these liabilities into account, is presented in Note 3.

Basis of presentation

The financial statements have been prepared on a going-concern basis: the RMCF will continue in operation for the foreseeable future.

The amounts shown in these financial statements are presented in EUR.

Changes in accounting policy

There are no changes to report.

Use of estimates

In the application of accounting policies, which are described below, management is required to make judgments, estimates and assumptions about carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. Estimates include, but are not limited to: the long term obligation of the continued medical coverage and contingent assets.

Foreign currency transactions

The insurance premiums are calculated and paid in EUR and the accounting is in EUR. Since mid-2009, contributions are made in EUR; consequently, foreign currency transactions are not material. Realized gains and losses resulting from such transactions appear in the cash flow statement.

Cash and Cash Equivalents

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

Investments

Investments reported under these RMCF financial statements consist of equities and government bonds in indexed investment funds. These investments are reported as non-current assets reflecting the long term financial strategy of the RMCF.

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An index fund is a collective investment scheme that aims to replicate the movements of an index of a specific financial market, regardless of market conditions. It does not aim to outperform the market. Index funds are commonly composed of a representative sample rather than all the securities in a given market, in appropriate weights. They are subject to a form of passive management rather than active management.

At the end of each reporting period a valuation is made by the investment manager at fair value by reference to official prices quoted on the day of valuation. The Account Statement received from Vanguard's transfer agent uses the Generally Accepted Accounting Principles (GAAP) methodology to calculate the Daily Net Asset Value (Daily NAV), a tradable, realisable value on the last trading day of the month. These are the values generally reported in financial statements by fund investors.

Amounts are net of purchase costs and increased by rebates.

Receivables

Receivables are stated at net realisable value. No allowance for loss is recorded for receivables relating to NATO bodies' statutory contributions.

Payables

Payables are amounts due to third parties based on goods received or services provided that remain unpaid. This includes, as required, an estimate of accrued obligation for goods received or services provided but not yet invoiced.

Net Assets

The net assets available at year-end correspond essentially to the surplus contributions that were not used to pay the insurance premiums and were invested with the Investment Manager or awaiting transfer.

Financial Risks

The RMCF uses only non-derivative financial instruments as part as its normal operations. These financial elements include cash, indexed investment funds, bank accounts, deposit accounts and accounts receivable.

All financial instruments are recognised in the statement of financial position at their fair value.

The RMCF is exposed to a variety of financial risks, including credit risk, market (price) risk and liquidity risk. The maximum exposure as at 31 December 2018 is equal to the total amount of bank balances, short term deposits, investment funds, and receivables.

Credit risk

The RMCF incurs credit risks from cash and cash equivalent held with banks and receivables. There is very limited credit risk associated with the realization of these elements.

Concerning cash and cash equivalent the RMCF 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:

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	ING Bank	Credit Ratings as at 01/03/2019					
į			Fitch	Moody's	S&P		
	Charttama			54			

Concerning receivables, the credit risk is managed by maintaining control procedures over receivables. These consist essentially of contributions due by NATO agency payroll centres and the NATO Coordinated Pension Scheme. This risk is considered limited since these entities are funded by member nations which are considered credit worthy.

Price risk

The RMCF is exposed to equity securities market risk.

The two index equity funds in which RMCF funds are invested are not rated. The European Government Bond Index Fund is comprised of bonds with ratings as indicated below:

Rating	AAA	AA	A	BBB	<bbb< th=""><th>Not rated</th><th>Cash</th></bbb<>	Not rated	Cash
At 31.01.2019	23.7%	37.2%	15.9%	22.6%	0.0%	0.6%	0.0%

Credit ratings are derived from Moody's, S&P and Fitch. When ratings from all three are available, the median rating is used. When ratings are available from two of the agencies, the lower rating is used. When one rating is available, that rating is used.

Currency risk

Since mid-2009, RMCF is not exposed to foreign currency exchange risk arising from fluctuations in currency rates. The scheme receives contributions only in EUR. As explained above, funds are invested in EUR and insurance premiums are due in EUR.

Liquidity risk

A liquidity risk could arise from a short term liquidity requirement. There is a very limited exposure to liquidity risk because contributions from NATO payroll centres are received on a monthly basis, are higher than the insurance premiums and are paid by NATO bodies; the NATO bodies receive either contributions from their member states or income from their customers, generally are other NATO bodies funded through their approved budgets. It is only the excess funds (after payment of insurance premiums) that are invested with Vanguard Investment Series plc with the aim of increasing the assets available for benefits over time. This risk will be reassessed since the RMCF is nearing the point where minor disinvestments will have to be made to pay the insurance premiums.

Interest rate risk

The RMCF is restricted from entering into borrowings.

A portion of RMCF is invested in bonds. The market value of bonds fluctuates according to market perception of the issuer's creditworthiness and to projected interest rates. The value of assets available for benefits is therefore subject to some interest rate risk.

NOTE 3: ACTUARIAL VALUATION

In 2018 the ISRP decided to update its actuarial model known as the Projection of Pensions and Staff Costs model. This updated model was subject to an external review and validation

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of its calculations and output. The conclusion was that the new model appears to be a reasonable way to assess the value of the liabilities within the Co-ordinated Organisation schemes. A reconciliation exercise was conducted between the output of the updated model and the calculations produced by the previous model, with differences which were either not material or explainable and therefore were considered acceptable.

An actuarial study was conducted early 2019 by the OECD International Service for Remunerations and Pensions (ISRP) using the updated model to assess the value of the long term NATO post employment medical care obligation.

The evaluation of the situation end 2018 results in an overall present value of MEUR 2,981 of which MEUR 2,889 for the obligation related to the continued medical coverage of retirees funded through the RMCF and MEUR 92 for the obligation related to the specific category of staff called "bridgers" (see below).

The methodology is based on the Projected Unit Credit Approach, the method recognised by the IFRS/IPSAS standards.

Endogenous assumptions taken into account are:

- Probability that a staff member leaves the Organisation, retires, or becomes invalid, etc.
- Annual salary increase and impact due to career progression (0.24% above inflation)

Exogenous assumptions taken into account are:

- Discount rate in nominal value for post-employment medical care: 0.91% (previous 1.23%)
- Price inflation in the long run: 2% (previous 2%)
- Rates of mortality for both active staff and pensioners (mortality table International Civil Servant Life Table 2018 ICSLT2018, source ISRP/EUROSTAT, which is based on data covering several international organizations in Europe, including NATO and the European Union). (Previous table was ICSLT2013.)
- Medical inflation in the long run: 4% annually (based on an analysis of medical expenses historical data) (previous 4%).

The previous actuarial study estimated that the value of the obligation for post-employment medical care at the end of 2017 was MEUR 2,069. The liability at the end of 2018 can be obtained as follows:

(amounts in MEUR)

Evaluation of the obligation at year end 2017	(a)	2,069
Benefits paid	(b)	23
Interest cost	(c)	25
Current service cost	(d)	114
Obligation at year end 2017 projected into 2018	(e)=(a-b+c+d)	2,185
Actuarial loss (gain) on obligation	(f-e)	796
Evaluation of obligation at year end 2018	(f)	2,981

The actuarial loss is MEUR 796 (i.e. the positive difference between the obligation estimated at the end of the current year by the new study and the obligation resulting from the previous study at the end of previous year projected into the current year). An analysis of the actuarial loss is provided in the following table.

Impact of change in	Type of of loss (gain)	Amount MEUR	% of year end liability
Population	Experience	-26	-0.9%
Demographic assumptions	Assumption	209	7.0%
Mortality table	Assumption	346	11.6%
Discount rate	Assumption	267	8.9%
Total actuarial loss (gain)		796	26.7%

By definition actuarial valuations are largely dependent on the endogenous and exogenous parameters. Therefore any changes to the latter can result in material changes to the final evaluation of the obligation.

The significant increase in life expectancies reflected in the new mortality table ICSLT2018 had a significant impact. This new mortality table was approved in 2018. It is an update of the previous ICSLT2013 table produced using historic population data from a number of European based international organisations. It is therefore deemed to constitute a more realistic assumption.

In this case, the discount rate was decreased, by 32 basis points, from 1.23% to 0.91%.

The discount rate refers to market yields on high quality corporate bonds. For the purpose of this actuarial study, in the absence of a market for Eurozone corporate bonds with maturities longer than 18 years, the Euro area government bond yield curve was used instead as a reference to discount the liabilities of the RMCF. This resulted in the discount rate of 0.91%, compared to the previous 1.23% (and before 0.98%, 1.60%, 1.41% and 2.84%).

Use of the ever-changing market value reference discount rate is likely to result in substantial changes of the actuarial valuations. Considering that the present interest rates used for the actuarial study are historically low, the use of a higher discount rate in the future would result in a decrease in the valuation of the liability.

The table below provides a sensitivity analysis for each significant actuarial assumption as of the end of the reporting period.

	Amounts in MEUR	Change
Base liability	2,981	-
Discount rate -1%	4,061	36%
Discount rate +1%	2,241	-25%
Inflation -1%	2,243	-25%
Inflation +1%	4,029	35%
Mortality rate shifted by +1 year	2,795	-6%
Mortality rate shifted by -1 year	3,175	7%

The value of the obligation includes an amount of MEUR 92 corresponding to a specific category of staff referred to as "bridgers". Medical claims for eligible former staff between the ages of 55 and 65 ("bridgers") are not funded through the RMCF. They are insured under the terms of the "bridging-cover" whereby the related annual contributions and reimbursements are included in the medical claims insurance system of active staff. Contributions based on the "bridgers" last salary (5% since 2013 (3% previously), on a 1/3 "bridger" to 2/3 employer proportion) are made to the medical claim insurance company. No specific fund was set up to resource these requirements; they are handled on an annual basis. No payments to the RMCF are required from "bridgers" in the intervening years between their retirement from the organization and their reaching the age of 65, at which point they benefit from RMCF insurance coverage and contribute to its funding.

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NOTE 4: CASH AND CASH EQUIVALENTS

The various NATO entities and pensioners pay their contributions into a suspense account. This account serves to pay insurance premiums and effect the transfers of funds to be invested by the Investment Manager. Short term investments are made as required.

NOTE 5: FUNDS HELD BY THE INVESTMENT MANAGER

Distribution of Assets as of 31 December

	2018		2017						
	EUR	%	EUR	%					
Euro Govt Bond Index Fund	154,839,123.45	49.22%	150,967,660.72	46.72%					
Europe Stock Index Fund	77,713,225.57	24.70%	86,673,147.79	26.82%					
Global Stock Index Fund	82,017,093.99	26.07%	85,517,289.34	26.46%					
TOTAL	314,569,443.02	100.00%	323,158,097.85	100.00%					

Details of the changes in investment fund balances available for benefits over the past two years are as follow:

in EUR	Euro Govt Bond Index Fund	Europe Stock Index Fund	Global Stock Index Fund	TOTAL
31 Dec 2016 balance	144,331,309.39	78,353,240.30	84,248,208.45	306,932,758.14
Purchases before purchase fees	1,500,000.00	5,000,000.00	0.00	6,500,000.00
Withdrawals	0.00	0.00	-5,000,000.00	-5,000,000.00
Distributions	0.00	0.00	0.00	0.00
Rebates received	177,114.40	182,966.43	141,660,07	501,740.90
Purchase Fees	0.00	0.00	0.00	0.00
2017 net transactions	1,677,114.40	5,182,966.43	-4,858,339.93	2,001,740.90
Sum of 31 Dec 2016 balance and 2017 net transactions	146,008,423.79	83,536,206.73	79,389,868.52	308,934,499.04
Gain/loss in market value excluding 2017 net transactions	4,959,236.93	3,136,941.06	6,127,420.82	14,223,598.81
31 Dec 2017 balance	150,967,660.72	86,673,147.79	85,517,289.34	323,158,097.85
Purchases before purchase fees	2,500,000.00	0.00	0.00	2,500,000.00
Withdrawals	0.00	0.00	0.00	0.00
Distributions	0.00	0.00	0.00	0.00
Rebates received	181,612.11	187,450.36	149,501.52	518,563.99
Purchase Fees	0.00	0.00	0.00	0.00
2018 net transactions	2,681,612.11	187,450.36	149,501.52	3,018,563.99
Sum of 31 Dec 2017 balance and 2018 net transactions	153,649,272.83	86,860,598.15	85,666,790.86	326,176,661.84
Gain/loss in market value excluding 2018 net transactions	1,189,850.62	-9,147,372.58	-3,649,696.87	-11,607,218.82
31 Dec 2018 balance	154,839,123.45	77,713,225.57	82,017,093.99	314,569,443.02

Fund's Overall Performance

In 2018, Vanguard Investment Series plc index funds tracked their respective benchmarks during the period. Their returns, net of expenses and including the effect of reinvested dividends, are compared below to that of the corresponding benchmarks for the past two years:

	Vanguard index fund			Benchmark		
ISIN	Fund name	2018	2017		2018	2017
IE0007472990	Euro Government Bond Index Fund EUR Institutional Shares	0.89%	0.04%	Spliced Euro Govt Float Adj Bond Index		
IE0007987708	European Stock Index Fund EUR Institutional Shares	-10.34%		MSCI Europe	-10.57%	
IE00B03HD191	Global Stock Index Fund EUR Institutional Shares	-4.09%	7.54%	MSCI World	-4.11%	7.51%

The number of units and daily NAV per unit for the RMCF at year end, together with the resulting year-end market values, were as follows:

		2018			2017	
	Units	NAV in EUR	Market Value in EUR	Units	NAV in EUR	Market Value in EUR
Euro Gov't Bond Index Fund	692,197.24	223.6922	154,839,123.45	680,056.87	221.9927	150,967,660.72
Europe Stock Index Fund	4,316,130.56	18.0053	77,713,225.57	4,306,569.07	20.1258	
Global Stock Index Fund	3,763,961.34	21.7901	82,017,093.99	3,757,548.26	22.7588	
TOTAL			314,569,443.02			323,158,097.85

NOTE 6: ACCOUNTS RECEIVABLE

Receivables at year-end were as follows:

(amounts in EUR)	2018	2017
Contributions	441,394.37	787,600.38
Receivable from insurer	0.00	73,107.58
Total accounts receivable	441,394.37	860,707.96

Contributions are paid on a monthly basis. At the date of issuance of these financial statements, no contributions were a year or more past due.

Amounts receivable from the insurance company and the third party administrator relate to the final assessment of the premium and of the management fee, which are paid in monthly advances during the year.

There are profit sharing agreements in place for the periods 2012-2016 and 2017-2021; they are considered under the contingent asset note.

NOTE 7: ACCOUNTS PAYABLE

Amounts receivable at year end were as follows:

(amounts in EUR)	2018	2017
Insurance Premiums	2,301,663.55	1,943,748.82
Insurer Management Fee	71,034.48	0.00
Miscellaneous	29,401.96	0.00
Total accounts receivable	2,402,099.99	1,943,748.82

Miscellaneous amounts correspond to operations to be regularised with contributors.

NOTE 8: CONTRIBUTIONS RECEIVED

Contributions received in the course of the year were as follows:

(amounts in EUR)

Contributions from	2018	2017
Active Staff and NATO Employer	24,398,862.60	23,410,740.13
Retired Staff from DBPS (Defined Benefit Pension Scheme)	545,392.19	469,547.26
Retired Staff from DCPS (Defined Contribution Pension Scheme)	7,949.80	6,577.13
Other Retired Staff	24,364.44	19,072.92
Total	24,976,569.03	23,905,937.44

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NOTE 9: PROFIT SHARING AGREEMENT WITH INSURER

A profit-sharing arrangement has been entered into, covering the period 2012-1016, whereby NATO would be refunded the totality of the difference Premiums X 97% – Reimbursements, if it is positive. The final settlement was done during the first quarter of 2018 and resulted in no profit to be shared. There was, therefore, no revenue for the RMCF for the period 2012-2016.

A similar arrangement is in place covering the period 2017-2021.

NOTE 10: INTEREST

Interest is earned on the bank account for the period during which cash holdings are pending investment. Amounts presented are netted of bank charges.

NOTE 11: INSURANCE PREMIUMS AND MANAGEMENT FEES

The insurance premium to cover the medical expenses of the retirees is paid monthly to the third party administrator on the basis agreed under the NATO Group Insurance Policy.

The value of the insurance premium paid to the insurance company is essentially based on the number and age of the beneficiaries. The premium includes a management fee of EUR 1,469,660.34 (EUR 1,398,625.86 for 2017).

NOTE 12: MISCELLANEOUS

Corresponds to miscellaneous transactions essentially net financial results (including negative interests paid on the current bank account) and foreign exchange results.

NOTE 13: CONTINGENT ASSETS

As indicated above, there is a profit-sharing agreement with the insurer. The arrangement covers the period 2012-1016, whereby NATO would be refunded the totality of the difference Premiums X 97% – Reimbursements, if it is positive. The final settlement was done during the first quarter of 2018 and resulted in no profit to be shared. There was, therefore, no revenue for the RMCF for the period 2012-2016.

A similar arrangement is in place covering the period 2017-2021.

NOTE 14: CONTINGENT LIABILITIES

There are no material contingent liabilities arising from legal actions and claims that are likely to result in significant liability to the RMCF. A series of claims were introduced in relation to the deletion of the Civil Personnel Regulation provision concerning staff obtaining free medical coverage after 25 years of contributions. These cases have not yet been addressed by the NATO Administrative Tribunal. The related risk is not considered as having a material impact on these financial statements.

NOTE 15: RELATED PARTY TRANSACTIONS

The following related party transactions took place during the year ended 31 December 2018.

NATO International Staff, in particular Executive Management – Human Resources and the Office of Financial Control, are responsible for the day-to-day management of the RMCF.

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None of the costs related to the administrative services provided by NATO International Staff are charged to the RMCF.

NOTE 16: KEY MANAGEMENT PERSONNEL

For the purpose of these financial statements, key management personnel are considered to be the Assistant Secretary General for Executive Management and the Financial Controller of the International Staff. Their remuneration is entirely covered by the International Staff.

Members of the RMCF Supervisory Committee do not receive any additional remuneration or benefits in return for their responsibilities. The International Staff Financial Controller was appointed Chairperson of the Supervisory Committee end 2010.

The Fund does not hold any securities of the employer sponsor or, directly, of its related parties.

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NOTE 17: STATISTICAL INFORMATION

Evolution of	of RMCF memb	pership (number	r of affiliates)
year-end		Affiliates	0
	2001	Joined	166
	2001	Exited	0
year-end	2001	Affiliates	166
-	2002	Joined	250
	2002	Exited	-1
year-end		Affiliates	415
		Joined	229
		Exited	-4
year-end		Affiliates	640
	2004	Joined	242
		Exited	-14
year-end	2004	Affiliates	868
	2005	Joined	328
	2005	Exited	-15
year-end	2005	Affiliates	1,181
	2006	Joined	258
	2006	Exited	-27
year-end	2006	Affiliates	1,412
	2007	Joined	259
		Exited	-25
year-end	2007	Affiliates	1,646
	2008	Joined	333
		Exited	-37
year-end		Affiliates	1,942
	2009	Joined	330
		Exited	-32
year-end		Affiliates	2,240
		Joined	316
		Exited	-37
year-end		Affiliates	2,519
		Joined	401
		Exited	-39
year-end	2011	Affiliates	2,881
		Joined	265
		Exited	-27
year-end		Affiliates	3,119
		Joined	268
		Exited	-63
year-end		Affiliates	3,324
		Joined	533
		Exited	-62
year-end		Affiliates	3,795
		Joined	386
		Exited	-163
year-end		Affiliates	4,018
		Joined	729
		Exited	-112
year-end		Affiliates	4,611
7.2.7 01.0		Joined	
		Exited	286
vear and		Affiliates	-211
year-end			4,686
		Joined	305
		Exited	-146
year-end	2018	Affiliates	4,845