8 December 2021

DOCUMENT
C-M(2021)0029-REV1-AS1

IBAN AUDITOR'S REPORTS AND LETTER OF OBSERVATIONS AND RECOMMENDATIONS ON THE 2019 FINANCIAL YEAR STATEMENTS OF DCPS, IS, MSIAC, NCPS, NFO, NNHQ, RMCF

ACTION SHEET

On 7 December 2021, 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 Letters of Observations and Recommendations and associated 2019 financial statements of DCPS, IS, MSIAC, NCPS, NFO, NNHQ and RMCF.

(Signed) Jens Stoltenberg
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2021)0029-REV1.

01 December 2021

DOCUMENT

C-M(2021)0029-REV1-COR1
English Only

IBAN AUDITOR'S REPORTS AND LETTER OF OBSERVATIONS AND RECOMMENDATIONS ON THE 2019 FINANCIAL YEAR STATEMENTS OF DCPS, IS, MSIAC, NCPS, NFO, NNHQ, RMCF

Note by the Secretary General

CORRIGENDUM

Please find attached the IBAN audit reports and financial statements with the correct headings.

(Signed) Jens Stoltenberg

Enclosure 1: IBAN audit reports + financial statements

Original: English

IBA-A(2021)0055
4 June 2021

To: Secretary General
(Attn: Director of the Private Office)

Cc: NATO Permanent Representatives
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 and Letter of Observations and Recommendations on the audit of the NATO Defined Contribution Pension Scheme's (DCPS) Financial Statements for the year ended 31 December 2019 – IBA-AR(2021)0010***

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).

Article 15 of the NATO Financial Regulations states that the IBAN must present its final reports, including factual and formal comments, together with the audited financial statements, to the Council not later than 31 August, following the end of the Financial Year. Considerable delays in receiving outstanding information, which is required in accordance with auditing standards, prevented IBAN's ability to meet the 31st of August 2020 deadline.

IBAN's report sets out an unqualified opinion on the Financial Statements of the NATO DCPS and on compliance for financial year 2019.

Yours sincerely,

Daniela Morgante
Chair

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 Defined Contribution Pension Scheme (DCPS)
for the year ended 31 December 2019

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 2019 was EUR 524.53 million (at the end of 2018, EUR 408.39 million). The DCPS had 4,352 members at 31 December 2019 (at the end of 2018, 3,974 members).

IBAN issued an unqualified opinion on the Financial Statements and on compliance for the year ended 31 December 2019.

During the audit, IBAN made no observations.

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

The Auditor's Report and the Letter of Observations and Recommendations 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.

The observations and recommendations raised during the audit as well as the follow-up of the previous years' observations, which have not been included in the IBAN's Letter of Observations and Recommendations are included in a Management Letter addressed to NATO Defined Contribution Pension Scheme management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under NATO Defined Contribution Pension Scheme's executive responsibility.

ANNEX 2
IBA-AR(2021)0010

4 June 2021

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF THE NATO DEFINED CONTRIBUTION PENSION SCHEME

(DCPS)

FOR THE YEAR ENDED 31 DECEMBER 2019

INDEPENDENT EXTERNAL 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 2019, issued and submitted to IBAN on 21 April 2020. These Financial Statements comprise the Statement of Net Assets Available for Benefits as at 31 December 2019, the Statement of Changes in Net Assets Available for Benefits for the period ended 31 December 2019 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 2019, and of its Statement of Changes in Net Assets Available for Benefits for the period ended 31 December 2019, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework (NAF) 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 and reporting entities 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 (ISSAI 2200-2899) 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 the 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 reporting entity and the Financial Controller. In signing the Financial Statements, the Head of the NATO reporting entity and the Financial Controller 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.

- 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 4000-4899) 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 and reporting entities 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, 4 June 2021

Daniela Morgante
Chair

ANNEX 3
IBA-AR(2021)0010

4 June 2021

INTERNATIONAL BOARD OF AUDITORS FOR NATO

LETTER OF OBSERVATIONS AND RECOMMENDATIONS

FOR THE NATO DEFINED CONTRIBUTION PENSION SCHEME

(DCPS)

FOR THE YEAR ENDED 31 DECEMBER 2019

Introduction

The International Board of Auditors for NATO (IBAN) audited the NATO Defined Contribution Pension Scheme Financial Statements for the year ended 31 December 2019, 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 observations and recommendations from the previous years' audits and found that one was closed and one remains in progress.

The observations and recommendations raised during the audit, as well as the follow-up of the previous years' observations, which have not been included in the IBAN's Letter of Observations and Recommendations are included in a Management Letter addressed to the NATO Defined Contribution Pension Scheme management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under the NATO Defined Contribution Pension Scheme's executive responsibility.

ANNEX 3
IBA-AR(2021)0010

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.

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 Reporting Entity 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. In the case where there are sub-recommendations, the status related to each sub-recommendation is indicated in the Action Taken column.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
(1) NATO DCPS FY 2015 **IBA-AR(2016)28, paragraph 3** **INSUFFICIENT EVIDENCE TO SUPPORT A RECEIVABLE AND PROVISION IN THE FINANCIAL STATEMENTS** **IBAN'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.).	In December 2018, the Secretary General recommended that one third of the compensatory payment from the Insurer (EUR 1.726 million) should be distributed to those affiliates who actively contributed to the major risk insurance during 1 January 2012 and 31 December 2015. This amount was paid by the Insurer to DCPS in May 2019. The payments to the affiliates are still ongoing as they are being made in tranches since 2019. In the 2019 IS Statement of Financial Position, the remaining balance to be paid to the affiliates was presented as a payable (EUR 0.687 million). As per BC-DS(2019)0067 (INV) the Budget Committee decided that the employers' contributions share of the Insurer's compensatory payment shall be returned to the respective NATO Reporting Entities (EUR 4.274 million). In the 2019 IS Statement of Financial Position, this was no longer considered an Asset / Liability of DCPS, since it was a pass-through cash-flow to be recognised as a receivable from the Insurer by the relevant NATO Reporting Entities. This amount was paid by the	Observation **In-Progress**.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
	Insurer to DCPS in February and April 2020. Therefore, the subsequent disbursement to the NATO Reporting Entities was initiated in 2020. The status will be reassessed as part of the audit of the 2020 Financial Statements.	
(2) NATO DCPS FY 2015 **IBA-AR(2016)28, paragraph 7** **UNCLEAR FOREIGN CURRENCY CONVERSION POLICY** **IBAN's Recommendation** The Board recommends developing and implementing a comprehensive policy on the accounting and reporting of transactions, stated in foreign currencies.	NATO IS implemented FC(FAC)(2020)004_FC - OFC Policy Accounting Reporting Transactions in Foreign Currency.	Observation **Closed**.

**NATO DEFINED CONTRIBUTION PENSION SCHEME (DCPS)
FORMAL COMMENTS
ON THE LETTER OF OBSERVATIONS AND RECOMMENDATIONS AND
THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS**

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

(1) NATO DCPS 2015 FY
IBA-AR(2016)28, paragraph 3
INSUFFICIENT EVIDENCE TO SUPPORT A RECEIVABLE AND PROVISION IN THE FINANCIAL STATEMENTS

DCPS' Formal Comments

Do not agree.

In 2019 Financial Statements, the receivable and provision were presented on the basis of complete documentation received from Allianz and in line with the Nations decisions.

The OFC IS proposes to consider this observation closed.

IBAN's Position

IBAN maintains the status of its recommendation, which is considered in-progress as the payments to the affiliates, which are being made in tranches since 2019, are still ongoing. In addition, the subsequent disbursement to the NATO Reporting Entities was initiated in 2020. The status will be reassessed as part of the audit of the 2020 Financial Statements.

GLOSSARY OF TERMS

In accordance with International Standards of Supreme Audit Institutions (ISSAI 2705), audit opinions on financial statements and on compliance can be unqualified, qualified, a disclaimer, or adverse:

- An unqualified opinion is when IBAN issues an opinion that the financial statements and budget execution report are stated fairly and that nothing has come to our attention 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 rules and regulations.

- A qualified opinion means that IBAN was generally satisfied with the presentation of the financial statements, but that some key elements of the statements were not fairly stated or affected by a scope limitation, or specific issues have come to our attention 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 rules and regulations.

- A disclaimer is issued when the audit scope is severely limited and IBAN cannot express an opinion, or when there are material uncertainties affecting the financial statements or the use of funds.

- An adverse opinion is issued when the effect of an error or disagreement is so pervasive and material to the financial statements that IBAN concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.

In accordance with auditing standards, three types of paragraphs may also be communicated in the auditor's report:

- Key Audit Matters (ISSAI 2701): Those matters that, in IBAN's professional judgement, were of most significance in the audit of the financial statements of the current period. Key Audit Matters are addressed to Council.

- Emphasis of Matter (ISSAI 2706): If IBAN considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements; we will include an Emphasis of Matter paragraph in the auditor's report provided.

- Other Matter (ISSAI 2706): If IBAN considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in our judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report; we will include an Other Matter paragraph in the auditor's report.

NORTH ATLANTIC TREATY ORGANIZATION
ORGANISATION DU TRAITÉ DE L'ATLANTIQUE NORD
INTERNATIONAL BOARD OF AUDITORS
COLLÈGE INTERNATIONAL DES AUDITEURS EXTERNES DE L'OTAN

IBA-A(2021)0053
4 June 2021

To: Secretary General
(Attn: Director of the Private Office)

Cc: NATO Permanent Representatives
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 and Letter of Observations and Recommendations on the audit of the International Staff's (IS) Restated Financial Statements for the year ended 31 December 2019 – IBA-AR(2021)0013***

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).

Article 15 of the NATO Financial Regulations states that the IBAN must present its final reports, including factual and formal comments, together with the audited financial statements, to the Council not later than 31 August, following the end of the Financial Year. Considerable delays in receiving outstanding information, which is required in accordance with auditing standards, prevented IBAN's ability to meet the 31st of August 2020 deadline.

IBAN's report sets out an unqualified opinion on the Restated Financial Statements of the International Staff and on compliance for financial year 2019.

Yours sincerely,

Daniela Morgante
Chair

Attachments: As stated above.

Boulevard Léopold III - B-1110 Bruxelles - Belgique
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ANNEX 1

Summary Note for Council
by the International Board of Auditors for NATO (IBAN)
on the audit of the Restated Financial Statements of the
International Staff (IS)
for the year ended 31 December 2019

The International Staff (IS) supports the work of the North Atlantic Council and its Committees. The total expenses disclosed in the 2019 Restated Financial Statements was EUR 278 million.

IBAN issued an unqualified opinion on the Financial Statements and on compliance for the year ended 31 December 2019.

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

1. Improvements in the control of budgetary adjustments.

2. Accounting misstatement in the reversal of provision for untaken leave.

3. Unreconciled Cash and cash equivalents.

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

The Auditor's Report and the Letter of Observations and Recommendations were issued to the IS whose comments have been included, with the IBAN's position on those comments where necessary, see the Appendix to Annex 3.

The observations and recommendations raised during the audit as well as the follow-up of the previous years' observations, which have not been included in the IBAN's Letter of Observations and Recommendations are included in a Management Letter addressed to International Staff management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under International Staff's management responsibility.

ANNEX 2
IBA-AR(2021)0013

4 June 2021

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDITOR'S REPORT ON THE RESTATED FINANCIAL STATEMENTS OF THE INTERNATIONAL STAFF (IS) FOR THE YEAR ENDED 31 DECEMBER 2019

INDEPENDENT EXTERNAL 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 Restated Financial Statements of the International Staff (IS), for the 12 month period ended 31 December 2019, issued under document reference FC(2020)0044-REV1, and submitted to IBAN on 19 June 2020. These Restated Financial Statements comprise the Statement of Financial Position as at 31 December 2019, 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 2019, including a summary of significant accounting policies and other explanatory notes. In addition, the Restated Financial Statements include a budget execution report for the 12 month period ended 31 December 2019.

In our opinion the Restated Financial Statements give a true and fair view of the financial position of the International Staff (IS) as at 31 December 2019, and of its financial performance, its cash flows and budget execution for the 12 month period ended 31 December 2019, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework (NAF).

Basis for Opinion on the Financial Statements

In accordance with the NATO Financial Regulations (NFRs), external audit of the NATO bodies and reporting entities 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 2200-2899) 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 the International Staff (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.

The Financial Statements are signed by the Head of the NATO reporting entity and the Financial Controller. In signing the Financial Statements, the Head of the NATO reporting entity and the Financial Controller 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.

- 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 Restated 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 (NFRs) 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 4000-4899) 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 and reporting entities 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, 4 June 2021

Daniela Morgante
Chair

ANNEX 3
IBA-AR(2021)0013

4 June 2021

INTERNATIONAL BOARD OF AUDITORS FOR NATO

LETTER OF OBSERVATIONS AND RECOMMENDATIONS

FOR THE INTERNATIONAL STAFF

(IS)

FOR THE YEAR ENDED 31 DECEMBER 2019

Introduction

The International Board of Auditors for NATO (IBAN) audited the International Staff (IS) Restated Financial Statements for the year ended 31 December 2019, and issued an unqualified opinion on the financial statements and an unqualified opinion on compliance.

Observations and Recommendations:

During the audit, IBAN made three observations and recommendations. These observations do not impact the audit opinion on the financial statements and on compliance:

1. Improvements in the control of budgetary adjustments

2. Accounting misstatement in the reversal of provision for untaken leave

3. Unreconciled Cash and cash equivalents

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

The observations and recommendations raised during the audit as well as the follow-up of the previous years' observations, which have not been included in the IBAN's Letter of Observations and Recommendations are included in a Management Letter addressed to the International Staff (IS) management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under the International Staff (IS) executive responsibility.

OBSERVATIONS AND RECOMMENDATIONS

1. IMPROVEMENTS IN THE CONTROL OF BUDGETARY ADJUSTMENTS

Reasoning

1.1 Section II Article 6 of the NFRs regarding responsibilities of the Financial Controller, states that: "*The Secretary General, the Supreme Commanders and the other Heads of NATO bodies shall have a Financial Controller on their staffs to be their principal financial advisor and who exercises in their names responsibilities for, but not limited to:*

a) the budgeting, accounting and reporting activities of the NATO body;
b) ensuring adherence to the principles of sound financial management as laid down in article 4;
c) the responsibility for the organisation and administration of the financial internal control system established pursuant to article 12.1."

1.2 Furthermore NFR Article12.2 states that: "*In order to meet the desired internal control standards the Financial Controller shall:*

a) establish a system of internal financial and budgetary control, embracing all aspects of financial management including transactions for which appropriations have been approved and those funded from such non-appropriated fund accounts as they may authorise within their jurisdiction."

Observations

1.3 The Civil Budget is managed using the budget information system Hyperion. Once the Civil Budget is approved, the budget figures are interfaced to the Enterprise Resource Planning (ERP) system. The Civil Budget contains the NATO Coordinated Pension Scheme (Defined Benefit Pension Scheme) budget contribution, but it is not part of the NATO IS core budget. The IS Office of Financial Control (IS-OFC) therefore needs to review budgetary postings in the ERP system and complete a final manual step to exclude the Defined Benefit Pension Scheme budget in the system, if necessary.

1.4 On 11 June 2020, IS-OFC informed IBAN about its intention to restate 2019 IS Financial Statements. One of the reason for this restatement was that the Budget Execution Statement needed to be corrected in order to reflect a Civil Budget decrease approved in the 2019 budget (BC-D(2019)0213 (INV)). This decrease had not been properly uploaded to the ERP system as a budgetary reduction because the final manual step to exclude the Defined Budget Pension Scheme budget was not performed in the system by the IS-OFC.

1.5 Although the respective budgetary adjustment was approved by the Budget Committee in October 2019 (BC transfer (BC-D(2019)0213 (INV)), the error in the ERP system was only discovered in April 2020 after the issuance of the financial statements, which led IS-OFC to restate the Financial Statements. Moreover, the actual correction took place in the ERP system on 14 July 2020.

Recommendations

1.6 IBAN recommends the IS-OFC to:

a) Establish documented internal control procedures that ensure that budgetary adjustments are correctly recorded in the ERP system.

b) Establish a documented reconciliation of year-end information reported in the Budget Execution Statement with supporting information provided in the budget information system Hyperion.

c) Implement further technical solutions in order to eliminate manual interventions in the ERP system.

2. ACCOUNTING MISSTATEMENT IN THE REVERSAL OF PROVISION FOR UNTAKEN LEAVE

Reasoning

2.1 IPSAS 19 states that *"Provisions should be reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision should be reversed."*

2.2 Consequently, the total or partial reversal of a provision implies the unrecognition of the corresponding liability in expenses (and revenue) for which the provision was initially recognised.

2.3 Accordingly, the Statement of Financial Performance must reflect the net flows related to the change in provisions between two consecutive years.

Observations

2.4 In 2019, IS booked expenses related to the total year-end provision for untaken leave amounting to EUR 2,037,072. In 2018, this year-end provision and expense amounted to EUR 1,966,535. IS correctly reversed the prior year's provision in the Statement of Financial Position in accordance with its accounting policy. However, IS did not recognise the counterpart of this reversal of provision in the Statement of Financial Performance amounting to EUR 1,966,535.

2.5 As a result, expenses in the Statement of Financial Performance do not reflect the change in provision for untaken leave, which was in 2019 an increase of

EUR 70,537 and not an increase of EUR 2,037,072. The expenses in the Statement of Financial Performance are therefore overstated by EUR 1,966,535. Furthermore, as IS recognises revenues to compensate for expenses related to the provision for untaken leave, revenues are also overstated by the same amount.

Recommendations

2.6 IBAN recommends that IS recognise, in the Statement of Financial Performance in accordance with its accounting policy, the reversal of the previous year's provisions for Untaken Leave.

3. UNRECONCILED CASH AND CASH EQUIVALENTS

Reasoning

3.1 According to article 17.1 of NATO Financial Regulations (NFRs) *"The Secretary General, the Supreme Commanders, Subordinate Commanders by delegation and the senior responsible officers of other NATO bodies through the Financial Controller (as assigned in article 6) may, after full investigation, authorise the write-off of losses of cash, stores and other assets up to the amounts prescribed in the Financial Rules and Procedures approved by the relevant finance committee pursuant to article 4.4."*

3.2 Paragraph 4 c) of Financial Rules and Procedures (FRP) VI states that:
"*The Financial Controller shall ensure that: all accounts are reconciled and verified on a regular basis, and all activities with financial implications, including multinational and non-appropriated fund activities, controlled by periodic inspection (…)"*

3.3 As per subsection 5.5.5.4 of Satellite Offices Handbook *"Month-end petty cash balances should be no more than EUR 500 and should be zero on 31 December of each year".*

Observations

3.4 While testing IS Cash and cash equivalents we found net differences of EUR 45,425 between the amounts recognised in the Statement of Financial Position and the amounts reported by NATO Satellite Offices (NASO).

3.5 These differences are due to the fact that a transaction was recorded with a 2020 General Ledger date instead of a 2019 date. As a result both the cash holdings and liabilities are overstated by EUR 45,425 in the Statement of Financial Position.

3.6 We found several instances where the NASO month-end petty cash balances exceed the EUR 500 ceiling specified in the *Satellite Offices Handbook*.

3.7 In addition, although all NASO Petty Cash balances should be zero on 31 December each year, 10 NASO Petty Cash accounts had balances ranging from EUR 4.55 to 5,224.77 on 31 December 2019.

3.8 Finally, the Petty Cash account 570104 showed EUR 792 of losses of cash in September 2015. This amount was not written off and approved by the IS Financial Controller in line with the NFRs.

Recommendations

3.9 IBAN recommends that IS should:

a) Verify the amounts reported by NATO Satellite Offices before the issuance of the financial statements.

b) Ensure that the month-end petty cash balances of NATO Satellite Offices do not exceed the EUR 500 ceiling and are zero on 31 December each year.

c) Write-off the loss in petty cash Account n° 570104, after a full investigation as required by article 17 of the NFRs.

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.

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 Reporting Entity 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. In the case where there are sub-recommendations, the status related to each sub-recommendation is indicated in the Action Taken column.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
(1) IS FY 2018 **IBA-AR(2019)0020, paragraph 1.9** **IMPROVEMENTS REQUIRED IN THE AREA OF RISK MANAGEMENT, INTERNAL CONTROLS AND INTERNAL AUDIT** **IBAN's Recommendation** 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:	In 2019 IS has taken the following actions: - The internal control officer post was created and filled. - The Office of Internal Audit and Risk Management (OIARM) was created and is currently fully staffed. - COSO was selected as an internal control (IC) framework. - IC self-assessment exercise was put in place together (beginning of 2019) with a periodic assessment. - High-level risk register was completed - Risk Management draft policy is being completed and in progress.	Observation **In-Progress**.
• Completing the entity-wide risk management policy throughout the IS and developing a consolidated risk register covering all cross-functional interdependencies.	However the entity-wide risk management policy throughout the IS and a consolidated risk register covering all cross-functional interdependencies is still ongoing.	

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
• 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.	The work related to assessing and documenting the system of internal control and risk management to support compliance with the NFRs and FRPs is ongoing Audits by OIARM of evaluating the appropriateness, quality and effectiveness of internal control and risk management throughout the IS are in development.	
(2) IS FY 2018 **IBA-AR(2019)0020, paragraph 2.9** **IMPROVEMENTS NEEDED IN THE STATEMENT OF INTERNAL CONTROL** **IBAN's Recommendation** 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.	IS addressed, in the Statement of Internal Controls for 2019, all requirements of Article 12.	Observation **Closed**.
(3) IS FY 2018 **IBA-AR(2019)0020, paragraph 3.4** **YEAR-END CONFIRMATIONS BETWEEN NATO ENTITIES** **IBAN's Recommendation** IBAN recommends that the IS formalise effective procedures in order to confirm the 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.	IBAN noted some improvements as IS-OFC requested End of year Accounts Payable and Accounts Receivable balance confirmations from the main NATO Reporting Entities. The information provided was then reconciled with a list of invoices in a table. A reconciliation with the Accounts Payable Reports as extracted from the ERP was not provided. No formal year-end	Observation **In-Progress**.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
	confirmation process between NATO Reporting Entities exists yet.	
(4) IS FY 2017 **IBA-AR(2018)0028, paragraph 2.3** **LATE ISSUANCE OF FINANCIAL STATEMENTS** **IBAN's Recommendation** The late issuance of the financial statements resulted in a qualification on compliance for the 2017 IS Financial Statements.	2019 Financial Statements were submitted on 27 April 2020, a reasonable delay due to the unprecedented situation caused by the COVID-19 outbreak as communicated by the IS OFC (FC(2020)0052, dated 27 Mar 2020).	Observation **Closed**.
(5) IS FY 2016 **IBA-AR(2018)40, paragraph 2.2** **ERRORS IN THE CASH FLOW STATEMENT** **IBAN's Recommendation** The Board recommends that the IS ensure that the 2018 Cash Flow Statements is arithmetically correct, complies with IPSAS 2, and can be reconciled to movements on the Statements of Financial Position and Performance.	No errors found in the Cash Flow Statements.	Observation **Closed**
(6) IS FY 2010 **IBA-AR(2012)08, Paragraph 5.2** **ACCOUNTING FOR FUNDS RELATING TO THE FORMER NATO HAWK PRODUCTION AND LOGISTICS ORGANIZATION** **IBAN'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.	A Special Report was prepared by the IS OFC and issued to IBAN on the Financial Operations related to the Financial Closure of the former NATO HAWK Management Office 1 July 2010 – 31 December 2016 (FC(2019)00133). IBAN reviewed the information	Observation **Closed**.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
	provided in this Special Report and confirms that balances reported in the IS 2019 Restated Financial Statements are fairly presented in accordance with the NATO Accounting Framework and nothing has come to our attention that causes us to believe that these balances are not in compliance with the NFRs.	

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

OBSERVATION 1: IMPROVEMENTS IN THE CONTROL OF BUDGETARY ADJUSTMENTS

IS' Formal Comments

Agreed.

The observation which has triggered the recommendation was resolved during2020. The write-back of the budget from Hyperion to E-Business Suite no longer includes the DBPS budget, hence the manual step to exclude DBPS figures is no longer needed.

The IS agrees that the manual interventions in the ERP system should be avoided and the internal control procedures should be adequate. There is a permanent process of improvements and developments of the technical and formal solutions, highly dependent on the available resources.

OBSERVATION 2: ACCOUNTING MISSTATEMENT IN THE REVERSAL OF PROVISION FOR UNTAKEN LEAVE

IS' Formal Comments

Agreed.

Error has been corrected in the 2020 Financial Statements.

OBSERVATION 3: UNRECONCILED CASH AND CASH EQUIVALENTS

IS' Formal Comments

Agreed.

a) The NATO IS further improved the NATO Satellite Offices reporting quality during the end of the year closure process of 2020.

b) OFC will take the recommendation under consideration and revise current procedures and/or practices.

c) The write off in line with procedures has taken place.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

(1) IS 2018 FY
IBA-AR(2019)0020, paragraph 1.9
IMPROVEMENTS REQUIRED IN THE AREA OF RISK MANAGEMENT, INTERNAL CONTROLS AND INTERNAL AUDIT

IS' Formal Comments

Agreed.

IS notes that due to the limited resources of OIARM, with two auditors who are also supporting the development of the risk management framework in the IS, the OIARM cannot audit the appropriateness and effectiveness of the NATO IS risk management framework.

(3) IS FY 2018
IBA-AR(2019)0020, paragraph 3.4
YEAR-END CONFIRMATIONS BETWEEN NATO ENTITIES

IS' Formal Comments

Agreed.

The NATO IS further improved the NATO entity reconciliations process during the end of the year closure process of 2020.

GLOSSARY OF TERMS

In accordance with International Standards of Supreme Audit Institutions (ISSAI 2705), audit opinions on financial statements and on compliance can be unqualified, qualified, a disclaimer, or adverse:

- An unqualified opinion is when IBAN issues an opinion that the financial statements and budget execution report are stated fairly and that nothing has come to our attention 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 rules and regulations.

- A qualified opinion means that IBAN was generally satisfied with the presentation of the financial statements, but that some key elements of the statements were not fairly stated or affected by a scope limitation, or specific issues have come to our attention 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 rules and regulations.

- A disclaimer is issued when the audit scope is severely limited and IBAN cannot express an opinion, or when there are material uncertainties affecting the financial statements or the use of funds.

- An adverse opinion is issued when the effect of an error or disagreement is so pervasive and material to the financial statements that IBAN concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.

In accordance with auditing standards, three types of paragraphs may also be communicated in the auditor's report:

- Key Audit Matters (ISSAI 2701): Those matters that, in IBAN's professional judgement, were of most significance in the audit of the financial statements of the current period. Key Audit Matters are addressed to Council.

- Emphasis of Matter (ISSAI 2706): If IBAN considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements; we will include an Emphasis of Matter paragraph in the auditor's report provided.

Other Matter (ISSAI 2706): If IBAN considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in our judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report; we will include an Other Matter paragraph in the auditor's report.

IBA-A(2021)0058
4 June 2021

To: Secretary General
(Attn: Director of the Private Office)

Cc: NATO Permanent Representatives
Chairman, MSIAC Steering Committee
Project Manager, MSIAC
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 Munitions Safety Information Analysis Center (MSIAC) Financial Statements for the year ended 31 December 2019 – IBA-AR(2021)0007***

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).

Article 15 of the NATO Financial Regulations states that the IBAN must present its final reports, including factual and formal comments, together with the audited financial statements, to the Council not later than 31 August, following the end of the Financial Year. Considerable delays in receiving outstanding information, which is required in accordance with auditing standards, prevented IBAN's ability to meet the 31st of August 2020 deadline.

IBAN's report sets out an unqualified opinion on the Financial Statements of the Munitions Safety Information Analysis Center and on compliance for financial year 2019.

Yours sincerely,

Daniela Morgante
Chair

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
Munitions Safety Information Analysis Center (MSIAC)
for the year ended 31 December 2019

The Munitions Safety Information Analysis Center (MSIAC) provides a focal point within NATO to assist national and NATO munitions development programmes. The MSIAC project is directed and administered by a Steering Committee and a Project Manager. Budget authorisations for the year 2019 (including amounts brought forward) amounted to EUR 1.76 million, while budget expenditure amounted to EUR 1.72 million.

IBAN issued an unqualified opinion on the Financial Statements and on compliance for the year ended 31 December 2019.

During the audit, IBAN made no observations.

IBAN followed up on the status of observations from previous years' audits and found that one was closed and one remains in progress.

The Auditor's Report and the Letter of Observations and Recommendations 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.

The observations and recommendations raised during the audit as well as the follow-up of the previous years' observations, which have not been included in the IBAN's Letter of Observations and Recommendations are included in a Management Letter addressed to MSIAC management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under MSIAC's management responsibility.

ANNEX 2
IBA-AR(2021)0007

4 June 2021

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF THE MUNITIONS SAFETY INFORMATION ANALYSIS CENTER (MSIAC) FOR THE YEAR ENDED 31 DECEMBER 2019

INDEPENDENT EXTERNAL 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 Munitions Safety Information Analysis Center (MSIAC), for the 12 month period ended 31 December 2019, issued under document reference FC(2020)0016, and submitted to IBAN on 31 March 2020. These Financial Statements comprise the Statement of Financial Position as at 31 December 2019, 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 2019, including a summary of significant accounting policies and other explanatory notes. In addition, the Financial Statements include a Budget Execution Statement for the 12 month period ended 31 December 2019.

In our opinion, the Financial Statements give a true and fair view of the financial position of MSIAC as at 31 December 2019, and of its financial performance, its cash flows and budget execution for the 12 month period ended 31 December 2019, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework (NAF).

Basis for Opinion on the Financial Statements

In accordance with the NATO Financial Regulations (NFRs), external audit of the NATO bodies and reporting entities 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 (ISSAI 2200-2899) 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 MSIAC 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 reporting entity (MSIAC's Project Manager) and the Financial Controller. In signing the Financial Statements, the Head of the NATO reporting entity and the Financial Controller 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.

- 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 4000-4899) 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 and reporting entities 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, 4 June 2021

Daniela Morgante
Chair

ANNEX 3
IBA-AR(2021)0007

4 June 2021

INTERNATIONAL BOARD OF AUDITORS FOR NATO

LETTER OF OBSERVATIONS AND RECOMMENDATIONS

FOR THE MUNITIONS SAFETY INFORMATION ANALYSIS CENTER

(MSIAC)

FOR THE YEAR ENDED 31 DECEMBER 2019

Introduction

The International Board of Auditors for NATO (IBAN) audited the Munitions Safety Information Analysis Center (MSIAC) Financial Statements for the year ended 31 December 2019, 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 observations and recommendations from the previous years' audits and found that one was closed and one remains in-progress.

The observations and recommendations raised during the audit, as well as the follow-up of the previous years' observations, which have not been included in the IBAN's Letter of Observations and Recommendations are included in a Management Letter addressed to MSIAC's management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under MSIAC's executive responsibility.

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.

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 Reporting Entity 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. In the case where there are sub-recommendations, the status related to each sub-recommendation is indicated in the Action Taken column.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
(1) MSIAC FY 2015 **IBA-AR(2018)0001, paragraph 1** **USE OF A MANAGEMENT RESERVE FUND NOT IN COMPLIANCE WITH THE REVISED NATO FINANCIAL REGULATIONS (NFRS)** **IBAN's recommendation** The Board recommends that MSIAC comply with Article 29.3 of the NFRs and restrict currency holdings to the minimum to meet forecast payments prior to receipt of the following contribution instalment. Alternatively, if the MSIAC Steering Committee continues to believe that such a management reserve is necessary, a request for deviation from Articles 24.2 and 29.3 of the NFRs should be made to Council.	In February 2020, the NATO IS Financial Controller and MSIAC's Project Manager submitted a request for the approval of the deviation from Articles 24.2 and 29.3 of the NFRs to the RPPB. According to C-M(2020)0012-AS1 Action Sheet on the IBAN Auditor's Report on the audit of the 2018 Financial Statements of MSIAC, on 28 May 2020, under the silence procedure, the Council noted the RPPB report. In addition, the Council agreed the RPPB report's conclusions and recommendations to approve a deviation from Articles 24.2 and 29.3 of the NFRs to regularise the use of MSIAC accumulated surpluses in an emergency fund and as an operational reserve up to a limit of EUR 650,000.	Observation **Closed**.
(2) MSIAC FY 2015 **IBA-AR(2018)0001, paragraph 6** **EFFORTS TO ACHIEVE COMPLIANCE WITH THE REVISED NATO FINANCIAL REGULATIONS, PARTICULARLY THOSE ARTICLES ON INTERNAL**		Observation **In-Progress**.

CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT **IBAN's recommendations** The Board recommends that MSIAC:		
a) Issues a risk management policy and that risk registers are developed and employed.	a) MSIAC has not issued a risk management policy, but considers its Standing Instructions to address the necessary requirements. MSIAC's Steering Committee reviewed the Standing Instructions in the fall of 2020 and the Project Manager will make the final necessary updates. MSIAC's Standing Instructions Section 2 Planning and Reporting only addresses the policy of maintaining a risk register. The Risk Register was prepared by the MSIAC Strategic Planning Group (MSPG) and approved and reviewed by the Steering Committee. The Risk Register is maintained and updated by the MSPG. MSIAC still needs to implement a risk management policy. Observation: **In-progress.**	
b) As required by FRP XII 3) (e), chooses 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, including ACT and NAPMA, have already adopted COSO as their internal control framework, and it is a framework that can be used by entities of all sizes, MSIAC should consider adopting COSO as their internal control framework.	b) In January 2020 MSIAC adopted the Committee of Sponsoring Organisations of the Treadway Commission (COSO) Integrated Framework (2013). Observation: **Closed.**	
c) In coordination with the International Staff where applicable, begins 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) MSIAC made a detailed assessment of how it met the requirements of the 17 COSO Integrated Framework principles. This assessment revealed no material shortcomings in MSIAC's process of internal control. However, MSIAC has yet to assess and document the risk management procedures after their issuance. Observation: **In-progress.**	
d) Through outsourcing if considered to be more cost effective, ensure internal audit activities are evaluating MSIAC risk management and internal control.	d) No internal audits have been performed so far. However, MSIAC conducts regular internal reviews related to operations, business activities, progress against the Work Plan, strategic direction, budget and	

	spending plan. This has been done twice since January 2020 to support Steering Committee meetings, as they provide direct supervision and approval for all MSIAC activities. For other processes such as financial reporting and compliance, given the relative small size of MSIAC and the broader perspective of the NATO IS Office of the Financial Controller (OFC), there are periodic reviews of the processes in place between the MSIAC Project Manager and NATO IS OFC. MSIAC considers that these are sufficient to ensure that the level of internal control adopted is adequate to the size and complexity of the organisation. In addition, MSIAC considers that it is not practicable for MSIAC to conduct independent internal audits. However, according to the NFRs, internal audits are required for all NATO bodies, whether these are conducted by an in-house internal audit function or outsourced. Observation: **Open.**	

MUNITIONS SAFETY INFORMATION ANALYSIS CENTER (MSIAC) FORMAL COMMENTS ON THE LETTER OF OBSERVATIONS AND RECOMMENDATIONS AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

(2) MSIAC 2015 FY
IBA-AR(2018)0001, paragraph 6

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

IS's Formal Comments

Agreed.

The approach to address the recommendation is under assessment and the process of implementation is ongoing.

GLOSSARY OF TERMS

In accordance with International Standards of Supreme Audit Institutions (ISSAI 2705), audit opinions on financial statements and on compliance can be unqualified, qualified, a disclaimer, or adverse:

- An unqualified opinion is when IBAN issues an opinion that the financial statements and budget execution report are stated fairly and that nothing has come to our attention 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 rules and regulations.
- A qualified opinion means that IBAN was generally satisfied with the presentation of the financial statements, but that some key elements of the statements were not fairly stated or affected by a scope limitation, or specific issues have come to our attention 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 rules and regulations.
- A disclaimer is issued when the audit scope is severely limited and IBAN cannot express an opinion, or when there are material uncertainties affecting the financial statements or the use of funds.
- An adverse opinion is issued when the effect of an error or disagreement is so pervasive and material to the financial statements that IBAN concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.

In accordance with auditing standards, three types of paragraphs may also be communicated in the auditor's report:

- Key Audit Matters (ISSAI 2701): Those matters that, in IBAN's professional judgement, were of most significance in the audit of the financial statements of the current period. Key Audit Matters are addressed to Council.

- Emphasis of Matter (ISSAI 2706): If IBAN considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements; we will include an Emphasis of Matter paragraph in the auditor's report provided.

- Other Matter (ISSAI 2706): If IBAN considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in our judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report; we will include an Other Matter paragraph in the auditor's report.

IBA-A(2021)0056
4 June 2021

To: Secretary General
(Attn: Director of the Private Office)

Cc: NATO Permanent Representatives
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 and Letter of Observations and Recommendations on the audit of the NATO Coordinated Pension Scheme's Financial Statements for the year ended 31 December 2019 – IBA-AR(2021)0009***

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 NATO Coordinated Pension Scheme is referred to as the NATO Defined Benefit Pension Scheme (NATO DBPS) in the Financial Statements.

Article 15 of the NATO Financial Regulations states that the IBAN must present its final reports, including factual and formal comments, together with the audited financial statements, to the Council not later than 31 August, following the end of the Financial Year. Considerable delays in receiving outstanding information, which is required in accordance with auditing standards, prevented IBAN's ability to meet the 31st of August 2020 deadline.

IBAN's report sets out an unqualified opinion on the Financial Statements of the NATO Coordinated Pension Scheme and on compliance for financial year 2019.

IBAN would like in particular to draw your attention to the prior years' observation on the need for NATO as a whole to disclose post-employment liabilities to comply with the NATO Accounting Framework (IPSAS 39 Employee Benefits). In 1997, Council approved not to account for the post-employment benefit liability (C-M(97)85) regarding defined benefit schemes. With the subsequent Council decision to implement IPSAS and the following Council approval of the NATO Accounting Framework (NAF), it is unclear whether the Council decision not to account for the post-employment benefit liability still applies. This is especially the case given that the NATO Accounting Framework does not include an adaptation to IPSAS 39, nor does it refer to this Council decision. The actuarial present value of the pension liability of the scheme at 31 December 2019 was EUR 8.45 billion

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(EUR 8.1 billion at 31 December 2018). IBAN therefore wishes to stress the importance of addressing this recommendation in a timely manner.

Yours sincerely,

Daniela Morgante
Chair

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 2019

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 2019 amounted to EUR 2.78 million (increase of EUR 4.69 million in 2018).

IBAN issued an unqualified opinion on the Financial Statements and on compliance for the year ended 31 December 2019.

During the audit, IBAN made one observation which does not impact the audit opinion:

1. Improvements required in the monitoring, presentation and disclosure of overdue accounts receivable and payable.

IBAN followed up on the status of observations from previous years' audits and found that one was closed, one was in progress and one was open.

IBAN would like in particular to draw your attention to the prior years' observation on the need for NATO as a whole to disclose post-employment liabilities to comply with the NATO Accounting Framework (IPSAS 39 Employee Benefits). In 1997, Council approved not to account for the post-employment benefit liability (C-M(97)85) regarding defined benefit schemes. With the subsequent Council decision to implement IPSAS and the following Council approval of the NATO Accounting Framework (NAF), it is unclear whether the Council decision not to account for the post-employment benefit liability still applies. This is especially the case given that the NATO Accounting Framework does not include an adaptation to IPSAS 39, nor does it refer to this Council decision. The actuarial present value of the pension liability of the scheme at 31 December 2019 was EUR 8.45 billion (EUR 8.1 billion at 31 December 2018). IBAN therefore wishes to stress the importance of addressing this recommendation in a timely manner.

The Auditor's report and the Letter of Observations and Recommendations 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.

The observations and recommendations raised during the audit as well as the follow-up of the previous years' observations, which have not been included in the IBAN's Letter of Observations and Recommendations are included in a Management Letter addressed to NATO Coordinated Pension Scheme management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under NATO Coordinated Pension Scheme's management responsibility.

4 June 2021

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF THE NATO CORDINATED PENSION SCHEME

FOR THE YEAR ENDED 31 DECEMBER 2019

ANNEX 2
IBA-AR(2021)0009

INDEPENDENT EXTERNAL 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 2019, issued and submitted to IBAN on 27 April 2020. These Financial Statements comprise the Statement of Net Assets Available for Benefits as at 31 December 2019, the Statement of Changes in Net Assets Available for Benefits for the period ended 31 December 2019 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 2019, and of its Statement of Changes in Net Assets Available for Benefits for the period ended 31 December 2019, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework (NAF) 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 and reporting entities 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 (ISSAI 2200-2899) 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 the 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 reporting entity and the Financial Controller. In signing the Financial Statements, the Head of the NATO reporting entity and the Financial Controller 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.

- 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 4000-4899) 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 and reporting entities 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, 4 June 2021

Daniela Morgante
Chair

ANNEX 3
IBA-AR(2021)0009

4 June 2021

INTERNATIONAL BOARD OF AUDITORS FOR NATO

LETTER OF OBSERVATIONS AND RECOMMENDATIONS

FOR THE NATO COORDINATED PENSION SCHEME

FOR THE YEAR ENDED 31 DECEMBER 2019

Introduction

The International Board of Auditors for NATO (IBAN) audited the NATO Coordinated Pension Scheme Financial Statements for the year ended 31 December 2019, and issued an unqualified opinion on the financial statements and an unqualified opinion on compliance. The NATO Coordinated Pension Scheme is referred to as the NATO Defined Benefit Pension Scheme (NATO DBPS) in the Financial Statements.

Observations and Recommendations:

During the audit, IBAN made one observation and recommendation.

This observation does not impact the audit opinion on the financial statements and on compliance:

1. Improvements required in the monitoring, presentation and disclosure of overdue accounts receivable and payable.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that one was closed, one remains open and one remains in progress.

The observations and recommendations raised during the audit, as well as the follow-up of the previous years' observations, which have not been included in the IBAN's Letter of Observations and Recommendations are included in a Management Letter addressed to the NATO Coordinated Pension Scheme management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under the NATO Coordinated Pension Scheme's executive responsibility.

OBSERVATIONS AND RECOMMENDATIONS

1. IMPROVEMENTS REQUIRED IN THE MONITORING, PRESENTATION AND DISCLOSURE OF OVERDUE ACCOUNTS RECEVABLE AND PAYABLE

Reasoning

1.1 Financial Statements shall be free of inconsistencies and any other errors or omissions caused by lack of control during preparation. NATO Reporting Entities should have proper internal controls, including reviews and reconciliations in place to ensure the consistency and the accuracy of account balances and information presented in the Financial Statements.

1.2 NATO IS prepares the financial statements of the NATO Coordinated Pension Scheme in accordance with the NATO Accounting Framework. According to IPSAS 1, fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue, and expenses set out in IPSAS. The transparency of financial statements is ensured through full disclosure and by providing a fair presentation of useful information necessary for the decision making of the Nations.

Observations

1.3 During the audit of the 2019 NATO Coordinated Pension Scheme Financial Statements, IBAN found that at 31 December 2019:

- Other Assets included accounts receivable older than 365 days related to the period 2014-2018 amounting to EUR 417,592 (the new balance as of October 2020 amounts to EUR 344,129). These represent various debts of pensioners towards NATO, against which no further receipts have been made.

- Liabilities included accounts payable older than 365 days related to the period 2014-2018 amounting to EUR 750,269 (the new balance as of October 2020 amounts to EUR 291,258). These represent amounts due to former staff where several payment attempts have failed: there was no reply from pensioners or heirs, or pensioners have failed to provide proof of life for more than one year.

- The above overdue receivables and payables were not disclosed in sufficient detailed in the notes to the financial statements, as amounts that are more than 1 year, more than 2 years and more than 5 years old are not presented.

1.4 The Office of the Financial Controller has started a detailed analysis of the overdue accounts receivable and payable. However, this needs to be finalised as some of these amounts may need to be written off.

Recommendations

1.5 IBAN recommends that Office of the Financial Controller:

a) Disclose the amount of overdue accounts receivable and payable in the notes to the financial statements for the amounts that are more than 1 year, more than 2 years and more than 5 years old. This will improve the fair disclosure of overdue accounts receivable and payable for the user of the Coordinated Pension Scheme's Financial Statements.

b) Finalise the detailed analysis of the overdue accounts receivable and payable, jointly with the NATO Office of the Legal Advisor and determine the necessary actions to be taken.

c) Obtain the required approvals in order to proceed with write-offs of outstanding receivables, if all other recovery attempts fail.

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.

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 Reporting Entity 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. In the case where there are sub-recommendations, the status related to each sub-recommendation is indicated in the Action Taken column.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
(1) Pension FY 2018 **IBA-AR(2019)0028, paragraph 1** **NEED FOR NATO AS A WHOLE TO DISCLOSE POST-EMPLOYMENT LIABILITIES TO COMPLY WITH THE NATO ACCOUNTING FRAMEWORK (IPSAS 39 EMPLOYEE BENEFITS)** **IBAN's Recommendation** 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).	The Financial Statements of the NATO Coordinated Pension Scheme and of the NATO Retirees Medical Claims Fund disclose in Note 3, the post-employment benefits, calculated in line with IPSAS 39 by the International Service for Remunerations and Pensions' (ISRP) actuary. However, the post-employment liabilities are not recognised on the face of any NATO Reporting Entity Statement of Financial Position, which in overall terms is not compliant with IPSAS 39, part of the NATO Accounting Framework.	Observation **Open**.
(2) Pension FY 2018 **IBA-AR(2019)0028, paragraph 2** **NEED TO DEVELOP MORE EFFECTIVE INTERNAL CONTROLS OVER FINANCIAL REPORTING** **IBAN's Recommendation** IBAN recommends that in order to prevent and detect errors, IS OFC develop more	NATO IS chose the Committee of Sponsoring Organizations of the Treadway	Observation **In-Progress**.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
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.	Commission (COSO Framework) as a reference internal control framework. In line with COSO's Principles 16 and 17, the organisation uses all available external and internal sources to monitor and evaluate its system of internal control, to identify deficiencies and areas for further improvements. Control over financial reporting is a part of the permanent and ongoing process of increasing the efficiency of the control mechanisms within the NATO IS. During the 2019 audit, IBAN found an unexplained difference of 15 beneficiaries between the number of NATO Coordinated Pension Scheme beneficiaries and the supporting documents provided. In addition, supporting documents have only partially been provided for audit purposes in order to ascertain an amount disclosed in Note 23 (approximately EUR 1 million for administrative expenses related to the management of the pension scheme by NATO IS). Further internal controls need to be implemented in order to ensure that the financial statements, including disclosure notes, are free from errors.	
(3) Pension FY 2015 **IBA-AR(2017)23, paragraph 8** **UNCLEAR FOREIGN CURRENCY CONVERSION POLICY** **IBAN's Recommendation** The Board recommends developing and implementing a comprehensive policy on the accounting and reporting of transactions and balances, stated in foreign currencies. The Board recommends that monetary assets and liabilities at year-end be revalued into EUR at the year-end foreign exchange rates.	NATO IS implemented FC(FAC)(2020)004_FC OFC Policy Accounting Reporting Transactions in Foreign Currency. No material issues or findings in the year end revaluations of balances stated in foreign currency were found by IBAN during the audit of the financial statements for the year 2019.	Observation **Closed**.

NATO COORDINATED PENSION SCHEME FORMAL COMMENTS ON THE LETTER OF OBSERVATIONS AND RECOMMENDATIONS AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS

OBSERVATION 1:
IMPROVEMENTS REQUIRED IN THE MONITORING, PRESENTATION AND DISCLOSURE OF OVERDUE ACCOUNTS RECEVABLE AND PAYABLE

DBPS' Formal Comments

Agreed.

IS will continue its efforts to improve the practices and policies on managing the overdue accounts, receivables and payables.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

(1) PENSION 2018 FY
IBA-AR(2019)0028, paragraph 1
NEED FOR NATO AS A WHOLE TO DISCLOSE POST-EMPLOYMENT LIABILITIES TO COMPLY WITH THE NATO ACCOUNTING FRAMEWORK (IPSAS 39 EMPLOYEE BENEFITS)

DBPS' Formal Comments

Agreed.

The analysis of the applicability of IPSAS 39 is ongoing.

IBAN's Position

In 1997, Council approved not to account for the post-employment benefit liability (C-M(97)85) regarding defined benefit schemes. With the subsequent Council decision to implement IPSAS and the following Council approval of the NATO Accounting Framework (NAF), it is unclear whether the Council decision not to account for the post-employment benefit liability still applies. This is especially the case given that the NATO Accounting Framework does not include an adaptation to IPSAS 39, nor does it refer to this Council decision. IBAN therefore wishes to stress the importance of addressing this recommendation in a timely manner.

(2) PENSION 2018 FY
IBA-AR(2019)0028, paragraph 2
NEED TO DEVELOP MORE EFFECTIVE INTERNAL CONTROLS OVER FINANCIAL REPORTING

DBPS' Formal Comments

Agreed.

Based on the COSO model the IC is being continuously improved.
The IS suggests to consider the observation closed.

IBAN's Position

During the audit of the 2019 DBPS Financial Statements, IBAN found internal control issues as described in the table above. IBAN therefore maintains its recommendation regarding the need for IS OFC to develop more effective internal controls over the financial statements preparation process. The status will be reassessed as part of the audit of the 2020 Financial Statements.

GLOSSARY OF TERMS

In accordance with International Standards of Supreme Audit Institutions (ISSAI 2705), audit opinions on financial statements and on compliance can be unqualified, qualified, a disclaimer, or adverse:

- An unqualified opinion is when IBAN issues an opinion that the financial statements and budget execution report are stated fairly and that nothing has come to our attention 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 rules and regulations.
- A qualified opinion means that IBAN was generally satisfied with the presentation of the financial statements, but that some key elements of the statements were not fairly stated or affected by a scope limitation, or specific issues have come to our attention 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 rules and regulations.
- A disclaimer is issued when the audit scope is severely limited and IBAN cannot express an opinion, or when there are material uncertainties affecting the financial statements or the use of funds.
- An adverse opinion is issued when the effect of an error or disagreement is so pervasive and material to the financial statements that IBAN concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.

In accordance with auditing standards, three types of paragraphs may also be communicated in the auditor's report:

- Key Audit Matters (ISSAI 2701): Those matters that, in IBAN's professional judgement, were of most significance in the audit of the financial statements of the current period. Key Audit Matters are addressed to Council.
- Emphasis of Matter (ISSAI 2706): If IBAN considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements; we will include an Emphasis of Matter paragraph in the auditor's report provided.
- Other Matter (ISSAI 2706): If IBAN considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in our judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report; we will include an Other Matter paragraph in the auditor's report.

IBA-A(2021)0052
4 June 2021

To: Secretary General
(Attn: Director of the Private Office)

Cc: NATO Permanent Representatives
Chairman, NATO FORACS Office 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 Naval Forces Sensor and Weapons Accuracy Check Sites Office's (NATO FORACS Office (NFO)) Financial Statements for the year ended 31 December 2019 – IBA-AR(2021)0012***

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).

Article 15 of the NATO Financial Regulations states that the IBAN must present its final reports, including factual and formal comments, together with the audited financial statements, to the Council not later than 31 August, following the end of the Financial Year. As already communicated on 24 July 2020 (ref: IBA-C(2020)0014), considerable delays in receiving outstanding information, which is required in accordance with auditing standards, prevented IBAN's ability to meet the 31st of August 2020 deadline.

IBAN's report sets out an unqualified opinion on the Financial Statements of the NATO FORACS Office (NFO) and on compliance for financial year 2019.

Yours sincerely,

Daniela Morgante
Chair

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 Naval Forces Sensor and Weapons Accuracy Check Sites Office
(NATO FORACS Office (NFO))
for the year ended 31 December 2019

The NATO Naval Forces Sensors and Weapon Accuracy Check Sites Office (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, Greece, and the United States of America.

The overall management of the programme is under the responsibility of the FORACS Steering Committee. The NATO FORACS Office (NFO) is located at the NATO Headquarters in Brussels and serves as the executive staff of the Steering Committee. The NFO budget for 2019 (including brought forward credits) amounted to EUR 1.92 million while budget expenses amounted to EUR 1.18 million.

IBAN issued an unqualified opinion on the Financial Statements and on compliance for the year ended 31 December 2019.

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

The main findings are listed below and do not impact the audit opinion on the financial statements and on compliance:

1. Inconsistent recognition and disclosure of uncommitted appropriations of the Ranges.

2. Insufficient documentation in support of the note to the Financial Statements on related parties.

3. Accounting treatment of the reversal of provision for untaken leave.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that three were closed (one of which is superseded by current year observation 1) and one remains in progress.

The Auditor's Report and the Letter of Observations and Recommendations were issued to the NATO FORACS Office (NFO) whose comments have been included, with the IBAN's position on those comments where necessary, see the Appendix to Annex 3.

4 June 2021

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF THE

NATO NAVAL FORCES SENSOR AND WEAPONS ACCURACY CHECK SITES OFFICE (NATO FORACS OFFICE (NFO))

FOR THE YEAR ENDED 31 DECEMBER 2019

INDEPENDENT EXTERNAL 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 Naval Forces Sensor and Weapons Accuracy Check Sites Office (NATO FORACS Office (NFO)), for the 12 month period ended 31 December 2019, issued under document reference FC(2020)0026, and submitted to IBAN on 31 March 2020. These Financial Statements comprise the Statement of Financial Position as at 31 December 2019, 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 2019, including a summary of significant accounting policies and other explanatory notes. In addition, the Financial Statements include a Budget Execution Statement for the 12 month period ended 31 December 2019.

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 2019, and of its financial performance, its cash flows and budget execution for the 12 month period ended 31 December 2019, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework (NAF).

Basis for Opinion on the Financial Statements

In accordance with the NATO Financial Regulations (NFRs), external audit of the NATO bodies and reporting entities 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 (ISSAI 2200-2899) 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 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 reporting entity and the Financial Controller. In signing the Financial Statements, the Head of the NATO reporting entity and the Financial Controller 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.

- 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 4000-4899) 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 and reporting entities 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, 4 June 2021

Daniela Morgante
Chair

ANNEX 3
IBA-AR(2021)0012

4 June 2021

INTERNATIONAL BOARD OF AUDITORS FOR NATO

LETTER OF OBSERVATIONS AND RECOMMENDATIONS

FOR THE

NATO NAVAL FORCES SENSOR AND WEAPONS ACCURACY CHECK SITES OFFICE
(NATO FORACS OFFICE (NFO))

FOR THE YEAR ENDED 31 DECEMBER 2019

Introduction

The International Board of Auditors for NATO (IBAN) audited the NATO Naval Forces Sensor and Weapons Accuracy Check Sites Office (NATO FORACS Office (NFO)) Financial Statements for the year ended 31 December 2019, and issued an unqualified opinion on the financial statements and an unqualified opinion on compliance.

Observations and Recommendations:

During the audit, IBAN made three observations and recommendations.

These observations do not impact the audit opinion on the financial statements and on compliance:

1. Inconsistent recognition and disclosure of uncommitted appropriations of the Ranges.

2. Insufficient documentation in support of the note to the Financial Statements on related parties.

3. Accounting treatment of the reversal of provision for untaken leave.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that three were closed (one of which is superseded by current year observation 1) and one remains in progress.

OBSERVATIONS AND RECOMMENDATIONS

1. INCONSISTENT RECOGNITION AND DISCLOSURE OF UNCOMMITED APPROPRATIONS OF THE RANGES

Reasoning

1.1 As stated in Note 5 of the NATO FORACS Office (NFO) 2019 Financial Statements: *“During the audit to 2018 Financial Statements IBA(AR(2019)0022, IBAN made a recommendation that the annual budgetary surpluses of the Ranges, usually known around April of the following year, should be reported as a Current Asset (Receivable) and Liability (refundable Surplus to Nations) in NFO’s Financial Statements. In 2019, this recommendation was taken into account and therefore NFO is now reporting those figures”.*

1.2 Given the tight schedule of the accounts closing exercise, NFO confirmed the amount of these surpluses directly with each Range Manager on a declaration basis. The amounts recorded as receivables in NFO's Financial Statements should be consistent with the surpluses reported in the Budget Execution Statement (BES) of the Ranges for 2019 and presented in the *"NATO FORACS Corporate plan 2020-2021"* (NFO(2020)011-484) issued in April 2020.

1.3 The budget execution of the Ranges is outside of the scope of IBAN’s audit mandate. These expenditures are audited and certified by the Ministry of Defence of each host country, in accordance with respective national laws and regulations. For financial year 2019, the accounts of NATO FORACS Norway (NFN) and NATO FORACS Greece (NFG) were certified, however, due to specific rules, no audit certificate was issued by the United States Department of the Navy for NATO FORACS AUTEC (NFA) since 2017.

1.4 These independent third-party audit certificates provide confirmation and strong audit evidence to corroborate the amount of the receivables recorded in the NFO accounts. They therefore contribute to give an audit assurance that the, *“Financial statements [...] present fairly the financial position, financial performance and cash flows of an entity”* and that they are *“prepared on a going concern basis”* in accordance with the NATO Accounting Framework’s IPSAS 1.

Observations

1.5 The amounts reported as a Current Asset (Receivable) in NFO’s Financial Statements regarding the refundable surplus to Nations are consistent with the information reported in the Budget Execution Statements of the Ranges. However, we found that the committed amounts as per the audit certificates of NFN and NFG Ranges, which were reported to the Steering Committee, are lower than those shown in their respective Budget Execution Statements. The Budget Execution Statements of the Ranges report as a carry forward, amounts relating to supplementary budget which have however been certified in the audit certificate as uncommitted. In addition, we found no Steering Committee decision authorising the Ranges to treat these uncommitted funds as a carry-forward.

1.6 Therefore, if the Ranges would report committed amounts in their respective Budget Execution Statements to reflect amounts certified, then the receivable and liability in the NFO Statement of Financial Position corresponding to the surpluses of the Ranges would be increased by EUR 233,020 (NOK 2,325,195) for NFN and by EUR 59,099 for NFG. In addition, as explained in the reasoning, it must be noted that with no available audit certificate for NFA since 2017, we cannot provide a reasonable level of assurance as to the accuracy of the refundable surplus of NFA.

Recommendations

1.7 IBAN recommends that NFO:

a) Ensures the completeness and accuracy of receivables by verifying the consistency between the amounts of receivables recognised in the financial statements of NFO and surpluses shown both in the budgetary execution of the Ranges and third party audit certificates, and

b) Updates the method of estimating receivables in its accounting policy accordingly.

2. INSUFFICIENT DOCUMENTATION IN SUPPORT OF THE NOTE TO THE FINANCIAL STATEMENTS ON RELATED PARTIES

Reasoning

2.1 IPSAS 20, which forms part of the NATO Accounting Framework, requires: "*the disclosure of the existence of related party relationships where control exists and the disclosure of information about transactions between the entity and its related parties in certain circumstances. This information is required for accountability purposes and to facilitate a better understanding of the financial position and performance of the reporting entity".*

2.2 This information is needed from *"parties that control or significantly influence the reporting entity"*, i.e. parties that have *"the power to participate in the financial and operating policy decisions of an entity, but not control those policies." "Significant influence may be exercised in several ways, usually by representation on the board of directors or equivalent governing body".*

2.3 Further, *"where an entity is subject to the oversight of an elected or appointed representative of the governing body of the government to which the entity belongs, that person is included in key management personnel if the oversight function includes* *the authority and responsibility for planning, directing and controlling the activities of the entity".*

2.4 In order to identify such related parties and related party transaction, reporting entities have to ensure that they are making inquiries to all those individuals identified as key management personnel, which, in accordance with the NATO Accounting Framework, includes members of governing bodies, with the adequate audit trail to support the information disclosed in the financial statements.

2.5 In the absence of such formal evidence, external auditors cannot give assurance that, firstly, the management assertions made in accordance with the NATO Accounting Framework (IPSAS 20) are true and fair, and secondly, that the internal control activities are effective in detecting this type of transaction.

2.6 In this respect, Article 6 of the NATO Financial Regulation (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 NATO Accounting Framework.

2.7 In addition, Article 12.3 of the NFRs states that *"Internal control activities shall include,[…] adequate audit trails and data confidentiality, integrity and availability in information systems."*

Observations

2.8 We found that Note 26 *"Related parties"* of NFO's Financial Statements states that *"Both Steering Committee members and Key management personnel have no significant party relationships that could affect the operations of the NFO"*. However this information is not supported by any document such as an individual declaration of related party relationships and absence of conflict of interest for key management personnel.

2.9 As explained in the reasoning, in the absence of this documentation, the accuracy of the financial disclosure and audit trail is not demonstrated. Such a statement provides minimum assurance that the entity has included in its internal control system a procedure to verify the absence of conflicts of interest and is able to identify related party relationships that could affect the operation of NFO. This is a procedure that must be renewed each year by each staff member individually and cannot be confused with, for example, adherence to the general NATO Code of Conduct via the employment contract.

2.10 In addition, this obligation extends to the representatives of the Steering Committee in accordance with the requirements of the NATO Accounting Framework (IPSAS 20) as long as they have the power to participate in the financial and operating policy decisions, regardless of the level of control they provide over day-to-day affairs and the regulatory framework in which each of them has been appointed.

Recommendations

2.11 IBAN recommends that NFO:

a) Implements a procedure for identifying related party transactions and monitor the absence of conflicts of interest in support of the disclosure notes to the financial statements.

b) Complies with the NATO Accounting Framework (IPSAS 20) by ensuring that all members of key management personnel, including Steering committee members, complete and sign declarations concerning related party relationships or transactions that could affect the operation of the reporting entity.

3. ACCOUNTING TREATMENT OF THE REVERSAL OF PROVISION FOR UNTAKEN LEAVE

Reasoning

3.1 The NATO Accounting Framework (IPSAS 19) states that *"Provisions should be reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision should be reversed."*

3.2 Consequently, the total or partial reversal of a provision implies the unrecognition of the corresponding liability against the expense category for which the provision was initially recognized.

3.3 Accordingly, the Statement of Financial Performance must reflect the net flows related to the change in provisions between two consecutive years.

Observations

3.4 In 2019, NFO booked expenses related to the total year-end provision for untaken leave amounting to EUR 12,676. In 2018, this year-end provision and expense amounted to EUR 11,243. NFO correctly reversed the prior year's provision in the Statement of Financial Position in accordance with its accounting policy. However NFO did not recognise the counterpart of this reversal of provision in the Statement of Financial Performance amounting to EUR 11,243.

3.5 Therefore, expenses in the Statement of Financial Performance do not reflect the change in provision for untaken leave, which was in 2019 an increase of EUR 1,432 and not an increase of EUR 12,676. The expenses in the Statement of Financial Performance are therefore overstated by EUR 11,243. Furthermore, as NFO recognises revenues to compensate for expenses related to the provision for untaken leave, revenues are also overstated by the same amount.

Recommendations

3.6 IBAN recommends that NFO recognises in accordance with its accounting policy, the reversal of the previous year's provision for untaken leave in the Statement of Financial Performance.

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.

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 Reporting Entity 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. In the case where there are sub-recommendations, the status related to each sub-recommendation is indicated in the Action Taken column.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
(1) NFO FY 2018 **IBA-AR(2019)0022, paragraph 1.8** **WEAKNESSES IN THE INTERNAL CONTROLS OVER FINANCIAL REPORTING** **IBAN's Recommendation** 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.	The cash flow Statement presentation was corrected in accordance with IBAN recommendation. Prevention and detection of mistakes before the issuance of the Financial Statements have been applied on a regular basis for the 2019 Financial Statements and no anomaly was found during the course of the audit.	Observation **Closed**
(2) NFO FY 2018 **IBA-AR(2019)0022, paragraph 2.6** **RECOGNITION OF REVENUE FROM SERVICES PROVIDED BY THE RANGES TO NON-MEMBER NATIONS** **IBAN's Recommendation** a) IBAN recommends that the revenues collected by NFO resulting from the services provided by the Ranges to non-member Nations be documented and recognised as non-exchange revenue.	NFO acknowledged the recommendation that the revenues collected resulting from the services provided by the Ranges to non-member Nations be documented and recognised as non-exchange	Observation **Closed**

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
	revenue. In 2019 no such case occurred.	
(3) NFO FY 2018 **IBA-AR(2019)0022, paragraph 3.7** **RECOGNITION AND DISCLOSURE OF CASH TO BE RECEIVED FROM RANGES RELATED TO BUDGETARY SURPLUSES** **IBAN's Recommendation** 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.	From 2019 onwards NFO recognises in its financial statements the budgetary surplus to be received from the Ranges. This observation is closed as superseded by current year Observation 1.	Observation **Closed**
(4) 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** **IBAN's Recommendation** a) Ensure its risk management policy and risk registers include financial reporting and compliance risks.	a) As in previous years, Annex 6 of the 91st minutes of the NATO FORACS Office Steering Committee meeting provides a complete and updated list of operational risks and their mitigation to ensure the continuity of FORACS NFO and Ranges activities. However, the consideration of financial reporting and compliance involving the International Staff Office of the Financial Controller (IS OFC) is still not well documented. Observation **In-progress**.	Observation **In-Progress**

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
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 NATO FORACS Office Steering Committee confirmed in February 2019 the adoption of the COSO Framework 2013 model of Internal Control. The aim is now to work with the IS OFC to implement this process in the most effective way possible. Observation **Closed**.	
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) The IS OFC and NFO Project Manager consider the level of Internal Control adopted by NFO to be appropriate to the size and complexity of the Office, but the detail needs to be documented for audit purposes and this work is in progress. Observation **In-progress**.	
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 NFO 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) In recent years FORACS has changed the approval process for the supplementary budget, which is now only used for goods and services to be rendered during the financial year. This approval process also applies to NFO. Observation **Closed**.	

NATO FORACS OFFICE (NFO) FORMAL COMMENTS ON THE LETTER OF OBSERVATIONS AND RECOMMENDATIONS AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS

OBSERVATION 1:
INCONSISTENT RECOGNITION AND DISCLOSURE OF UNCOMMITED APPROPRATIONS OF THE RANGES

NFO's Formal Comments

Agreed.

a) NFO notes the IBAN recommendation regarding uncommitted appropriations at the NATO FORACS Ranges and their handling in the NFO Financial Statements. It is the broad intention to consider changes which will introduce sufficient flexibility to support NFO FORACS in managing project implementation spanning a number of financial years, while still providing clear information on project funding and approval status in support of future audits.

b) OFC is in the course of reviewing Accounting Policies for the entities in its portfolio and will take this recommendation into consideration when developing new procedures and mechanisms in this area.

OBSERVATION 2:
INSUFFICIENT DOCUMENTATION IN SUPPORT OF THE NOTE TO THE FINANCIAL STATEMENTS ON RELATED PARTIES

NFO's Formal Comments

Do not agree.

a) NFO notes the IBAN recommendation regarding related party relationships or transactions but believes the information provided is sufficient. Nevertheless, during the COSO-triggered periodic assessment of the efficiency of control mechanisms, we will assess if any change can be introduced to the process of gathering information, in terms of improving the effectiveness and efficiency of the administrative process and possible added value.

b) IPSAS 20—Related Party Disclosures does not prescribe any particular method in which the information to be disclosed should be gathered. We believe that the current system of gathering information on related parties is adequate to the governance structure of the entity and that the disclosures *in the financial statements, being in line with IPSAS 20, provides a reliable and true picture.*

IBAN's Position

IBAN acknowledges that IPSAS 20 - *Related Party Disclosures* does not prescribe a specific method in which the information to be disclosed should be gathered. However, in the absence of any document, such as an individual declaration of related party relationships and absence of conflict of interest for key management personnel, NFO cannot demonstrate the accuracy of the financial disclosure and audit trail, as required by the NFRs. Such a declaration would provide at least a minimum assurance that the entity included in its internal control system a procedure to verify the absence of conflicts of interest and is able to identify related party relationships that could affect the operation of NFO.

OBSERVATION 3:
ACCOUNTING TREATMENT OF THE REVERSAL OF PROVISION FOR UNTAKEN LEAVE

NFO's Formal Comments

Agreed.

NFO notes the IBAN recommendation regarding the accounting treatment of the reversal of provision for untaken leave. The recommendation has been taken into account during the preparation of the 2020 Financial Statements.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

(4) 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

NFO's Formal Comments

Do not agree.

a) Action in respect of this recommendation is complete; NFO and IS have implemented it fully. In line with NRFs/FRPs, management of the financial risks is the responsibility of Financial Controller. The NFO is served *by the IS Office of Financial Control, hence the financial reporting and compliance risks are part of the IS risk management policy and risk registers.*

c) Action in respect of this recommendation is complete. NFO implemented it fully and the work of assessing and documenting the system of internal control and risk management procedures has not only begun but is undergoing a process of continual improvement in line with the COSO principles.

d) Action in respect of this recommendation is complete. The NFO Project Manager has engaged with the Head of NATO's Office of Internal Audit and Risk Management (OIARM) regarding an independent assessment of the COSO Internal Control framework adopted by NFO in 2019. As the OIARM's Audit Plan is determined on a risk-based methodology, NFO will be included at an appropriate time.

IBAN's position

The implementation of COSO following its adoption in 2019 as a framework and the rollout of internal control and risk management tools were not fully effective at the closing date of 31 December 2019. More specifically, at this date:

a) NFO had not yet sufficiently documented areas of financial reporting and compliance involving the International Staff Office of the Financial Controller.
c) NFO still needs to fully document the system of internal control and risk management procedures, adapted to the lower level of materiality given the size and limited complexity of the NATO Reporting Entity.
d) As a separate NATO Reporting Entity, the NFRs require NFO to ensure that internal audit activities are evaluating its own risk management and internal control. NFO should not link the timing of these internal audit activities with the audit plan of the International Staff, which is a separate NATO Reporting Entity.

IBAN therefore reiterates the sub-recommendations above and will reassess its position and reflect progress done by NFO as part of the audit of the 2020 Financial Statements.

GLOSSARY OF TERMS

In accordance with International Standards of Supreme Audit Institutions (ISSAI 2705), audit opinions on financial statements and on compliance can be unqualified, qualified, a disclaimer, or adverse:

- An unqualified opinion is when IBAN issues an opinion that the financial statements and budget execution report are stated fairly and that nothing has come to our attention 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 rules and regulations.

- A qualified opinion means that IBAN was generally satisfied with the presentation of the financial statements, but that some key elements of the statements were not fairly stated or affected by a scope limitation, or specific issues have come to our attention 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 rules and regulations.

- A disclaimer is issued when the audit scope is severely limited and IBAN cannot express an opinion, or when there are material uncertainties affecting the financial statements or the use of funds.

- An adverse opinion is issued when the effect of an error or disagreement is so pervasive and material to the financial statements that IBAN concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.

In accordance with auditing standards, three types of paragraphs may also be communicated in the auditor's report:

- Key Audit Matters (ISSAI 2701): Those matters that, in IBAN's professional judgement, were of most significance in the audit of the financial statements of the current period. Key Audit Matters are addressed to Council.

- Emphasis of Matter (ISSAI 2706): If IBAN considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements; we will include an Emphasis of Matter paragraph in the auditor's report provided.

- Other Matter (ISSAI 2706): If IBAN considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in our judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report; we will include an Other Matter paragraph in the auditor's report.

IBA-A(2021)0054
4 June 2021

To: Secretary General
(Attn: Director of the Private Office)

Cc: NATO Permanent Representatives
Assistant Secretary General, Executive Management Division
Deputy 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 and Letter of Observations and Recommendations on the audit of the New NATO Headquarters (NNHQ) Financial Statements for the year ended 31 December 2019 – IBA-AR(2021)0011***

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).

Article 15 of the NATO Financial Regulations states that the IBAN must present its final reports, including factual and formal comments, together with the audited financial statements, to the Council not later than 31 August, following the end of the Financial Year. Considerable delays in receiving outstanding information, which is required in accordance with auditing standards, prevented IBAN's ability to meet the 31st of August 2020 deadline.

IBAN's report sets out an unqualified opinion on the Financial Statements of the New NATO Headquarters and on compliance for financial year 2019.

Yours sincerely,

Daniela Morgante
Chair

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
New NATO Headquarters (NNHQ)
for the year ended 31 December 2019

The International Board of Auditors for NATO (IBAN) audited the New NATO Headquarters (NNHQ) Financial Statements for the year ended 31 December 2019.

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 entire New NATO HQ Programme was budgeted through a Long Term Programme Budget (LTPB) ending end of 2018 and for a total budget ceiling of EUR 1.179 billion. From that LTPB, a remaining amount of EUR 49.2 million was carried forward to year 2019.

IBAN issued an unqualified opinion on the Financial Statements and on compliance for the year ended 31 December 2019.

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

1. No financial report for Long Term Programme Budget (LTPB) at year end 2019.

2. No information related to Long Term Programme Budget (LTPB) Contingency credits under control of Host Nation Belgium.

3. Accounting misstatement in the reversal of provision for untaken leave.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that one was closed and one remains in-progress.

The Auditor's Report and the Letter of Observations and Recommendations were issued to NNHQ whose comments have been included, with the IBAN's position on those comments where necessary, see the Appendix to Annex 3.

The observations and recommendations raised during the audit as well as the follow-up of the previous years' observations, which have not been included in the IBAN's Letter of Observations and Recommendations are included in a Management Letter addressed to the NNHQ management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under NNHQ's executive responsibility.

ANNEX 2
IBA-AR(2021)0011

4 June 2021

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF THE NEW NATO HEADQUARTERS (NNHQ) FOR THE YEAR ENDED 31 DECEMBER 2019

INDEPENDENT EXTERNAL 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, for the 12 month period ended 31 December 2019 issued under document reference FC(2020)0040 and submitted to IBAN on 27/04/2020. These Financial Statements comprise the Statement of Financial Position as at 31 December 2019, 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 2019, including a summary of significant accounting policies and other explanatory notes. In addition, the Financial Statements include a Budget Execution Statement for the 12 month period ended 31 December 2019.

In our opinion, the Financial Statements give a true and fair view of the financial position of NNHQ as at 31 December 2019 and of its financial performance, its cash flows and budget execution for the 12 month period ended 31 December 2019, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework (NAF).

Basis for Opinion on the Financial Statements

In accordance with the NATO Financial Regulations (NFRs), external audit of the NATO bodies and reporting entities 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 (ISSAI 2200-2899) 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 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 reporting entity and the Financial Controller. In signing the Financial Statements, the Head of the NATO reporting entity and the Financial Controller 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.

- 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 4000-4899) 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 and reporting entities 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, 4 June 2021

Daniela Morgante
Chair

ANNEX 3
IBA-AR(2021)0011

4 June 2021

INTERNATIONAL BOARD OF AUDITORS FOR NATO

LETTER OF OBSERVATIONS AND RECOMMENDATIONS

FOR THE NEW NATO HEADQUARTERS

(NNHQ)

FOR THE YEAR ENDED 31 DECEMBER 2019

Introduction

The International Board of Auditors for NATO (IBAN) audited the New NATO Headquarters Financial Statements for the year ended 31 December 2019, and issued an unqualified opinion on the financial statements and an unqualified opinion on compliance.

Observations and Recommendations:

During the audit, IBAN made three observations and recommendations.

These observations do not impact the audit opinion on the financial statements and on compliance:

1. No financial report for Long Term Programme Budget (LTPB) at year end 2019.

2. No information related to Long Term Programme Budget (LTPB) Contingency credits under control of Host Nation Belgium.

3. Accounting misstatement in the reversal of provision for untaken leave.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that one was closed and one remains in-progress.

The observations and recommendations raised during the audit as well as the follow-up of the previous years' observations, which have not been included in the IBAN's Letter of Observations and Recommendations are included in a Management Letter addressed to NNHQ management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under NNHQ executive responsibility.

OBSERVATIONS AND RECOMMENDATIONS

1. NO FINANCIAL REPORT FOR LONG TERM PROGRAMME BUDGET (LTPB) AT YEAR END 2019

Reasoning

1.1 The disestablishment of the Headquarter Programme Office/ Transition Office (HQPO/TO) was decided to be on 30 June 2020 by the Deputy Permanent Representative Committee (DPRC-N(2019)0067-REV1-AS1). This required that "*a financial status report for the Long Term Programme Budget (LTPB) as of 31 December 2019 will be presented to the Committee in the first quarter of 2020".*

1.2 The fact that a financial status report is required is also disclosed in Note 23 of the New NATO HQ 2019 Financial Statements: *"A financial status report for the LTPB as of 31 December 2019 will be presented to the Deputy Permanent Representative Committee (DPRC) by the HQPO/TO after the issuance of these financial statements".*

Observations

1.3 The Headquarter Programme Office/ Transition Office (HQPO/TO), part of the Defence Investment Division, did not present, during the first quarter of 2020, a financial status report for the Long Term Programme Budget (LTPB) as of 31 December 2019, as required by the decision of the DPRC (DPRC-N(2019)0067-REV1-AS1). The financial status report was only presented on 22 September 2020 to the Budget Committee (BC-D(2020)0167).

1.4 The NATO headquarters move was in June 2018. Therefore, if a financial status report as of 31 December 2019 had been presented without delay, this would have provided a comprehensive and timely view to the Nations of the remaining financial commitments and requirements of the Programme, through to its completion.

Recommendations

1.5 IBAN recommends that the International Staff present the financial status reports for the Long Term Programme Budget (LTPB) without delay, in compliance with the decisions of governing bodies.

2. NO INFORMATION RELATED TO LONG TERM PROGRAMME BUDGET (LTPB) CONTINGENCY CREDITS UNDER CONTROL OF HOST NATION BELGIUM

Reasoning

2.1 Special budgetary and financial procedures were adopted in order to ensure transparent and responsible management of the new NATO HQ project. Annual financial statements are prepared and must include, as required by the Budget Committee in BC-D(2000)16, "*budget execution reports, a balance sheet and funding table".*

2.2 Therefore, the disclosure notes of the New NATO HQ Financial Statements include, since 2013, an end of year status of the Long Term Programme Budget (LTPB) contingency credits, as they were consumed regularly.

2.3 Out of a total amount of EUR 247 million of LTPB contingency credits, EUR 203 million were allocated to Host Nation Belgium, EUR 38.4 million to the Deputy Permanent Representative Committee, EUR 3.98 million to Host Nation NATO Communication and Information Agency, and EUR 1.2 million to Host Nation International Staff. The total amount of contingency credits authorised to Host Nations NCIA and IS were fully committed.

Observations

2.4 Note 23, "Contingency credits and Contingent liabilities" in the New NATO HQ 2019 Financial Statements provides information regarding the estimated refund from Host Nation Belgium from the construction contract amounting to EUR 15.4 million. According to the Budget Committee decision (BC-D(2020)0167) dated 22 September 2020, "*Host Nation Belgium confirmed that from the overall authorization an amount of approximately KEUR 13,200 will no longer be needed and will be made available to NATO in the course of 2020*".

2.5 However, there is no information related to the status of the contingency credits under Host Nation Belgium control as at 31 December 2019. Note 23 provides only the latest status of the contingencies under Deputy Permanent Representative Committee (DPRC) control.

2.6 One of the latest status of the Host Nation Belgium contingency credits were disclosed in a DPRC decision (DPRC-N(2018)007-REV1 dated 6 November 2018) with an estimated available amount of EUR 10.8 million.

2.7 By not providing the status of all contingency credits, the NNHQ 2019 Financial Statements lack the clarity required by the principles mentioned above. Such financial information may be needed by stakeholders for their decision to use available contingencies to fund additional costs related to the former NATO HQ and the continuation of the LTPB until December 2020.

Recommendations

2.8 IBAN recommends that IS-OFC improve the disclosure in note 23 to the Financial Statements regarding the status of all Long Term Programme Budget contingency credits.

3. ACCOUNTING MISSTATEMENT IN THE REVERSAL OF PROVISION FOR UNTAKEN LEAVE

Reasoning

3.1 IPSAS 19 states that *"Provisions should be reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision should be reversed."*

3.2 Consequently, the total or partial reversal of a provision implies the unrecognition of the corresponding liability in expenses (and revenue) for which the provision was initially recognised.

3.3 Accordingly, the Statement of Financial Performance must reflect the net flows related to the change in provisions between two consecutive years.

Observations

3.4 In 2019, NNHQ booked expenses related to the total year-end provision for untaken leave amounting to EUR 42,336. In 2018, this year-end provision and expense amounted to EUR 73,382. NNHQ correctly reversed the prior year's provision in the Statement of Financial Position. However, NNHQ did not recognise the counterpart of this reversal of provision in the Statement of Financial Performance amounting to EUR 73,382.

3.5 As a result, expenses in the Statement of Financial Performance do not reflect the change in provision for untaken leave, which was in 2019 a decrease of EUR 31,046 and not an increase of EUR 42,336. The expenses in the Statement of Financial Performance are therefore overstated by EUR 73,382. Furthermore, as NNHQ recognises revenues to compensate for expenses related to the provision for untaken leave, revenues are also overstated by the same amount.

Recommendations

3.6 IBAN recommends that NNHQ recognise in the Statement of Financial Performance the reversal of the previous year's provisions for Untaken Leave.

ANNEX 3
IBA-AR(2021)0011

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.

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 Reporting Entity 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. In the case where there are sub-recommendations, the status related to each sub-recommendation is indicated in the Action Taken column.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
(1) ENTITY FY 2018 **IBA-AR(2019)0021, paragraph 1** **NNHQ LONG TERM PROGRAMME BUDGET EXECUTION STATEMENT DO NOT RECONCILE WITH FINANCIAL STATEMENST** **IBAN's Recommendation** In order to ensure the accuracy of the Budget Execution Statements, IBAN recommends that: - 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, - Quarterly reconciliation be conducted between HQPO Team and the IS Office of Financial Control.	IBAN did not receive supporting evidence on whether end of year activities were updated to ensure that the carry forward of accrued expenses were properly reflected against the annual budget in the ERP. In addition, IBAN did not receive a quarterly reconciliation conducted between HQPO Team and the IS Office of Financial Control.	**Observation** In progress.
(2) ENTITY FY 2018 **IBA-AR(2019)0021, paragraph 2** **ERROR IN THE NOTE 8 "NON-CURRENT ASSETS" OF THE FINANCIAL STATEMENTS** **IBAN's Recommendation** 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.	This error was corrected in the 2019 Financial Statements.	**Observation** Closed.

NEW NATO HEADQUARTERS (NNHQ) FORMAL COMMENTS ON THE LETTER OF OBSERVATIONS AND RECOMMENDATIONS AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS

OBSERVATION 1: NO FINANCIAL REPORT FOR LONG TERM PROGRAMME BUDGET (LTPB) AT YEAR END 2019

NNHQ's Formal Comments

Agreed.

The NNHQ project has been closed as of 31 December 2020.

OBSERVATION 2: NO INFORMATION RELATED TO LONG TERM PROGRAMME BUDGET (LTPB) CONTINGENCY CREDITS UNDER CONTROL OF HOST NATION BELGIUM

NNHQ's Formal Comments

Do not agree.

The NNHQ project closed per end of 2020 and no contingencies are anticipated in their last Financial Statements.

IBAN's Position

This recommendation related to the NNHQ 2019 Financial Statements, in which information related to long term programme budget contingency credits under control of Host Nation Belgium has not been disclosed. IBAN therefore maintains its recommendation and will reassess the status of this recommendation as part of the audit of the 2020 Financial Statements.

OBSERVATION 3: ACCOUNTING MISSTATEMENT IN THE REVERSAL OF PROVISION FOR UNTAKEN LEAVE

NNHQ's Formal Comments

Agreed.

The NNHQ project closed per end of 2020 and no provision for untaken leave is anticipated in their last Financial Statements.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

(1) NNHQ 2018 FY
IBA-AR(2019)0021, paragraph 1
NNHQ LONG TERM PROGRAMME BUDGET EXECUTION STATEMENT DO NOT RECONCILE WITH FINANCIAL STATEMENTS

NNHQ's Formal Comments

Do not agree.

The situation was reported and explained to the member Nations in June 2019 (see DPRC-N(2019)0037(INV). The figures disclosed in the financial statements are accurate.

The IS proposes to consider this recommendation as closed.

IBAN's Position

IBAN acknowledges that the discrepancy between the Financial Statements and the NNHQ LTPB was explained in DPRC-N(2019)0037(INV). However, IBAN has not received supporting evidence on whether end of year activities were updated to ensure that the carry forward of accrued expenses were properly reflected against the annual budget in the ERP. In addition, IBAN has not received a quarterly reconciliation conducted between the HQPO Team and the IS Office of Financial Control. IBAN therefore maintains this recommendation and will reassess its status as part of the audit of the NNHQ 2020 Financial Statements.

GLOSSARY OF TERMS

In accordance with International Standards of Supreme Audit Institutions (ISSAI 2705), audit opinions on financial statements and on compliance can be unqualified, qualified, a disclaimer, or adverse:

- An unqualified opinion is when IBAN issues an opinion that the financial statements and budget execution report are stated fairly and that nothing has come to our attention 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 rules and regulations.

- A qualified opinion means that IBAN was generally satisfied with the presentation of the financial statements, but that some key elements of the statements were not fairly stated or affected by a scope limitation, or specific issues have come to our attention 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 rules and regulations.

- A disclaimer is issued when the audit scope is severely limited and IBAN cannot express an opinion, or when there are material uncertainties affecting the financial statements or the use of funds.

- An adverse opinion is issued when the effect of an error or disagreement is so pervasive and material to the financial statements that IBAN concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.

In accordance with auditing standards, three types of paragraphs may also be communicated in the auditor's report:

- Key Audit Matters (ISSAI 2701): Those matters that, in IBAN's professional judgement, were of most significance in the audit of the financial statements of the current period. Key Audit Matters are addressed to Council.

- Emphasis of Matter (ISSAI 2706): If IBAN considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements; we will include an Emphasis of Matter paragraph in the auditor's report provided.

- Other Matter (ISSAI 2706): If IBAN considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in our judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report; we will include an Other Matter paragraph in the auditor's report.

IBA-A(2021)0057
4 June 2021

To: Secretary General
(Attn: Director of the Private Office)

Cc: NATO Permanent Representatives
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 and Letter of Observations and Recommendations on the audit of the NATO Retirees Medical Claims Fund (RMCF) Financial Statements for the year ended 31 December 2019 – IBA-AR(2021)0008***

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).

Article 15 of the NATO Financial Regulations states that the IBAN must present its final reports, including factual and formal comments, together with the audited financial statements, to the Council not later than 31 August, following the end of the Financial Year. Considerable delays in receiving outstanding information, which is required in accordance with auditing standards, prevented IBAN's ability to meet the 31st of August 2020 deadline.

IBAN's report sets out an unqualified opinion on the Financial Statements of the NATO Retirees Medical Claims Fund and on compliance for financial year 2019.

IBAN would like in particular to draw your attention to the prior years' observation on the need for NATO as a whole to disclose post-employment liabilities to comply with the NATO Accounting Framework (IPSAS 39 Employee Benefits). In 1997, Council approved not to account for the post-employment benefit liability (C-M(97)85) regarding defined benefit schemes. With the subsequent Council decision to implement IPSAS and the following Council approval of the NATO Accounting Framework (NAF), it is unclear whether the Council decision not to account for the post-employment benefit liability still applies. This is especially the case given that the NATO Accounting Framework does not include an adaptation to IPSAS 39, nor does it refer to this Council decision. The actuarial net present value of the long-term post-employment medical care obligation at the end of year 2019 was EUR 3.4 billion. IBAN therefore wishes to stress the importance of addressing this recommendation in a timely manner.

Boulevard Léopold III - B-1110 Bruxelles - Belgique
Tel.: +32(0)2 707 4111 – Fax: +32(0)2 707 4962

Yours sincerely,

Daniela Morgante
Chair

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 Retirees Medical Claims Fund (RMCF)
for the year ended 31 December 2019

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 2019, contributions from NATO Reporting Entities and staff were EUR 26.5 million (in 2018, EUR 25 million). Insurance premiums paid out of these receipts were EUR 26.9 million in 2019 (EUR 23.5 million in 2018). At the end of 2019, the fund manager held EUR 369.9 million on behalf of NATO (at the end of 2018, EUR 314.6 million).

IBAN issued an unqualified opinion on the Financial Statements and on compliance for the year ended 31 December 2019.

During the audit, IBAN made one observation which does not impact the audit opinion:

1. Improvements needed in the process of confirming contributions made to the NATO Retirees Medical Claims Fund (NATO RMCF).

IBAN followed up on the status of observations from previous years' audits and found that one was in progress and one remains open.

IBAN would like in particular to draw your attention to the prior years' observation on the need for NATO as a whole to disclose post-employment liabilities to comply with the NATO Accounting Framework (IPSAS 39 Employee Benefits). In 1997, Council approved not to account for the post-employment benefit liability (C-M(97)85) regarding defined benefit schemes. With the subsequent Council decision to implement IPSAS and the following Council approval of the NATO Accounting Framework (NAF), it is unclear whether the Council decision not to account for the post-employment benefit liability still applies. This is especially the case given that the NATO Accounting Framework does not include an adaptation to IPSAS 39, nor does it refer to this Council decision. The actuarial net present value of the long-term post-employment medical care obligation at the end of year 2019 was EUR 3.4 billion (at the end of 2018, EUR 3 billion). IBAN therefore wishes to stress the importance of addressing this recommendation in a timely manner.

The Auditor's Report and the Letter of Observations and Recommendations 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(2021)0008

4 June 2021

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 2019

INDEPENDENT EXTERNAL 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 2019, issued and submitted to IBAN on 21 April 2020. These Financial Statements comprise the Statement of Net Assets Available for Benefits as at 31 December 2019, the Statement of Changes in Net Assets Available for Benefits for the period ended 31 December 2019 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 2019, and of its Statement of Changes in Net Assets Available for Benefits for the period ended 31 December 2019, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework (NAF) 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 and reporting entities 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 (ISSAI 2200-2899) 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 the 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 reporting entity and the Financial Controller. In signing the Financial Statements, the Head of the NATO reporting entity and the Financial Controller 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.

- 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 4000-4899) 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 and reporting entities 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, 4 June 2021

Daniela Morgante
Chair

ANNEX 3
IBA-AR(2021)0008

4 June 2021

INTERNATIONAL BOARD OF AUDITORS FOR NATO

LETTER OF OBSERVATIONS AND RECOMMENDATIONS

FOR THE NATO RETIREES MEDICAL CLAIMS FUND

(RMCF)

FOR THE YEAR ENDED 31 DECEMBER 2019

Introduction

The International Board of Auditors for NATO (IBAN) audited the NATO Retirees Medical Claims Fund Financial Statements for the year ended 31 December 2019, 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 and recommendation.

This observation does not impact the audit opinion on the financial statements and on compliance:

1. Improvements needed in the process of confirming contributions made to the RMCF Fund.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that one remains open and one is in progress.

OBSERVATIONS AND RECOMMENDATIONS

1. IMPROVEMENTS NEEDED IN THE PROCESS OF CONFIRMING CONTRIBUTIONS MADE TO THE NATO RETIREES MEDICAL CLAIMS FUND (NATO RMCF)

Reasoning

1.1 As per the NATO Financial Regulations (NFRs), Article 6, the Heads of NATO bodies *shall have a Financial Controller on their staffs to be their principal financial advisor and who exercises in their names responsibilities for, but not limited to:*

a) the budgeting, accounting and reporting activities of the NATO body; […]
b) the responsibility for the organisation and administration of the financial internal control system established pursuant to article 12.1.

1.2 The reliability of audit evidence is influenced by its source and by its nature, and is dependent on the individual circumstances under which it is obtained. Accordingly and in line with International Standards of Supreme Audit Institutions (ISSAIs), audit evidence in the form of external confirmations received from confirming parties is more reliable than evidence generated internally by the entity.

Observations

1.3 IBAN tested the contributions received in the course of 2019 from the contributing NATO Reporting Entities to the NATO RMCF. As a standard procedure, NATO IS requires the contributing entities to provide a confirmation of the amounts paid to the Fund and recorded in the accounting system (this confirmation is usually obtained in the form of an e-mail). For 2019, the formal confirmation requests were sent out by NATO IS to all the concerned NATO entities. IBAN found that for 2019:

- Despite several reminders, not all the contributing NATO Reporting Entities confirmed their balances paid to the NATO RMCF. Out of EUR 26.49 million contributions for the year, EUR 10.6 million were not confirmed. The main purpose of such confirmations is to provide assurance of the completeness and accuracy of the contributions received.

- There were some immaterial differences in booking the contributions received from other NATO entities, mainly resulting from corrections or partial payments booked in another client fund/general ledger account.

Recommendations

1.4 IBAN recommends that IS OFC ensure that:

a) Year-end confirmations are initiated early the following year in order to ensure that all the NATO contributing entities to the NATO RMCF provide their responses in a timely manner.

b) A reconciliation is performed between contributions received and the records in the accounting system.

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.

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 Reporting Entity 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. In the case where there are sub-recommendations, the status related to each sub-recommendation is indicated in the Action Taken column.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
(1) RMCF FY 2018 **IBA-AR(2019)0026, paragraph 1** **NEED FOR NATO AS A WHOLE TO DISCLOSE POST-EMPLOYMENT LIABILITIES TO COMPLY WITH THE NATO ACCOUNTING FRAMEWORK (IPSAS 39 EMPLOYEE BENEFITS)** **IBAN's Recommendation** 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).	The Financial Statements of the NATO Coordinated Pension Scheme and of the NATO Retirees Medical Claims Fund disclose in Note 3, the post-employment benefits, calculated in line with IPSAS 39 by the International Service for Remunerations and Pensions' (ISRP) actuary. However, the post-employment liabilities have not been recognised on the face of any NATO Reporting Entity Statement of Financial Position, which in overall terms is not compliant with IPSAS 39, part of the NATO Accounting Framework.	Observation **Open**.
(2) RMCF FY 2012 **IBA-AR(2013)25, paragraph 5** **RETIREES MEDICAL CLAIMS FUND (RMCF) NET ASSETS INADEQUATE TO FUND PROMISED FUTURE EXPECTED BENEFITS**		Observation **In-progress**.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
IBAN's Recommendation 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 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.	As forecasted by the current actuarial study, 2019 was the first year when the contributions received during the year (EUR 26.476 million) were lower than the costs (Insurance Premiums and Management Fee, amounting to EUR 28.521 million). Despite this, in 2019 there was an overall net increase in the net assets available for benefits, mainly due to the net unrealised gain in the market value of investments (EUR 54.789 million). Therefore, NATO IS plans to request a new study in order to provide NATO Member Nations the updated long term sustainability forecast.	

NATO RETIREES MEDICAL CLAIMS FUND (RMCF)
FORMAL COMMENTS
ON THE LETTER OF OBSERVATIONS AND RECOMMENDATIONS AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS

OBSERVATION 1:
IMPROVEMENTS NEEDED IN THE PROCESS OF CONFIRMING CONTRIBUTIONS MADE TO THE NATO RETIREES MEDICAL CLAIMS FUND (NATO RMCF)

RMCF's Formal Comments

Agreed.

OFC constantly works on improving their internal control arrangements. In the pursuit for optimal efficiency of the implemented mechanisms, the IS decided to start using COSO as a reference internal control framework and to revise the control processes in use. Possible improvements to the reconciliation process will be analyzed.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

(1) RMCF 2018 FY
IBA-AR(2019)0026, paragraph 1
NEED FOR NATO AS A WHOLE TO DISCLOSE POST-EMPLOYMENT LIABILITIES TO COMPLY WITH THE NATO ACCOUNTING FRAMEWORK (IPSAS 39 EMPLOYEE BENEFITS)

RMCF's Formal Comments

Agreed.

The analysis of the applicability of IPSAS 39 is ongoing.

IBAN's position

In 1997, Council approved not to account for the post-employment benefit liability (C-M(97)85) regarding defined benefit schemes. With the subsequent Council decision to implement IPSAS and the following Council approval of the NATO Accounting Framework (NAF), it is unclear whether the Council decision not to account for the post-employment benefit liability still applies. This is especially the case given that the NATO Accounting Framework does not include an adaptation to IPSAS 39, nor does it refer to this Council decision. IBAN therefore wishes to stress the importance of addressing this recommendation in a timely manner.

(2) RMCF 2012 FY
IBA-AR(2013)25, paragraph 5
RETIREES MEDICAL CLAIMS FUND (RMCF) NET ASSETS INADEQUATE TO FUND PROMISED FUTURE EXPECTED BENEFITS

RMCF's Formal Comments

Agreed.

The updated long term sustainability forecast will be delivered to nations at the earliest possibility.

GLOSSARY OF TERMS

In accordance with International Standards of Supreme Audit Institutions (ISSAI 2705), audit opinions on financial statements and on compliance can be unqualified, qualified, a disclaimer, or adverse:

- An unqualified opinion is when IBAN issues an opinion that the financial statements and budget execution report are stated fairly and that nothing has come to our attention 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 rules and regulations.

- A qualified opinion means that IBAN was generally satisfied with the presentation of the financial statements, but that some key elements of the statements were not fairly stated or affected by a scope limitation, or specific issues have come to our attention 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 rules and regulations.

- A disclaimer is issued when the audit scope is severely limited and IBAN cannot express an opinion, or when there are material uncertainties affecting the financial statements or the use of funds.

- An adverse opinion is issued when the effect of an error or disagreement is so pervasive and material to the financial statements that IBAN concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.

In accordance with auditing standards, three types of paragraphs may also be communicated in the auditor's report:

- Key Audit Matters (ISSAI 2701): Those matters that, in IBAN's professional judgement, were of most significance in the audit of the financial statements of the current period. Key Audit Matters are addressed to Council.

- Emphasis of Matter (ISSAI 2706): If IBAN considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements; we will include an Emphasis of Matter paragraph in the auditor's report provided.

- Other Matter (ISSAI 2706): If IBAN considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in our judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report; we will include an Other Matter paragraph in the auditor's report.

NATO DEFINED CONTRIBUTION PENSION SCHEME FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

Miroslawa BORYCZKA
Financial Controller

ANNEX 1 to
FC(2020)0028

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

(All amounts in EUR)	Notes	Current Year			Prior Year		
		Investment Management	Benefits	Total	Investment Management	Benefits	Total
		31-Dec-19			31-Dec-18		
Assets							
Cash	3	6,951,315.18	408,319.63	7,359,634.81	5,514,746.32	222,528.31	5,737,274.63
Investments at market value	4	518,398,036.29		518,398,036.29	403,243,016.32		403,243,016.32
Accounts receivable	5	26,106.09	108,601.66	134,707.75	1,726,106.09	110,424.28	1,836,530.37
Other receivables		-	-	-		-	-
							-
Total Assets		**525,375,457.56**	**516,921.29**	**525,892,378.85**	**410,483,868.73**	**332,952.59**	**410,816,821.32**
Liabilities							
Provisions claims and disputes	6	-	-	-	-		-
Payable	7	(763,642.13)	(508,153.76)	(1,271,795.89)	(2,017,815.31)	(320,793.73)	(2,338,609.04)
Other payables	7	-	(10,101.16)	(10,101.16)		(10,101.16)	(10,101.16)
Surplus investment/desinvestment	8	(80,016.59)	-	(80,016.59)	(80,016.59)		(80,016.59)
Current year surplus financial results	8	(305.46)	1,333.63	1,028.17	1,219.87	(2,057.70)	(837.83)
				-			-
Total Liabilities		**(843,964.18)**	**(516,921.29)**	**(1,360,885.47)**	**(2,096,612.03)**	**(332,952.59)**	**(2,429,564.62)**
Net assets available for benefits		**524,531,493.38**	**-**	**524,531,493.38**	**408,387,256.70**	**-**	**408,387,256.70**

ANNEX 2 to
FC(2020)0028

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-19			31-Dec-18		
		Investments	Benefits	Total	Investments	Benefits	Total
Increase in net assets							
Net unrealized gain in market value of investments	4	76,221,459.15		76,221,459.15			
Contributions	9	63,628,466.40		63,628,466.40	57,342,204.50		57,342,204.50
Inward transfer of pension rights	10	1,633,127.76		1,633,127.76	656,828.06		656,828.06
Transfers from Insurer	11		813,293.49	813,293.49		763,593.03	763,593.03
Transfers from Annuity Provider	11		109,118.97	109,118.97		104,916.46	104,916.46
Contribution for Tax Adjustments Due	15		101,149.16	101,149.16		95,008.26	95,008.26
Miscellaneous receipts	16		0.00	0.00	1,726,106.09	1,962.85	1,728,068.94
Total increase in net assets available for benefits		**141,483,053.31**	**1,023,561.62**	**142,506,614.93**	**59,725,138.65**	**965,480.60**	**60,690,619.25**
Decrease in net assets							
Net unrealized loss in market value of investments	4			0.00	6,066,404.72		6,066,404.72
Accounts closed (Staff)	12	24,988,280.76		24,988,280.76	21,048,500.07		21,048,500.07
Outward transfer of pension rights	12	350,535.87		350,535.87	227,743.43		227,743.43
Transfers to insurance and annuity providers	13		15,479.94	15,479.94			0.00
Pension Benefits	14		106,854.24	106,854.24		105,372.80	105,372.80
Invalidity, Survivor and Dependant Benefits	14		713,555.40	713,555.40		688,146.35	688,146.35
Tax Adjustment Paid to Beneficiaries	15		101,149.16	101,149.16		95,008.26	95,008.26
Employer Contributions to DCPS	14		82,492.09	82,492.09		75,344.62	75,344.62
Miscellaneous Expenses	16		4,030.79	4,030.79	1,726,106.09	1,608.57	1,727,714.66
Total decrease in net assets available for benefits		**25,338,816.63**	**1,023,561.62**	**26,362,378.25**	**29,068,754.31**	**965,480.60**	**30,034,234.91**
Net increase for the year		116,144,236.68	-	116,144,236.68	30,656,384.34	-	30,656,384.34
Net assets available for benefits, beginning of year		408,387,256.70	-	408,387,256.70	377,730,872.36	-	377,730,872.36
Net assets available for benefits, end of year		**524,531,493.38**	**-**	**524,531,493.38**	**408,387,256.70**	**-**	**408,387,256.70**

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 the current disinvestment rules which provide choice and flexibility for affiliates regarding their retirement benefits. There is no upper or lower limits on ages at which affiliates can take benefits. 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 2019, there were 4352 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.

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 Defense 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 Organizations 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 and remains as such since then.

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 presented in the table on the next page.

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

Upon retirement of a staff member, transfers are made to the pension provider in order to purchase the annuity for members who leave the DCPS and choose to take a DCPS retirement pension.

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.

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 plus the adjustment related to income tax are subject to a follow-on transfer to the survivor or disabled beneficiary.

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
2019	12	11	11	34

Pension Tax 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 on-line 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 centers 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 accounts of the staff members leaving the scheme. OFC then transfers the redemption/lump sum amounts as per the bank account 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

Back in 2015, the DCPS Group Insurance provider (ALLIANZ) has decided to pay NATO a compensation in lieu with overestimated deductions performed on both the Employees and Employers contributions to the insurance premium.

This compensatory payment amounts to EUR 6,000,000.00 of which EUR 1,726,106.09 refers to staff contributions and EUR 4,273,893.91 refer to Employers (NATO bodies) contributions.

Since 2015, the DCPS has presented these EUR 6,000,000.00 in the Statement of Financial position of DCPS has an Asset and a Liability (Long-Term Provision).The decision to book this proceeding in such a way had to do with the uncertainty about what would be the Nations decision about the final use of these funds.

Through EM(2018)0502 dated 19 December 2018 and Tasker 2385/2018, the SG mandated the IS to repay back to the staff affiliates the EUR 1,726,106.09 related with the Employee contributions share.

In 2019, as per BC-DS(2019)0067(INV) Nations decided to return the Employers portion to the respective NATO bodies. Thus it became evident that this proceeding should no longer be considered an Asset/Liability of DCPS, since in reality it is a mere pass-through cash-flow from Allianz to the respective NATO bodies.

Therefore, a re-statement of DCPS 2018 financial statements is required, in order to reduce the DCPS asset/liability by the amount of the Employers contribution (EUR 4,273,893.91), leaving behind only the unpaid Employees portion (EUR 1,726,106.09).

Restatement of financial statements for previous years

As explained above, the 2018 FS's have to be re-stated, as a consequence of changes in the accounting policy:

(All amounts in EUR)	2018 FS's Re-Statement			2018 Published FS's		
	Investment Management	Benefits	Total	Investment Management	Benefits	Total
	31-Dec-18			31-Dec-18		
Assets						
Cash	5,514,746.32	222,528.31	5,737,274.63	5,514,746.32	222,528.31	5,737,274.63
Investments at market value	403,243,016.32		403,243,016.32	403,243,016.32		403,243,016.32
Short term Investments			-			-
Accounts receivable	1,726,106.09	110,424.28	1,836,530.37	6,000,000.00	110,424.28	6,110,424.28
Other receivables		-	-		-	-
			-			-
Total Assets	410,483,868.73	332,952.59	410,816,821.32	414,757,762.64	332,952.59	415,090,715.23
Liabilities						
Provisions claims and disputes				(4,273,893.91)		(4,273,893.91)
Payable	(2,017,815.31)	(320,793.73)	(2,338,609.04)	(2,017,815.31)	(320,793.73)	(2,338,609.04)
Other payables		(10,101.16)	(10,101.16)		(10,101.16)	(10,101.16)
Surplus investment/desinvestment	(80,016.59)		(80,016.59)	(80,016.59)		(80,016.59)
Current year surplus financial results	1,219.87	(2,057.70)	(837.83)	1,219.87	(2,057.70)	(837.83)
			-			-
Total Liabilities	(2,096,612.03)	(332,952.59)	(2,429,564.62)	(6,370,505.94)	(332,952.59)	(6,703,458.53)
Net assets available for benefits	408,387,256.70	-	408,387,256.70	408,387,256.70	-	408,387,256.70

Reclassification of financial statements for previous years

None in 2019.

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 center. 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.

Investments are recorded at market value on the reporting date.

Receivables

Receivables are stated at net realizable 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 recognized 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:

BANK NAME	COUNTRY OF HQ	SHORT TERM RATINGS AS AT 10.01.20		
		FITCH	S&P	Moody's
ING BANK	NE	F1+	A-1	P1

Concerning receivables, the credit risk is managed by maintaining control procedures over receivables. These consist essentially of contributions due by NATO bodies' payroll centers. 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. However, so far, this resulted in the available amounts being higher. The surplus is kept on a suspense account and forms part of the net assets. This stipulation in the insurance contract was deleted with effect as from 1 July 2017 and therefore this risk, no longer exist from that date. Nowadays the redemption proceedings are paid to the person designated by the staff member and no longer transferred to the insurance company responsible for the annuity.

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. However, so far, such costs have been immaterial.

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 centers 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.

However, 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.

Below a table is provided with the statistics on the advances DCPS has received from IS at year-end for the last 3 years.

End of Year	Cash Advance €
2017	200,000.00
2018	320,000.00
2019	500,000.00

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.

Statement of Net Assets Available for Benefits

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 redemptions for departing staff. The total presented in the financial statements corresponds mainly 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 for six of the funds listed below; BNP Paribas Investment Partners manages the BNP Paribas InstiCash Fund in Euro, while Vanguard Asset Management manages the four index funds.

Below we provide a table with comparative data on the Investments at Market Value for two consecutive years:

		2019		2018
Equity Funds:	ISIN	EUR or EUR equivalent of USD	USD	EUR
Mellon Global Equity Portfolio EUR C	IE00B82M6789	241,718,238.90	-	187,417,725.62
Mellon Global Equity Portfolio USD C	IE00B7X4LZ98	21,580,534.98	23,658,740.50	16,992,660.25
Vanguard Global Stock Index Fund EUR	IE00B03HD191	46,123,072.36	-	28,735,381.03
Vanguard Global Stock Index Fund USD	IE00B03HD209	14,129,434.83	15,490,099.44	9,858,996.95
Bond Funds:	ISIN			
Mellon Global Bond Portfolio EUR C	IE0003932385	34,289,206.74	-	24,166,759.34
Mellon Global Bond Portfolio USD C	IE0003932492	5,411,881.11	5,933,045.26	4,090,688.14
Mellon Euroland Bond Portfolio EUR C	IE0032722484	13,721,494.59	-	12,066,192.23
Vanguard Global Bond Index Fund USD	IE00B18GCB14	4,544,621.23	4,982,268.26	3,349,191.08
Vanguard Euro Government Bond Index Fund EUR	IE0007472990	13,397,981.70	-	8,347,949.08
Cash Funds:	ISIN			
Mellon Universal Liquidity Funds – Liquidity Plus USD	IE0032713202	8,033,128.47	8,806,718.74	5,931,595.87
BNP Paribas InstiCash Fund – EUR	LU0094219127	115,448,441.38	-	102,285,876.73
	TOTAL	**518,398,036.29**		**403,243,016.33**

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:

Equity Funds:	ISIN	2019	2018	Annualized Income per Unit
Mellon Global Equity Portfolio EUR C	IE00B82M6789	1.3841	1.0783	0.3058
Mellon Global Equity Portfolio USD C	IE00B7X4LZ98	1.3821	1.0982	0.2839
Vanguard Global Stock Index Fund EUR	IE00B03HD191	28.3069	21.7901	6.5168
Vanguard Global Stock Index Fund USD	IE00B03HD209	31.9224	25.0253	6.8971
Bond Funds:	ISIN			
Mellon Global Bond Portfolio EUR C	IE0003932385	2.0189	1.8469	0.1720
Mellon Global Bond Portfolio USD C	IE0003932492	2.5251	2.356	0.1691
Mellon Euroland Bond Portfolio EUR C	IE0032722484	1.1964	1.1223	0.0741
Vanguard Global Bond Index Fund USD	IE00B18GCB14	159.8083	147.4704	12.3379
Vanguard Euro Government Bond Index Fund EUR	IE0007472990	237.6223	223.6922	13.9301
Cash Funds:	ISIN			
Mellon Universal Liquidity Funds – Liquidity Plus USD	IE0032713202	1.258343	1.121496	0.1368
BNP Paribas InstiCash Fund – EUR	LU0094219127	138.7155	139.2903	(0.5748)

NOTE 5: RECEIVABLES

Receivables						
amounts in EUR	2019			2018		
	Investments	Benefits	Total	Investments	Benefits	Total
Contributions from NATO bodies			-			-
Reimbursement of Tax Adjustment Paid		101,149.16	101,149.16		95,008.26	95,008.26
Insurer	26,106.09	7,452.50	33,558.59	1,726,106.09	13,272.29	1,739,378.38
Beneficiaries		-	-		2,143.73	2,143.73
Others			-		-	-
Total	26,106.09	108,601.66	134,707.75	1,726,106.09	110,424.28	1,836,530.37

As of 31 December 2019, an amount of 26,106.09 was accrued, to be called from Allianz, regarding the compensatory payment. In 2018 an amount of EUR 1,726,106.09, was a 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 Organization (see Note on Related Parties for details concerning the insurance premiums). For presentation purposes, this amount was attributed to the "Investments" segment. In 2018 the amount shown was EUR 6,000,000.00, but as per a change in accounting policy (see note on "Changes in accounting policy" and "Restatement of financial statements for previous years"), the amount pertaining to the Employers share (EUR 4,273,893.91) share has been eliminated, leaving on the books only the portion of the Employees share (EUR 1,726,106.09).

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 regularization.

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.

NOTE 6: PROVISION

None to report (see notes "Changes in accounting policy" and "Restatement of financial statements for previous years").

NOTE 7: PAYABLES

Payables and Other Payables

amounts in EUR	2019			2018		
	Investments	Benefits	Total	Investments	Benefits	Total
NATO International Staff	40,459.96	500,000.00	540,459.96	-	320,000.00	320,000.00
Departing Staff	38,320.72	-	38,320.72	291,709.22	-	291,709.22
Insurer	-	7,004.90	7,004.90	-	1,250.09	1,250.09
Others	684,861.45	11,250.02	696,111.47	1,726,106.09	9,644.80	1,735,750.89
			-			-
Total	**763,642.13**	**518,254.92**	**1,281,897.05**	**2,017,815.31**	**330,894.89**	**2,348,710.20**

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.

Payables to Departing Staff are transactions pending final payment.

In cases where Allianz have made overpayments to beneficiaries, these need to be reimbursed to the insurer. These cases are included under the item Insurer payable.

Further to an analysis covering the last years of the history of death in service risks in relation to premiums paid by the Organization during 2012-2015, a compensation of EUR 6 million at the NATO-wide level was agreed by the group insurance company (ALLIANZ). By end 2018, as per EM(2018)0502 dated 19 December 2018 and Tasker 2385/2018, 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 has been taking place during

2019 for the serving staff and now the liability has been reduced to EUR 687,020.41, which corresponds to the dues towards retirees. It is expected that during the course of 2020, this balance will be completely settled.

More information about the Employers share is available under the notes "Changes in accounting policy - Reclassification of financial statements of previous years" and "Restatement of financial statements for previous years").

Others payables comprise the outstanding Allianz compensatory payment liability and some minor miscellaneous payables related with returned payments (that need to be re-paid) and banking accruals (interest/fees).

NOTE 8: 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 2018) kept on a suspense account. As from 1 July 2017, the related contract clause with the insurance company no longer applies, and as such no more such proceedings were accrued.

The DCPS surplus results from the offset between the cumulated realized 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 year-end with the unrealized profit/loss recognized at 31 December 2019, as part of the mandatory foreign currency assets/liabilities revaluation.

Below we present a comparative table with comparative figures for both realized and unrealized gains/losses:

amounts in EUR	2019	2018
Unrealised loss on exchange rates	174,206.41	138,074.81
Losses	(173,178.24)	(138,912.64)
Surplus	**1,028.17**	**(837.83)**

Statement of Changes of Net Assets Available for Benefits

NOTE 9: 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 up to 5%, therefore bringing to 13% the maximum contribution that a staff member can pay into its DCPS account (8% mandatory+5% voluntary).

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

The normal trend is that both contributions increase every year due to the combined effect of increased membership and annual salary adjustments.

NOTE 10: 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 Organization 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).

When these transactions occur, they are duly disclosed in the Statement of Changes in Net Assets Available for Benefits.

NOTE 11: 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).

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.

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 last provision no longer applies as from 1 July 2017).

When these transactions occur, they are duly disclosed in the Statement of Changes in Net Assets Available for Benefits.

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
2019	12	11	11	34

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

NOTE 15: PENSION TAX 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).

More information is on this item is provided under Note 1 (Pension Tax Adjustment)

NOTE 16: MISCELLANEOUS RECEIPTS AND EXPENSES

Miscellaneous receipts and payments correspond essentially to regularizations. For 2019, the payment to former DCPS affiliates during 2012-2015 in relation to DCPS group insurance compensatory payment was also booked under these items.

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

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.

Since DCPS does not have its own cash holdings, advances are made by NATO IS, to allow the timely payment of annuities for Pensioners, Invalids and Survivors.

The table below provides an overview of the extant Cash advances at year-end, for the last 3 years.

End of Year	Cash Advance €
2017	200,000.00
2018	320,000.00
2019	500,000.00

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. The table below provides comparative data on the insurance premiums paid for Death and Invalidity, over last two years:

	Death and Invalidity Premiums paid	
	2019	**2018**
Death	3,758,148.31	3,664,782.27
Invalidity	4,234,655.62	4,031,263.48

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

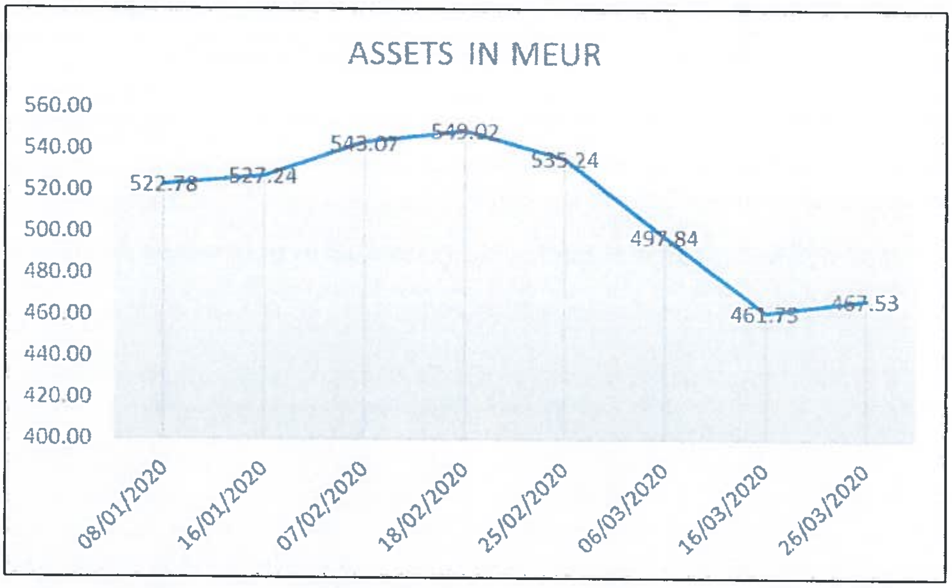
Evolution of DCPS membership (number of affiliates)			
year-end	2004	Affiliates	0
	2005	Joined	274
	2005	Exited	0
year-end	2005	Affiliates	274
	2006	Joined	527
	2006	Exited	-6
year-end	2006	Affiliates	795
	2007	Joined	501
	2007	Exited	-23
year-end	2007	Affiliates	1,273
	2008	Joined	511
	2008	Exited	-43
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
year-end	2018	Affiliates	3,974
	2019	Joined	618
	2019	Exited	-240
year-end	2019	Affiliates	4,352

NOTE 22: EVENTS AFTER THE REPORTING DATE

As at 31 December 2019 the DCPS Investments portfolio had a market value of EUR 518,398,036.29, having recorded at year-end an unrealized market value gain of EUR 76,221,459.15

Due to the COVID19 crisis the financial markets have plummeted since mid-February 2020, and as such IS-OFC is disclosing the latest available information on the market value of such investments.

The below graphic shows the evolution of the market value of DCPS investments, since the beginning of 2020 until 26 March 2020 (frequency approximately every 10 days):



As of 26 March 2020 the DCPS Investment portfolio shows a value of EUR 467,532,213.67, which is lower by EUR 50,865,822.62, than on 31 December 2019.

The total value of holdings is adjusted by the monthly contributions (increase) and redemptions (decrease) at the first trade date of each month. So, apart from the unit price variation from market fluctuations and the switches done by the members (which may magnify or dampen the market effect), the contributions invested into/disinvested from the funds also affect the total value of DCPS Investment portfolio.

Given the ongoing COVID19 crisis, it is very difficult to predict the short to medium term behavior of the markets and of the investment decisions made by the DCPS members, but it's not unreasonable to expect that the high volatility will persist in the coming months.

NATO INTERNATIONAL STAFF
FINANCIAL STATEMENTS

For the year ended
31 December 2019

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

Miroslawa BORYCZKA
Financial Controller

ANNEX 1 to
FC(2020)0044-REV1

NATO INTERNATIONAL STAFF
Statement of financial position
As at 31 December 2019
(All amounts in EUR)

	Notes	2019	2018
Assets			
Current assets			
Cash and cash equivalents	3	95,868,780.40	48,479,952.66
Short term investments	4	25.02	60,780,056.22
Receivables	5	51,003,663.44	50,424,592.50
Prepayments	6	2,376,028.54	4,335,733.07
Other current assets	7	3,832,719.02	3,176,785.87
Inventories	8	545,117.25	360,288.07
		153,626,333.67	167,557,408.39
Non-current assets			
Receivables	9	0.00	0.00
Property, plant & equipment	10	902,685,826.86	938,775,632.90
Intangible assets	11	4,563,548.09	6,277,754.78
Other non-current assets	12	16,652,386.00	9,787,308.00
		923,901,760.95	954,840,695.68
Total assets		1,077,528,094.62	1,122,398,104.07
Liabilities			
Current liabilities			
Payables	13	25,234,508.77	31,549,390.01
Deferred revenue	14	69,756,383.65	66,476,633.99
Advances	15	55,813,370.11	55,855,550.79
		0.00	0.00
Short term provisions	16	2,044,128.50	2,035,227.32
Other current liabilities	17	16,352,530.99	20,566,728.35
		169,200,922.02	176,483,530.46
Non-current liabilities			
Payables	18	0.00	0.00
Long term provisions	18	0.00	0.00
Deferred revenue	19	907,249,374.95	945,053,387.68
Other non-current liabilities	20	0.00	0.00
		907,249,374.95	945,053,387.68
Total liabilities		1,076,450,296.97	1,121,536,918.14
Net assets	21		
Capital assets		0.00	0.00
Reserves		0.00	0.00
Current year Surplus / (Deficits)		216,611.72	303,506.28
Accumulated surpluses / (deficits) prior year		861,185.93	557,679.65
Total net assets/ equity		1,077,797.65	861,185.93

NATO INTERNATIONAL STAFF
Statement of financial performance

As at 31 December 2019

(All amounts in EUR)

	Notes	2019	2018
Revenue			
Non exchange revenue	22	259,021,205.03	249,181,944.26
Exchange revenue	23	12,153,999.79	15,899,501.86
Other revenue	24	7,263,636.24	1,368,520.99
Financial revenue	25	225,368.69	398,177.18
Total revenue		**278,664,209.75**	**266,848,144.29**
Expenses			
Personnel	26	124,007,060.06	123,205,006.76
Contractual supplies and services	26	103,056,514.50	103,369,685.87
Depreciation and amortization	26	49,220,361.52	37,523,699.60
Impairment	26	0.00	5,251.84
Provisions	26	2,044,126.82	2,035,229.00
Other expenses	26	501.00	11,714.27
Finance costs	26	119,034.13	394,050.67
Total expenses		**278,447,598.03**	**266,544,638.01**
Surplus/(Deficit) for the period	27	**216,611.72**	**303,506.28**

NATO INTERNATIONAL STAFF
Statement of Cash Flow
As at 31 December 2019
(All amounts in EUR)

	Notes	2019	2018
Cash flow from operating activities	**28**		
Surplus/(Deficit)		216,611.72	303,506.28
Non-cash movements		**216,611.72**	**303,506.28**
Depreciation/ Amortisation		49,220,361.52	37,523,699.60
Impairment			
Increase /(decrease) in payables, deferred revenue and advances		(3,077,312.26)	24,571,179.75
Increase/ (decrease) in other current liabilities		(42,018,210.09)	927,257,363.45
Increase/ (decrease) in provisions		8,901.18	68,692.00
(Gains)/losses on sale of property, plant and equipment			
Decrease/ (Increase) in other current assets		(47,361,929.76)	926,238,213.22
Decrease/ (Increase) in receivables, prepayments and inventories		1,195,804.41	(18,404,056.76)
Decrease/ (Increase) in other non current assets		30,938,934.73	(938,495,691.30)
Net cash flow from operating activities		**(11,093,450.27)**	**958,759,399.96**
Cash flow from investing activities			
Purchase of property plant and equipment / Intangible assets		(2,514,364.91)	(964,432,104.14)
Proceeds from sale of property plant and equipment			
Net cash flow from investing activities		**(2,514,364.91)**	**(964,432,104.14)**
Cash flow from financing activities		-	-
Net cash flow from financing activities			
Net increase/(decrease) in cash and cash equivalents		**(13,391,203.46)**	**(5,369,197.90)**
Cash and cash equivalent at the beginning of the period		109,260,008.88	114,629,206.74
Cash and cash equivalent at the end of the period		95,868,805.42	109,260,008.88

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NATO INTERNATIONAL STAFF
Statement of Changes in Net Assets/Equity
As at 31 December 2019

	(in EUR)
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**
Balance at the beginning of the period 2019	**861,185.93**
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	216,611.72
Change in net assets/equity for the year ended 2019	**216,611.72**
Balance at the end of the period 2019	**1,077,797.65**

ANNEX 4 to
FC(2020)0044-REV1

INTERNATIONAL STAFF
Statement of Budget Execution as at 31 December 2019

(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	136 800 663.00	(311 537.00)	136 489 126.00	609 394.00	-	137,098,520.00	467,968.95	129 517 199.39	129 985 168.34	467 968.95	3,231,457.00	3,881,894.66
Chapter 2	58 777 850.00	(889 747.00)	57 888 103.00	(664 096.00)	-	57,224,007.00	1,326,420.06	54 819 336.61	56 145 756.67	1 326 420.06	838,002.00	240,248.33
Chapter 3	1 280 759.00	86 874.00	1 367 633.00	531 262.00	-	1,898,895.00	369,676.05	1 025 225.71	1 394 901.76	369 676.05	450,000.00	53,993.24
Chapter 4	23 795 610.00	114 410.00	23 910 020.00	(476 560.00)	-	23,433,460.00	5 531 158.82	17 650 784.40	23 181 943.22	5 531 158.82	-	251,516.78
Total FY 2019	**220,654,882.00**	**(1,000,000.00)**	**219,654,882.00**	**-**	**-**	**219,654,882.00**	**7,695,223.88**	**203,012,546.11**	**210,707,769.99**	**7,695,223.88**	**4,519,459.00**	**4,427,653.01**
CIVIL BUDGET												
Chapter 1	339,015.30	-	339,015.30	-	-	339,015.30	106,223.57	176,272.33	282,495.90	106,223.57	-	56,519.40
Chapter 2	1,830,852.84	-	1,830,852.84	-	-	1,830,852.84	123,374.56	1,300,737.44	1,424,112.00	123,374.56	-	406,740.84
Chapter 3	95,097.60	-	95,097.60	-	-	95,097.60	680.01	95,151.27	95,831.28	680.01	-	(733.68)
Chapter 4	3,056,625.10	-	3,056,625.10	-	-	3,056,625.10	1,068,807.01	1,298,360.86	2,367,167.87	1,068,807.01	-	689,457.23
Total FY 2018	**5,321,590.84**	**-**	**5,321,590.84**	**-**	**-**	**5,321,590.84**	**1,299,086.15**	**2,870,521.90**	**4,169,607.05**	**1,299,086.15**	**-**	**1,151,983.79**
CIVIL BUDGET												
Chapter 1	22,175.99	-	22,175.99	-	-	22,175.99	-	19,007.04	19,007.04	-	-	3,168.95
Chapter 2	46,954.25	-	46,954.25	-	-	46,954.25	-	525.50	525.50	-	-	46,428.75
Chapter 3	154,351.55	-	154,351.55	-	-	154,351.55	-	19,703.55	19,703.55	-	-	134,648.00
Chapter 4	1,250,196.71	-	1,250,196.71	-	-	1,250,196.71	-	1,112,928.74	1,112,928.74	-	-	137,267.97
Total FY 2017	**1,473,678.50**	**-**	**1,473,678.50**	**-**	**-**	**1,473,678.50**	**-**	**1,152,164.83**	**1,152,164.83**	**-**	**-**	**321,513.67**
SPECIAL CARRY FORWARDS												
Chapter 1	3,710,533.04	-	3,710,533.04	-	-	3,710,533.04	65,091.39	1,299,958.76	1,365,050.15	65,091.39	1,986,743.00	358,739.89
Chapter 2	4,880,381.65	-	4,880,381.65	-	-	4,880,381.65	138,934.10	3,458,502.51	3,597,436.61	138,934.10	611,973.75	670,971.29
Chapter 3	4,388,811.28	-	4,388,811.28	-	-	4,388,811.28	266,404.98	718,869.64	985,274.62	266,404.98	3,291,231.00	112,305.66
Chapter 4	627,186.02	-	627,186.02	-	-	627,186.02	18,896.40	594,189.61	613,086.01	18,896.40	-	14,100.01
Total SPECIAL CARRY FORWARDS	**13,606,911.99**	**-**	**13,606,911.99**	**-**	**-**	**13,606,911.99**	**489,326.87**	**6,071,520.52**	**6,560,847.39**	**489,326.87**	**5,889,947.75**	**1,156,116.85**
	241,057,063.33	(1,000,000.00)	240,057,063.33	-	-	240,057,063.33	9,483,635.90	213,106,753.36	222,590,389.26	9,483,635.90	10,409,406.75	7,057,267.32

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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	-	-	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	-	1,449,949.88
Chapter 3	654,148.01	-	654,148.01	-	-	654,148.01	154,351.55	491,880.76	646,232.31	154,351.55	-	7,915.70
Chapter 4	5,728,382.89	-	5,728,382.89	-	-	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	-	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	-	-	127,376.16	-	59.02	59.02	-	-	127,317.14
Chapter 2	144,509.42	-	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	-	-	-	-	-	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 CARRYFORWARDS												
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	464,886.21
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	-	-	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 CARRYFORWARDS	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
	246,972,410.66	2,462,000.10	249,434,410.76	-	-	249,434,410.76	7,095,672.58	215,225,775.78	222,321,448.36	7,095,672.58	13,306,508.85	13,806,453.55

ANNEX 5 to
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NATO HR Shared Services
Statement of Budget Execution
As at 31 December 2019

(amounts in euro)	Initial budget	Transfers	BA2	Transfers	BA3	Transfers	Final budget	Actuals	Carry forward	Lapsed
PMIS										
Chapter 1	202,400	-	202,400	-	202,400	-	202,400	205,878	-	(3,478)
Chapter 2	311,082	-	311,082	-	311,082	-	311,082	286,737	-	24,345
Chapter 3	-	-	-	-	-	-	-		-	-
Total FY 2018	**513,482**	**-**	**513,482**	**-**	**513,482**	**-**	**513,482**	**492,616**	**-**	**20,866**
PMIS										
Chapter 1	-	-	-	-	-	-	-	-	-	-
Chapter 2	-	-	-	-	-	-	-	-	-	-
Chapter 3	-	-	-	-	-	-	-	-	-	-
Total FY 2017	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
PMIS										
Chapter 1	-	-	-	-	-	-	-	-	-	-
Chapter 2	-	-	-	-	-	-	-	-	-	-
Chapter 3	-	-	-	-	-	-	-	-	-	-
Total FY 2016	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total all budgets	**513,482**	**-**	**513,482**	**-**	**513,482**	**-**	**513,482**	**492,616**	**-**	**20,866**

ANNEX 5 to
FC(2020)0044-REV1

NATO HR Shared Services
Statement of Budget Execution
As at 31 December 2018

(amounts in euro)	Initial budget	Transfers	BA2	Transfers	BA3	Transfers	Final budget	Actuals	Carry forward	Lapsed
PMIS										
Chapter 1	192,700	-	192,700	-	192,700	-	192,700	185,956	-	6,744
Chapter 2	302,179	-	302,179	-	302,179	-	302,179	275,477	-	26,702
Chapter 3	-	-	-	-	-	-	-		-	-
Total FY 2018	**494,879**	**-**	**494,879**	**-**	**494,879**	**-**	**494,879**	**461,433**	**-**	**33,446**
PMIS										
Chapter 1	-	-	-	-	-	-	-	-	-	-
Chapter 2	-	-	-	-	-	-	-	-	-	-
Chapter 3	-	-	-	-	-	-	-	-	-	-
Total FY 2017	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
PMIS										
Chapter 1	-	-	-	-	-	-	-	-	-	-
Chapter 2	-	-	-	-	-	-	-	-	-	-
Chapter 3	-	-	-	-	-	-	-	-	-	-
Total FY 2016	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total all budgets	**494,879**	**-**	**494,879**	**-**	**494,879**	**-**	**494,879**	**461,433**	**-**	**33,446**

EXPLANATORY NOTES TO NATO INTERNATIONAL STAFF 2019 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 defense 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 2019 financial statements of the NATO-IS:
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

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, Human Resources Shared Services (which includes inter alia the Personnel Management Information System and the NATO Talent Acquisition Platform), Extra-Budgetary Funds, Partners' Accommodation, Refurbishment of Building Z and the Morale and since October 2018 Welfare Recreational Activities.

Building Z Project Financing Model

The Building Z project was initiated in 2012 through DPRC-DS(2012)0012, whereby nations agreed to offer space to partner missions in the Building Z. The projects comprises two strains of works; the Standard and Reinvestment works (refurbishment and security enhancements) and the individual partners missions Optional works. The funding of the later are a responsibility of the respective partner nations and thus paid upfront. As for the Standard and Reinvestment works, Allies decided through DPRC-DS(2014)0084-REV3 and DPRC-N(2014)0070-REV1, that these will be pre-financed by NATO IS cash liquidity and later reimbursed by partner nations.

Morale, Welfare and Recreation

The financial closure of the former NATO Staff Center took place on 31 December 2018 and as of 1 January 2019 all its assets and liabilities were transferred to the NATO International Staff accounts. The new management model adopted by Nations, as per PO(2018)0329, concerning Morale, Welfare and Recreation (MWR) activities, requires the consolidation of MWR accounts into the NATO International Staff financial statements.

MWR activities are financed from various sources deriving from commercial activities (sport facilities, concessionaires/retailers), special contributions from MWR stakeholder entities (incl. NATO IS, IMS, NCIA) and tax-free fuel operations. The surplus/deficit on the MWR activities is a liability towards the stakeholders.

Changes in Accounting Policy

In 2018 the untaken leave was disclosed as "Other Expenses", however we have reconsidered this policy, since even though NATO IS policy is that untaken leave shall be paid only as a last recourse (Staff is compelled to take all their leave before retiring), we believe that for informative and transparency purposes, this liability should be recognized as if NATO would shut down its activities as off 31Dec19 and disclosed as a Provision instead of an actual expense, since its realization is uncertain.

In 2019 NATO IS decided to start recognizing a provision for bad debts, thus aligning with the policies already followed in other financial statements produced by NATO IS. Since this Provision is notional only (posted and reversed in the following year) these financial statements do not provide comparative data for 2018.

Reclassification of Financial Statements of Previous Years

A minor reclassification was done, concerning untaken leave. As explained above there was a change in our accounting policy, and thus it is no longer disclosed as "Other Expense" in the statement of financial performance, but as a Provision.

The table below summarises the change.

NATO INTERNATIONAL STAFF
Statement of financial performance
As at 31 December 2018
(All amounts in EUR)

	Notes	2018 - Reclassified	2018
Revenue			
Non exchange revenue	22	249,181,944.26	249,181,944.26
Exchange revenue	23	15,899,501.86	15,899,501.86
Other revenue	24	1,368,520.99	1,368,520.99
Financial revenue	25	398,177.18	398,177.18
Total revenue		**266,848,144.29**	**266,848,144.29**
Expenses			
Personnel	26	123,205,006.76	123,205,006.76
Contractual supplies and services	26	103,369,685.87	103,369,685.87
Depreciation and amortization	26	37,523,699.60	37,523,699.60
Impairment	26	5,251.84	5,251.84
Provisions	26	2,035,229.00	68,693.68
Other expenses	26	11,714.27	1,978,249.59
Finance costs	25	394,050.67	394,050.67
Total expenses		**266,544,638.01**	**266,544,638.01**
Surplus/(Deficit) for the period	27	**303,506.28**	**303,506.28**

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.

NATO IS estimates the value of Provisions for the following costs:

- A Bad Debts Provision is notionally posted for 0.5% of the long outstanding receivables at year-end, however it is reversed in the beginning of the following year. Debts from Member Nations in lieu with Common Funded calls are excluded, since in case of default they shall be collectively covered (by all Allies) as per NATO's charter;
- A notional Untaken Leave Provision is posted if the number of untaken leave days at year-end, is found to be above 10% of the annual leave entitlement, and calculated with the use of 2018 base value adjusted by 2019 salary and staff number increase

- Other present obligations resulting of a past event if resulting of a possible payment of a foreseeable value.

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 segments which are budget driven such as the Personnel Management Information System. 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 transactions in foreign currencies for the Information and Liaison Offices. 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 with accredited banking institutions.

Table below presents the short term credit ratings, for every banking institutions in which IS holds cash and cash equivalents at 2019 year-end:

SHORT TERM RATINGS					
BANK NAME	**COUNTRY OF HQ**	**RATING DATE**	**FITCH**	**S&P**	**Moody's**
ING BANK	NE	10.01.2020	F1+	A-1	P1
BNP PARIBAS FORTIS	FR	10.01.2020	F1+	A-1	P1
WELLS FARGO	US	10.01.2020	F1+	A-1	P1
MONTE PASCHI/AION	IT	31.12.2019	B	N/A	N/A

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. 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 a 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 capitalized in the financial statements if it is above the capitalization 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.

NATO IS capitalizes 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.

NATO IS considered 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.

At year end, NATO IS assesses its inventories under IPSAS 12, against the materiality Thresholds defined by the NATO policy, based on this assessment NATO IS decides whether to capitalize or fully expense its inventories.

The materiality will be assessed each year in relation to the inventories held 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 capitalized in the financial statements if it is above the capitalization 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:

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 was decided, 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 would continue to be capitalized.

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 provides a brief description under Note 10.

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 capitalized in the Financial Statements if it is above the capitalization 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 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

NATO-IS capitalizes 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 does not capitalize 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 considers 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 reports 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.

For intangible assets held prior to the 1 January 2013 and not previously recognized as an asset, NATO-IS should 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. However NATO does not possess any such items

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

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

Current liabilities

a. Payables

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

b. Advances and Unearned revenue

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

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

Advances are recognised when calls in relation to future year budgets are issued. Advances made by contributing nations outside of the call for contributions process are recorded when cash is received.

c. Provisions

Estimates of present obligations resulting of a past event if resulting of a possible payment or loss of a foreseeable value are presented under Provisions. This item includes, inter alia, an Untaken Leave Provision and a Bad Debts Provision

d. 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.

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

IS does not enter into financial leases. All IS leases are operational leases. Lease contracts are in place for vehicles, IT equipment, etc.

Additionally IS has entered into leases for temporary pre-fabricated buildings that are used to accommodate space requirements from some Allied and Partner delegations. 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 (e.g. Civil Budget) 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 these Notes under "Employee Disclosure"

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, Human Resources Shared Services (HRSS) and Partners' Accommodation costs. It also includes revenue from Audits performed by IBAN on Multi-nationally funded entities and MWR activities.

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.

Four NATO-IS information and liaison offices (Moscow, Kyiv, Tbilisi and Chisinau) have their current accounts 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. The corresponding amounts are presented as a current liability.

NATO Reimbursable Expenses, Partners' Accommodation, HRSS and Building Z Refurbishment Project use the same bank account as NATO IS.

While the consolidated NATO IS cash position is positive, the implicit position of some segments may be negative, in case they find themselves in a cash shortage position such as HRSS and Building Z Project.

The table below presents a breakdown of all Cash and Cash equivalents under the control of NATO IS:

Cash and cash equivalent (amounts in EUR)	2019	2018
NATO IS HQ Civil Budget	57,883,306.73	33,163,660.98
NATO IS External Offices	629,537.43	586,742.36
NATO IS Petty Cash	3,366.78	7,964.51
NATO IS HQ Reimbursable Expenses	175,249.04	(1,504,337.10)
PMIS	(160,126.29)	(157,838.58)
Office of Shared Services	942,678.71	942,678.71
Extra Budgetary Funds	41,254,243.12	13,439,184.32
Partners' Accomodation	202,713.88	(470,356.88)
Refurbishment of Building Z	(5,543,451.80)	2,137,025.48
Morale and Welfare Recreational Activities (Staff Centre)	481,262.80	335,228.86
Total	95,868,780.40	48,479,952.66

Negative balance of Building Z in 2019 is the result of the pre-financing operations with the use of NATO IS cash liquidity. In 2018 the balance was still positive, due the fact that the Partners' contributions for their optional works was still higher than the costs incurred in the project (See Note 2 on "Building Z Project Financing").

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. These include cash from NATO IS and also from other segments over which NATO IS exerts control.

In 2019 at year-end there was no cash held as short-term investments. This was a result of changes in cash management due to the negative interest rate environment. In 2019, all cash was deposited in current bank accounts (in 2018 EUR 60,780,056.22). The EUR 25.02 disclosed in 2019, refers just the remnants of an investment account (interest gained).

The table below provides comparative data on this item over two consecutive years:

Short Term Investments (amounts in EUR)	2019	2018
NATO IS HQ Civil Budget	25.02	50,000,025.02
NATO IS HQ Reimbursable Expenses)	-	-
NATO IS External Offices	-	-
PMIS	-	-
Office of Shared Services	-	-
Extra Budgetary Funds	-	10,780,031.20
Partners' Accomodation	-	-
Refurbishment of Building Z	-	-
Total	25.02	60,780,056.22

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 (Accommodation 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 Accommodation 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.

Under this item it is also booked the receivable accrual for NATO IS share of the Employers' part of DCPS compensatory payment, amounting to EUR 663,827.16 (see Note 35).

The table below provides comparative data of the Receivables balances at year-end, for two consecutive years:

RECEIVABLES	2019	2018
IS	47,139,153.78	45,258,241.35
Refundable Expenses	578,786.24	1,884,192.47
PMIS	484,824.96	346,056.21
Extra Budgetary Funds	266,319.53	1,948,976.72
PARTNER ACCOMODATION	470,466.28	128,430.08
BUILDING Z REFURBISHMENT	1,149,990.00	65,450.00
MWR	914,122.65	793,245.67
OSS	-	-
TOTAL	**51,003,663.44**	**50,424,592.50**

NOTE 6: PREPAYMENTS

Prepayments to suppliers relate mostly to rental fees on the Partners Accommodation, which have to be paid in advance.

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).

The tables below provide comparative data of the Prepayment balances at year-end, for two consecutive years:

2019			
Prepayments (in EUR)	**IS**	**Partners' Accomodation**	**Total**
Suppliers	356,075.54	613,894.05	969,969.59
Staff	1,406,058.95	-	1,406,058.95
Others	-	-	-
TOTAL	**1,762,134.49**	**613,894.05**	**2,376,028.54**

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**

NOTE 7: OTHER CURRENT ASSETS

These consist essentially of the counterpart of the valuation of untaken leave, cash advances to pension systems (DCPS, RMCF) and a pending litigations receivables that were passed on to NATO IS after the closure of the old site Staff Center entity.

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.

The below table provides a breakdown of the year-balances for the segment NATO IS, for two consecutive years:

Other Current Assets (in EUR)	**2019**	**2018**
Untaken Leave offset	2,037,071.94	1,966,535.32
Warranty	10,836.82	10,836.82
Litige Carrefour and Grand Optical (old SC)	284,236.86	
Other	5,075.14	405,735.86
Inter-entity cash advances (DCPS, RMCF)	1,500,000.00	1,137,898.75
Total	**3,837,220.76**	**3,521,006.75**

NOTE 8: INVENTORIES

The table below provides insight on the movements as well as the balances of Inventories at year-end for two consecutive years:

Description	Stock Value as per 31Dec18	2019 Yearly Issues	2018 Yearly Purchases	Stock Value as per 31Dec19
Office Supplies	€ 229,899.71	€ 70,850.67	€ 79,389.08	€ 238,438.12
Buildings & Infrastructure Supplies	€ 68,800.97	€ 25,233.38	€ 202,657.64	€ 246,225.23
NOS Consumables	€ 56,082.60	€ 22,770.70	€ 27,142.00	€ 60,453.90
				€ 545,117.25

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 (PPE)

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

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.

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.
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.

Since 2014, the residence has benefited from several maintenance and renovation works, that must have increased it's market value. A new audit and re-valuation of the Residence is foreseen to take place in October 2020 and by then the residence market value will be re-assessed.

PPE and Land and Buildings disclosures

The table below shows the status of the PPE and Land and Buildings in the Civil Budget segment at year-end:

(amounts in EUR)	Carrying Amount end 2018	Corrections related to PPE module	Additions	Disposals	Depreciation	Reclass	Impairment	Carrying Amount end 2019
COMMON FUNDED								
Land & Building	657,172,894.34		635,442.17		(16,639,946.83)		0	641,168,389.68
Installed equipment	278,138,805.42		228,467.00		(29,299,994)		0	249,067,278.55
Machinery	472,187.63				(66,014)		0	406,173.58
Transportation Equipment	248,982.30		112,253.37		(83,284)		0	277,952.00
Communications	8,620.95		224,068.50		(21,069)		0	211,620.34
IT Equipment	191,184.66				(81,743)		0	109,442.14
TOTAL	936,232,675.30	-	1,200,231.04	-	(46,192,050.05)	-	-	891,240,856.29

As for the Building Z, all expenditures (including the salaries of the project staff) are accrued under a "Fixed Assets Under Construction" account until the finalization of the project when the project accumulated cost will be finally recognized as Land & Buildings.

The table below shows the status of the PPE and Land and Buildings in the Building Z segment at year-end:

Building Z	2019	2018
Assets under construction	11,444,970.57	2,542,957.60

Total Warranty Contract

In 01/12/2018 NATO IS signed with COFELY a nine years contract (expires in 30/11/2027) for the maintenance of the IS HQ equipment's and technical installations. This contract is referred to as a Total Warranty Contract.

The below table disclose the items that were replaced by COFELY until the end of 2019, as part of this contract execution:

COFELY TOTAL WARRANTY REPLACEMENTS 2019	
ITEMS REPLACED	COST
RPL DES BATTERIES DE SECOURS EN JANVIER ET FEVRIER 2019	129,826.46
Réparation disjoncteur DEBA suite aux tests haute tension du 15 décembre 2018	7,158.75
Remplacement de 2 membranes hydrolise	7,615.07
Remplacement vase d'expansion sanitaire local géothermie	1,741.68
REP DES POMPES SUR EAU PUITS AL7	6,741.28
RPL DE LA POMPE DE RELEVAGE SC/B1	1,607.30
RPL DES CONDENSATEURS DES UPS	40,151.10
RPL DES POMPES DU CIRCUIT DE STERILISATION DES HUMIDIFICATEURS SUITE A L'ETAT ZERO	12,348.16
RPL DES MEMBRANES HYDROLYSE DE SEL	7,430.82
RPL DES POMPES DE RECIRCULATION DES TOURS DE REFROIDISSEMENT 3 +7	8,921.50
TOTAL	223,542.12

After an analysis IS-OFC decided that since all acquired items falls under the consumable/spare part category, in 2019 NATO IS shall not recognize COFELY's replaced items as PP&E.

The contract also stipulates that the difference between the costs paid by COFELY and the contractual annual replacements ceilings are captured under a "Solde du Fonds de Réserve" and that at the end of the ninth year of contract, NATO IS will get back one half of the funds not spent. However, if the balance is negative, NATO will not pay COFELY any compensatory payment.

As per NFR's when and if this income realizes, it shall be returned to Nations as Miscellaneous Income of the year concerned.

The balance of the "Solde du Fonds de Réserve" at 31 December 2019, shows a positive balance of EUR 306,692.48.

However, since the settlement of the "Solde du Fonds de Réserve" is receivable only at the end of the contract (30/11/2027), IS-OFC does not recognize any related asset/liability in lieu with the Total Warranty Contract.

NOTE 11: INTANGIBLE ASSETS

Intangible assets are stated at historical cost minus accumulated depreciation and any recognized impairment loss.

The table below shows the status of Intangible Assets in the Civil Budget segment at year-end:

(amounts in EUR)	Carrying Amount end 2018	Corrections related to PPE module	Additions	Disposals	Depreciation	Reclass	Impairment	Carrying Amount end 2019
COMMON FUNDED								
Intangible assets								
ILS RELATED COSTS: IMPLEMENTATION, SW, PROJECT STAFF	29,484.48				(5,897)			23,587.58
WCM RELATED COSTS: IMPLEMENTATION, SW, PROJECT STAFF	665,476.80				(166,369)			499,107.60
PPM RELATED COSTS: IMPLEMENTATION, SW, PROJECT STAFF	425,516.74				(425,517)			-
EIM RELATED COSTS: IMPLEMENTATION, SW, PROJECT STAFF	1,079,270.36	-	-	-	(1,075,814.10)	-	-	3,456.26
DAMS RELATED COSTS: IMPLEMENTATION, SW, PROJECT STAFF (2)	115,151.53	-	65,018.00	-	(131,406.03)	-	-	48,763.50
ERP RELEASE II + OBI	1,207,552.03				(467,439)			740,112.54
ERP RELEASE III (HR, Programs, SharePoint)			1,239,463.79	-	(478,825.95)	2,134,978.18	-	2,895,616.02
OTHER ASSETS	596,318.29	-	9,652.01	-	(277,043.06)	24,000.00	-	352,898.22
TOTAL	**4,118,770.23**	-	**1,314,133.80**	0	**(3,028,311.47)**	**2,158,978.18**	0	**4,563,541.72**
Intangible assets under construction	**2,158,984.57**					**(2,158,978.18)**		**6.39**
TOTAL	**6,277,754.80**	-	**1,314,133.80**	-	**(3,028,311.47)**	-	-	**4,563,548.11**

In 2019 the works on ERP R3 have been finalized which is reflected in the reclassification of EUR 2,134,978.18 from Assets Under Construction to the ERP Intangible asset. An additional EUR 24,000.00 has been re-classified for the MIT Project.

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

The amount of MEUR 16.652, comprises MEUR 12.890 corresponding to the balance of pre-financing of the cost of refurbishment and re-investment works in Building Z and MEUR 3.762 relating to the amount due from the LTPB as a contribution to the Building Z project. 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 be used by the nations in question applying it against any calls for contributions.

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 presents detailed breakdown of payables at the year-end for the IS segment for two consecutive years:

Payables (in EUR)	2019	2018
Suppliers	7,969,687.70	4,047,547.10
Personnel Related	45,864.76	1,165,049.75
Member Nations	2,963,471.51	3,544,243.39
Accruals	9,927,387.86	19,232,424.96
Others		
Total	20,906,411.83	27,989,265.20

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.

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.

Other segments:

Other segments that also present Unearned Revenue balances are the Building Z project (Assets under Construction) and HRSS.

In the table below it is disclosed a breakdown of the Deferred/Unearned Revenue balances at 2019 year-end:

Deferred revenue (in EUR)	**2019**	**2018**
Nato IS	19,880,367.97	20,394,995.80
Extra Budgetary Funds	39,649,583.25	35,702,466.79
Building Z	10,226,432.43	10,379,171.40
Total	**69,756,383.65**	**66,476,633.99**

NOTE 15: ADVANCES

The standard call for budget contributions process includes an advance on the following year's budget. In addition, some Nations may make ad hoc voluntary advances for budget contributions, ahead of the call issue. Under the new MWR mandate there are advances received in lieu with services.

The table below discloses detailed breakdown of the advances at the year-end for the IS segment for two consecutive years:

Advances	2019	2018
Advances called on next year Budget	52,000,000.00	52,000,000.00
Voluntary Advances from nations	3,098,884.32	3,432,530.00
Total	55,098,884.32	55,432,530.00

NOTE 16: SHORT TERM PROVISIONS

Included at year end 2019 is a Provision for the valuation of Untaken Leave (which has no impact on the current budgets) in the amount of EUR 2,037,071.94 (EUR 1,966,534.32 end 2018) and Bad Debts Impairments in the Civil Budget (EUR 6,343.74) and in the other segments.

NOTE 17: OTHER CURRENT LIABILITIES:

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 HRSS, lapsed credits are deducted from the amounts due by the NATO participating entities for the following year. The other activities do not follow the standard budget process.

For the Civil Budget, receipts linked to interest, realized 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.

The table below discloses year-end comparative data for the IS segment (materiality concern), for two consecutive years:

Civil Budget Surplus (in EUR)	2019	2018
Lapsed Appropriations	7,057,267.32	13,806,453.55
Miscellaneous Income	6,576,644.03	(84,467.69)
Net Financial Income	(78,709.09)	3,868.43
Total: Current Year Surplus	13,555,202.26	13,725,854.29
Under-Call (Over-Call)		(3,916,859.84)
Total	13,555,202.26	17,642,714.13

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 and projects: HAWK Agency, Office of Shared Services and to ad-hoc contributions by some Nations to specific projects.

Hawk Management Office

On 28 November 2019 the IS –OFC issued to IBAN a report on the financial closure of the former NATO Hawk Management Office (FC(2019)00133). The report discloses an asset of EUR 1,028,655.59, and a breakdown of the individual amounts to be returned to the former members of the HAWK Agency. Once the report is audited, the IS-OFC will send request for instructions to all former HAWK member nations involved on how to proceed for the respective reimbursement.

Office of Shared Services

After the closure of the Office of Shared Services (OSS) in 2016, some residual actions continued to take place, namely under the General Procurement Shared Services initiative under the aegis of NSPA. However, since 2018 there was no further funding requirements to be covered by the OSS budget. Since 2018, EUR 942,678.71 are kept under NATO IS control and remain as such at 2019 year-end.

As per C-M(2017)0063 the BC noted that the OSS pre-financing was put in place with the expectation it would not be required beyond 2018. And in 2018 (BC-D(2018)0197) the BC noted the proposal not to return amounts concerned until further guidance is issued. As a consequence, the funds are held by NATO IS and reported as a liability.

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). In 2019 a payment of EUR 20,000 was done from this fund, as per EM(HR)(2019)0296, reducing the value of this fund to 75,774.61.

Global overview

The table below presents detailed breakdown of Current Liabilities at for the IS segment only, for two consecutive years.

(in EUR)	2019	2018
Current Year Surplus	13,555,202.26	13,725,854.29
Closed Operations (Trust Funds, Projects or Entities)	2,739,309.76	2,052,698.88
Stikker Fund	75,774.61	95,774.61
Interco Liability	-	10,000,000.00
Other	561,641.20	272,412.12
Overcall		3,916,859.84
Total Other Current Liabilities	16,931,927.83	30,063,599.74

Note: During consolidation the positive/negative balances of all segments are offset (see also Note 30)

The EUR 561K disclosed as "Other" refer mainly to the Liability balance related with the recognition of Stock Inventories (EUR 545K), together with some minor items like; Deferred Expenses, Inter-segment transactions, etc.

The EUR 10,000,000.00 shown in 2018, are related with an incidental investment done for the Extra Budgetary Funds segment cash holdings done under NATO IS investment accounts.

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.

In 2020, with the foreseen move of partner nation's delegations to the new Partners Building (Building Z), the operations currently managed under the Partners Accommodation segment will be terminated.

In 2019, the Partners Accommodation produced a surplus of EUR 216,611.72, which results over the years in an accumulated surplus of EUR 1,077,797.65 as of 31 December 2019.

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 the contributions. For MWR segment non-exchange revenue derives from: contributions from the MWR stake holders (NATO entities) and the revenue from Gym membership and tax-free fuel operations.

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.

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 HRSS: contributions from other NATO bodies to cover the expenses of the HRSS operations 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).
- For MWR: rents from concessionaires and retailers and other miscellaneous operations.

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.

In 2019, under this item, it is also disclosed the Allianz compensatory payment, the acquisition of extra space for the German delegation, over accruals and other miscellaneous revenue from previous years.

NOTE 25: FINANCIAL REVENUE

Financial revenue (principally from the Civil Budget) is measured at fair value received or receivable for interest and foreign exchange gains.

In 2019 the major sources of financial income came from the IS (EUR 115,436.04) and Extra-Budgetary Funds (EUR 109,932.62) segments.

These amounts include EUR 55,643.72 of Unrealized Gains originating from the year-end revaluation of cash and cash equivalents held in foreign currency.

This source of revenue is impacted by the current context where negative interest rates apply to EUR cash holdings.

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 according to IPSAS or NATO Accounting Framework.

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 Afghanistan, Russia, Ukraine, Georgia, Moldova, Kuwait, Austria and the United States (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.

Other expenses

Are miscellaneous expenses that do not fall under any of the above categories.

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

The surplus/deficit is realised from the activities in support of Partner accommodation.
In 2019, the Partners Accommodation produced a surplus of EUR 216,611.72.

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 and the HRSS.

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 NATO International Staff and the HRSS (for PMIS and NTAP).

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 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 accrual 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 Defense
- Cooperative Security
- Public Relations
- Consultation Process
- Operational Environment of the Headquarters Site
- 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 2018, the Council approved the initial 2019 Civil Budget of EUR 212,384,882 (C-M(2018)0066 +COR1). The initial budget comprised the core 2019 Civil Budget of EUR 205,759,782 and contributions to the Defined Contribution Pension Scheme (DCPS) of EUR 6,625,100. In November 2019, the Budget Committee approved a transfer of EUR 1.0 million from the initial 2019 Civil Budget to the Defined Benefit Pension Scheme (DBPS), reducing the initial budget to EUR 211,384,882 (BC-D(2019)0213 (INV)).

With C-M(2018)0066 +COR1, the Council noted the Budget Committee-approved special carry forward of appropriations from 2015, 2016, 2017 and 2018 of EUR 14,020,670 and lapsable appropriations of EUR 8.27 million from 2018 and priors years and froze the entire amount (Annex 3 to BC-D(2019)0028

+COR1 (INV)). In February 2019, the Budget Committee unfrozen EUR 5.27 million (BC-D(2019)0005 (INV)).

Appropriations were transferred under the authority delegated to the Secretary General and the 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

The tables below provide a reconciliation of overview for the two last consecutive years:

2019

EXPENSES RECONCILIATION		
		Amounts
Budget Execution Statement Total Costs		213,106,753.36
Depreciation & Amotisation Charges + PP&E Recognition	+	46,706,025.70
Impairments PP&E, Intangible Assets and Stock	+	
Impairments Receivables	+	
Stock Variation	-	184,829.18
NBV Fixed Assets Losses	+	
Financial Costs	+	113,974.27
Non-Budgetary Provisions	+	2,037,071.94
Reconciliation difference	+	15.63
Statement of Financial Performance Costs		261,778,980.46

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

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 used to report only on PMIS operations.

In 2019, the Budget Committee approved the following special purpose budgets:

- The 2019 NATO-wide Payroll Management and Information System budget of EUR 236,512 through references BC-D(2019)0035 (INV) and BC-DS(2019)0008 (INV); and,

- The 2019 NATO Talent Acquisition Platform budget of EUR 276,970 through references BC D(2019)0085 (INV) and BC-DS(2019)0021 (INV).

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.

Building Z Refurbishment Project

In 2019, NATO continued the refurbishment works in Building Z 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 (called Optional Programme) in addition to the basic refurbishment. NATO Members agreed that the rest of the works would be pre-financed by the IS treasury. All expenses are capitalized.
The table below provides information about the evolution of the Building Z budget (DPRC-N(2019)0021-REV3 (INV)):

Building Z Budgetary Ceilings * (EUR)		
	2019	**2018**
Optional Programme	3,801,939	2,934,037
NATO Pre-Financed	17,868,149	9,787,000

*Budgetary ceiling for the totality of the refurbishment project (irrespective of the execution in previous financial years).

NOTE 30: SEGMENTS

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

	Notes	IS	Refundable Expenses	HR Shared Services	Extra Budgetary Funds	PARTNER ACCOMODATION	BUILDING Z REFURBISHMENT	MWR	Neutralisation of Internal Transactions	2019
Assets										
Current assets										
Cash and cash equivalents	3	59,458,889.65	175,249 04	-160,126.29	41,254 243 12	202,713 88	-5,543,451 80	481,262 80		95,868,780 40
Short term investments	4	25.02								25 02
Receivables	5	49,262,120.46	576 786 24	484,624.96	266,319 53	470,466 28	1,149,990 00	914,122 65	2,122,966.68	51,003,663 44
Prepayments	6	1,757,634.49		4,500.00		613,694 05				2,376,028.54
Other current assets	7	3,837,220.76			0 00			368,716.58	373,218.32	3,832,719 02
Inventories	8	545,117.25								545,117 25
		114,861,007.63	754,035.28	329,198.67	41,520,562.65	1,287,074.21	-4,393,461.80	1,764,102.03	2,496,185.00	153,626,333.67
Non-current assets										
Receivables	9									0 00
Property, plant & equipment	10	891,240,856.29					11,444,970 57			902,685,826 86
Intangible assets	11	4,563,548.09								4,563,548 09
Other non-current assets	12	12,889,983.00					16,652,386 00		12,889,983.00	16,652,386 00
		908,694,387.38	0.00	0.00	0.00	0.00	28,097,356.57	0.00	12,889,983.00	923,901,760.95
Total assets		1,023,555,395.01	754,035.28	329,198.67	41,520,562.65	1,287,074.21	23,703,894.77	1,764,102.03	15,386,168.00	1,077,528,094.62
Liabilities										
Current liabilities										
Payables	13	20,906,411.63	163,679 54	258,603 39	1,692,313.97	208,899.66	2,026,629 93	2,100,737 13	2,122,966.68	25,234,508 77
Deferred revenue	14	19,880,367.97			39,849,583.25		10,226,432 43			69,756,383 65
Advances	15	55,098,884.32	590 109 15					124,376 64		55,813,370 11
										0.00
Short term provisions	16	2,043,415.68	246 59	24.69		376 90		64 64		2,044,128 50
Other current liabilities	17	16,931,927.63		70,370.59	178,665 43		5,861.84	-461,076 36	373,218.32	16,352,530 99
		114,861,007.63	754,035.28	329,198.67	41,520,562.65	209,276.56	12,258,924.20	1,764,102.03	2,496,185.00	169,200,922.02
Non-current liabilities										
Payables	18									0.00
Long term provisions	18									0 00
Deferred revenue	19	895,804,404.36					11,444,970 57			907,249,374 95
Other non-current liabilities	20	12,889,983.00							12,889,983.00	0 00
		908,694,387.38	0.00	0.00	0.00	0.00	11,444,970.57	0.00	12,889,983.00	907,249,374.95
Total liabilities		1,023,555,395.01	754,035.28	329,198.67	41,520,562.65	209,276.56	23,703,894.77	1,764,102.03	15,386,168.00	1,076,450,296.97
Net assets	21									
Capital assets										0 00
Reserves										0 00
Current year Surplus / (Deficits)						216,611 72				216,611 72
Accumulated surpluses / (deficits) prior year						861,185 93				861,185 93
Total net assets/ equity		0.00	0.00	0.00	0.00	1,077,797.65	0.00	0.00	0.00	1,077,797.65

	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	942,678 71	13 439 184 32	-470,356 88	2,137,025 48	335,228 86		48,479,952 66
Short term investments	4	50,000,025 02				10 780 031 20					60,780,056 22
Receivables	5	45,258,241 35	1,884,192 47	346,056 21	0.00	1,948 976 72	128 430 08	65,450.00	793,245 67		50,424,592 50
Prepayments	6	3,045,689 18				0.00	1,290,043 69				4,335,733 07
Other current assets	7	3,521,006 75	10,367 46	33,078 66	0.00	10,000,000 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	221,296.29	942,678 71	36,168,192.24	948,117.09	2,202,475.48	1,128,474.53	10,387,667.00	167,557,408.39
Non-current assets											
Receivables	9					0 00					0.00
Property, plant & equipment	10	938,232,675 30				0 00		2,542,957.60			938 775,832.90
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	390,222.83	221,296.29	942,678.71	36,168,192.24	948,117.09	14,532,741.08	1,128,474.53	20,174,975.00	1,122,398,104.07
Liabilities											
Current liabilities											
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	923 798.86	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
Advances	15	55,460,530 16	303,978 15			0.00			91,042 46		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	7,742 71	91,036 92	113,635 19	10,000,000.00	22 533,263 67
		135,943,618.22	390,222.83	221,296.29	942,678.71	36,168,192.24	86,931.16	11,989,783.48	1,128,474.53	10,387,667.00	176,483,530.46
Non-current liabilities											
Payables	18					0.00					0.00
Long term provisions	16					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				9,787,308.00	0.00
		952,297,738.08	0.00	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	221,296.29	942,678 71	36,168,192.24	86,931.16	14,532,741.08	1,128,474.53	20,174,975.00	1,121,536,918.14
Net assets	21										
Capital assets											0.00
Reserves											0.00
Current year Surplus / (Deficits)							303,506 28				303,506.28
Accumulated surpluses / (deficits) prior year							557,679 65				557,679.65
Total net assets/ equity		0.00	0.00	0.00	0.00	0.00	861,185 93	0.00	0.00	0.00	861,185.93

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.

	Notes	IS	Refundable Expenses	HR Shared Services	Extra Budgetary Funds	Partner Accommodation	Building Z Refurbishment	Staff Center	Neutralisation of Internal Transactions	2019	2018
Revenue											
Non exchange revenue	22	251,437,898 69			5,841,625 67			1 741,680 47		259,021,205 03	249 161 944 28
Exchange revenue	23	8,452,497 00	1,580,748 14	220,882 32	48,926 92	2 572,835 00		673,730 72	1,395,820 31	12,153,999 79	15 899 501 86
Other revenue	24	1,773,148.53		708,703 65		0.00	3 470,303 15	1,311,480 91		7,263,636 24	1,368,520 99
Financial revenue	25	115,436 04			109,932 62			0.03		225,368 69	398,177 18
Total revenue		261,778,980.46	1,580,748.14	929,585.97	6,000,485.21	2,572,835.00	3,470,303.15	3,726,892.13	1,395,820.31	278,664,209.75	266,848,144.29
Expenses											
Personnel	26	122 539 347 42	77,968 32	205 878 46	975 733 36		186,222 66	21,909 64		124,007,060 06	123 205,006 76
Contractual supplies and services	26	87,881,610 29	1 502,779 82	723,707 51	5,020 444.96	2,355,845 58	3,284,080 49	3 703,666 16	1,395 820 31	103,058,514 50	103 369,685 87
Depreciation and amortization	26	49 220 361 52								49,220 361 52	37 523 699 60
Impairment	26									0 00	5 251 84
Provisions	26	2,043,686 96			-1 68	376.90		64 64		2,044 126 82	2 035 229.00
Other expenses	26				336.00	0.00		165.00		501.00	11 714.27
Finance costs	26	113,974 27			3,972 57	0.80		1,086.49		119 034 13	394,050 67
Total expenses		261,778,980.46	1,580,748.14	929,585.97	6,000,485.21	2,356,223.28	3,470,303.15	3,726,892.13	1,395,820.31	278,447,598.03	266,544,638.01
Surplus/(Deficit) for the period	27	0.00	0.00	0.00	0.00	216,611.72	0.00	0.00	0.00	216,611.72	303,506.28

	Notes	IS	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	8 416,859.84	4 477 764.60	201,369.34		200.310 29	2 619 775.00		371,089 79	387,667.00	15,899,501.86	13,096 952.87
Other revenue	24	331 436 79		475 723.22			0.00	324,263.81	237,097 17		1,368,520.99	988 747.31
Financial revenue	25	328 388 71		4 730.97		65,059 19			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	118,696,606.86
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	2 541 463 55
Impairment	26								5,251.84		5,251.84	24,070 42
Provisions	26	68,692.00				1.68					68,693.68	
Other expenses	26	1,975,260.66				2,988 93			387,667.00	387,667.00	1,978,249 59	1,814,363.87
Finance costs	25	323 672.83		654 18	2 636.28	65 169 17			1,698.21		394,050.67	379 456.25
Total expenses		252,250,399.75	4,477,764.60	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	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.
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.

The operating leases at the reporting date can be classified into three main 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.

The table below provides an overview of the existing operational lease contracts as of 31 December 2019:

Contract No (CPA)	ASSET LEASED	AMOUNT PAID IN 2019	EXPENSE ACCOUNT CHARGED	AMOUNT TO PAY IN 2020	AMOUNT TO PAY IN 2021-2024	AMOUNT TO PAY AFTER 2024	RENEWAL OR PURCHASE OPTION/ RESTICTION
7549	Copier	760.18	IS0100-2019-085500-N N8H-IC02-611001-00000-0-0	-	-	-	-
8681	Copier	1,028.06	IS0100-2019-085500-N N8H-IC02-611001-00000-0-0	-	-	-	-
12331	Printing machines	260,916.00	IS0100-2019-085500-N N8H-IC02-611001-00000-0-0	260,916.00	565,318.00	-	-
59	Vehicle	7,448.76	IS0100-2019-150120-S S61-J002-611500-00000-0-0	996.24 (until 19/2/20 final price linked to mileage)	-	-	-
848	Vehicle	6,223.94	IS0100-2019-150120-S S61-J002-611500-00000-0-0	524.78 (until 25/1/20 final price linked to mileage)	-	-	-
849	Vehicle	6,223.94	IS0100-2019-150120-S S61-J002-611500-00000-0-0	524.78 (until 25/1/20 final price linked to mileage)	-	-	-
17273	Vehicle	55,287.00	IS0100-2019-150120-S S61-J002-611500-00000-0-0	38,700.90	-	-	-
17271	Vehicle	79,200.00	IS0100-2019-150120-S S61-J002-611500-00000-0-0	79,200.00	5,940.00	-	-
17272	Vehicle	79,200.00	IS0100-2019-150120-S S61-J002-611500-00000-0-0	79,200.00	5,940.00	-	-
34149	Building V	201,198.20	IS0300-2019-081430-M OSP-Y110-611700-00000-0-0	68,958.43	-	-	
34148	Building VA	532,020.69	IS0300-2019-081430-M OSP-Y110-611700-00000-0-0	170,180.43	-	-	-
34147	Building U	1,176,430.87	IS0300-0000-000000-00000-0000-444023-00000-0-0	613,854.05	-	-	-

NOTE 32: RESTRICTIONS ON FIXED ASSETS

There are no restrictions on fixed assets.

NOTE 33: CONTINGENT LIABILITIES

An assessment was made on the possible provisions, contingent liabilities that could impend over IS.

In line with IPSAS 19, NATO IS discloses contingent liabilities, of an estimated value not exceeding MEUR 1.4 which may derive from: Building Z Operations, MWR Activities, and Administrative Tribunal litigation.

NOTE 34: WRITE OFF

In light of the move to the New NATO HQ in 2018, it was decided, 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.

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)).

The table below summarizes the write-off procedures for IS equipment in 2019.

IS 2019 WRITE-OFF REPORT								
Serial	Ref. Document	Date	Location	Type of Items	Acquisition Value	Net Book Value	Reason for Write-off	Disposal Method
1	Dossier 001-2019	7/2/2019	NLO Kyiv	Vehicle Skoda	18,545.00	-	Not in use due to Obsolescence Obsolete	Sale Locally
2	BC-D(20019)0034 (INV)	13/3/2019	IS HQ	All items of Furnitures, Fixtures and Equipment left behind in the PNHQ	n.d	n.d.	Obsolescence and no foreseeable use in the CNHQ	Dismantling, removal and disposal/recycling was outsourced to a contractor
3	Dossier 003-2019	28/5/2019	NLO Vienna	Armoured Cabinet	484.00	-	Not in use due to Obsolescence Obsolete	Dismantled and Scrapped Locally
4	FC(FAC)(2019)001	23/8/2019	IS HQ	Irrecoverable debt from IS0700 Fund (Children Summer Camps fund)	336.00	n.a.	Debts from a former NCIA Staff member that left the organization in 2016. All recovery attempts failed. The fund had enough accumulated surplus to absorb the write-off without any negative impact in NATO's common funding.	Write-off Receivable
5	Dossier 004/2019	16/12/2019	IS HQ	Batch of Audio, Telecom and IT Equipment	35,005.00		Unserviseable and Obsolete	Hard Drives detroyed and rest send for waste/recycle
TOTALS					54,370.00	-		

NOTE 35: CONTINGENT ASSETS

Nothing to report

NOTE 36: EMPLOYEE DISCLOSURE

Employee status

There are 5 different hire categories: NATO Civilians, Voluntary National Contributions (VNC), Temporary Staff, Interns and Consultants.

VNC's represent "in kind" services provided by nationally funded personnel. VNCs may work for the IS in the HQ but also at the NATO external offices, or in support of specific projects on-site.

The tables below provide comparative data for two consecutive years:

NATO IS	NATO Civilians	
	31-12-19	31-12-18
Total Approved PE	1137	1103
Total Filled Positions	1028	1037
Arrivals in the year	75	70
Departures in the year	90	79

NATO IS	Total Approved PE	Total Filled Positions
Civilian (PE)	1137	1028
VNC	n.a.	104
Short term (Temps + Interns)	n.a.	145
Others – (consultants)	n.a.	11

Pension Schemes

The NATO-IS manages centrally three pension schemes, namely the Defined Benefit Pension Scheme (DBPS), the Defined Contribution Pension Scheme (DCPS), as well as the Retirees Medical Claims Fund (RMCF), covering staff employed by all NATO bodies.

As for the DBPS, a deduction of 9.5% (increased to 11.8% in 2020) of staff salaries is made and contributed to the annual financing of this plan. 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.

The DCPS affiliated 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 the basic salary of each active scheme member. Contributions to the DCPS are part of the payroll and are made monthly.

NATO wide financial statements are issued by the NATO-IS Office of Financial Control for the two remaining pension schemes and the RMCF; therefore, no related assets or liabilities are recognised in IS financial statements.

The table below provide comparative data about the staff affiliation to the different pension schemes for two consecutive years:

IS Staff Pension Schemes Affiliation Statistics		
Pension Scheme	**2019**	**2019**
DBPS	381	423
DCPS	641	618

The table below indicates the contributions made by IS to the pension schemes:

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(Amounts in EUR)		2019	2018
DBPS	Staff	3,229,395.06	3,487,491.57
	Employer	-	-
	Total	**3,229,395.06**	**3,487,491.57**
DCPS	Staff	3,969,128.32	3,776,170.17
	Employer	5,670,565.78	5,343,693.78
	Total	**9,639,694.10**	**9,119,863.95**
TOTAL	Staff	7,198,523.38	7,263,661.74
	Employer	5,670,565.78	5,343,693.78
	Total	**12,869,089.16**	**12,607,355.52**

Reimbursable Staff

Reimbursable staff are employees that are paid by their own nations on a reimbursable basis. Their salary is paid directly by their national governments using national salary scales and accruing pension rights under their national pension systems, in return NATO IS reimburses their countries in an amount corresponding to the grade of the post occupied by the staff member in NATO IS establishment.

Currently IS has active agreements with the US and Norway.

The table below provide comparative data about this type of staff for two consecutive years:

Statistics on number of IS Reimbursable Staff		
Country	**2019**	**2018**
US	7	12
Norway	3	3
Netherlands	0	0

Leave

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.

Extraordinary Compensatory payment

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 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. The overall entitlement of IS staff amounts to EUR 267,776.60. During 2019 EUR 153,494.91 were paid mainly to serving staff, while the remaining EUR 114,281.69 that relate to retired or former employees is expected to be settled in the course of 2020.

However, this information is being provided here solely for clarity and cross reference purposes, since these transactions are not reflected in IS books and thus in these financial statements, but instead have been managed directly in DCPS accounts and therefore will be disclosed in the later financial statements.

As per BC-DS(2019)0067(INV), the Budget Committee decided that the "Employers' part of this compensatory payment, in the total amount of EUR 4,273,893.73 , shall be returned to the respective NATO bodies.

An adequate accrual has been posted in IS books by the amount of its correspondent receivable (EUR 663,827.16).

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 of the 20 staff members considered as Key Managers (15 in 2018) was EUR 3,398,100.55 (EUR 3,745,443.34 in 2018). In addition to the figures above, in 2019 the following additional payments were made: loss of job indemnity (EUR 171,185.93) and payment in lieu of untaken leave (EUR 15,672.67).

The variation in the aggregate remuneration is essentially due to the rotation of posts during the year 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 (including renovations), suffer annual variations derived from the residence annual work plan. The below chart provides comparative data on the residence costs for two consecutive years:

SG Residence Costs	
2019	**2018**
EUR 309,00.00	EUR 339,000.00

The Deputy Secretary General is provided with an approved special allowance to contribute towards the lease of accommodation suitable for representation at the Ministerial and distinguished visitor level. The Secretary General is entitled upon departure to a special leaving allowance, equal to one year's basic salary if a full four year term was served.

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

Several 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, Deputy Secretary General, Director of the Private Office, Eight Assistant Secretary Generals, PASP Deputy Assistant Secretary General and the NATO IS Spokesperson. The amount of Representation Allowance paid in 2019 was EUR 67,792.99 (EUR 74,387.32 in 2018).

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 provides charge back common operating costs for which it is reimbursed by National delegations and other NATO entities that share the use of the NHQ compound.

The IS also charges back the Morale and Welfare and Recreation (MWR), Operational and Maintenance (O&M) costs, attributable to the Staff Center and commercial retailers and concessions that operate within the HQ compound.

These amounts represent a deduction to the budget contributions due from Nations to fund the Civil Budget and as such are a non-common funded source of income of the Civil Budget.

In 2019 the IS has invoiced under these income categories, the following amounts:

Type of Income	2019	2018
Accommodation Costs	8,452,497	6,449,197
Admin and HR Shared Services	2,573,689	4,438,047
MWR and Commercial Entities	1,135,191 260,429	

The 2019 accommodation costs income includes the correction for the difference between the 2018-invoiced amount, based on budget estimates, and the 2018 actual expenditures.

Host Nation Belgium

Belgium provides military personnel in support of activities related to security (Delegation Militaire de la Sécurité Technique), that are charged by the Belgian Ministry of Defence and paid by the Civil Budget. Below there is comparative data of the associated costs for two consecutive years:

Belgium – Delegation Militaire de la Securité Technique		
	2019	2018
Costs	589.375.50	535,420,29

There are also personnel provided by nations under a reimbursable basis or as VNCs. (see note 36

Extra Budgetary Funds

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.

In the Appendixes it is provided 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 two pension systems (Defined Benefit Pension Scheme, Defined Contribution Pension Scheme) and the Retirees Medical Claims Fund. Separate financial statements are issued by the NATO-IS Office of Financial Control. No management fees corresponding to the related costs incurred by NATO-IS are charged to these entities.

Staff Centre

The previous HQ Staff Centre, which was a separate NATO entity issuing separate financial statements, was officially closed in September 2018 and therefore 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. All former Staff Center pending assets/liabilities in 31 December 2018, were settled during 2019 and the remaining receivables related with an old litigation with Grand Optical and Carrefour, were transferred to NATO IS (see Note 7).

Statement of financial position

As at 31 December 2019

(All amounts in EUR)

	Notes	IS0600	IS0700	IS0800	IS0900	IS1000	IS1200	IS2010	IS2040
		Von Karman Institute	Children Summer Camps	US Tramil	EW Trial Air	EW Trial Nav	Audit of Multi-Nationally Funded Bodies	TF Moldova III	TF Azerbaijan (PFP Proj JCP)
Assets									
Current assets									
Cash and cash equivalents		96,527.19	0.00	708,535.92	633,983.17	262,898.09	123,415.22	792,317.03	107,060.57
Short term investments		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Receivables		243,176.08	0.00	0.00	15,000.00	7,686.00	0.00	0.00	0.00
Prepayments		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
Inventories		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
		339,703.27	**0.00**	**708,535.92**	**648,983.17**	**270,584.09**	**123,415.22**	**792,317.03**	**107,060.57**
Non-current assets									
Receivables		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	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		**339,703.27**	**0.00**	**708,535.92**	**648,983.17**	**270,584.09**	**123,415.22**	**792,317.03**	**107,060.57**
Liabilities									
Current liabilities									
Payables		0.00	0.00	0.00	1,680.57	0.00	0.00	0.00	0.00
Deferred revenue		339,703.27	0.00	662,830.72	647,302.60	270,584.09	0.00	792,317.03	107,060.57
Advances		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
Other current liabilities		0.00	0.00	45,705.20	0.00	0.00	123,415.22	0.00	0.00
		339,703.27	**0.00**	**708,535.92**	**648,983.17**	**270,584.09**	**123,415.22**	**792,317.03**	**107,060.57**
Non-current liabilities									
Payables		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	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		**339,703.27**	**0.00**	**708,535.92**	**648,983.17**	**270,584.09**	**123,415.22**	**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
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**

	Notes	IS2050	IS2060	IS2090	IS2100	IS2105	IS2110	IS2130	IS2140
		TF Armenia	TF Ukraine II Phase 2	TF CNAD VNCF	TF Jordan III	TF Jordan IV	TF Serbia IV	Global NAF (TF APM Destruction Belarus)	TF Ukraine II SALW Mun. Destr.
Assets									
Current assets									
Cash and cash equivalents		1,421,500.00	1,759,301.11	762,004.21	1,569,017.70	347,560.16	1,436,842.25	7,561.11	813.16
Short term investments		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Receivables		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
Other current assets		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
		1,421,500.00	**1,759,301.11**	**762,004.21**	**1,569,017.70**	**347,560.16**	**1,436,842.25**	**7,561.11**	**813.16**
Non-current assets									
Receivables		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	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		**1,421,500.00**	**1,759,301.11**	**762,004.21**	**1,569,017.70**	**347,560.16**	**1,436,842.25**	**7,561.11**	**813.16**
Liabilities									
Current liabilities									
Payables		0.00	0.00	2,500.00	0.00	0.00	0.00	0.00	0.00
Deferred revenue		1,421,500.00	1,759,301.11	759,504.21	1,569,017.70	347,560.16	1,436,842.25	10,848.61	813.16
Advances		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
Other current liabilities		0.00	0.00	0.00	0.00	0.00	0.00	-3,287.50	0.00
		1,421,500.00	**1,759,301.11**	**762,004.21**	**1,569,017.70**	**347,560.16**	**1,436,842.25**	**7,561.11**	**813.16**
Non-current liabilities									
Payables		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	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		**1,421,500.00**	**1,759,301.11**	**762,004.21**	**1,569,017.70**	**347,560.16**	**1,436,842.25**	**7,561.11**	**813.16**
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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	Notes	IS2160	IS2170	IS2191	IS2200	IS2201	IS2211	IS2220	IS2230
		TF NATO DEFENCE CAPACITY BUILDING	TF JWGDR Prof Dev Pgrm	TF Mauritania II	TF Building Integrity	TF Building Integrity - Phase 4	TF SPS-DEXTER	TF Georgia Professional Development	TF UKRAINE MCT
Assets									
Current assets									
Cash and cash equivalents		18,606,339.95	690,414.32	312,414.36	82,796.51	1,044,806.48	290,755.94	282,161.09	87,603.29
Short term investments		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Receivables		0.00	457.45	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
Other current assets		0.00	0.00	0.00	37,080.00	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
		18,606,339.95	**690,871.77**	**312,414.36**	**119,876.51**	**1,044,806.48**	**290,755.94**	**282,161.09**	**87,603.29**
Non-current assets									
Receivables		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	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**
Total assets		**18,606,339.95**	**690,871.77**	**312,414.36**	**119,876.51**	**1,044,806.48**	**290,755.94**	**282,161.09**	**87,603.29**
Liabilities									
Current liabilities									
Payables		105,593.51	0.00	0.00	0.00	99,960.48	13,876.25	0.00	8,154.08
Deferred revenue		18,500,746.44	690,818.10	312,414.36	119,845.13	944,846.00	276,879.69	283,281.97	42,152.28
Advances		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
Other current liabilities		0.00	53.67	0.00	31.38	0.00	0.00	-1,120.88	37,296.93
		18,606,339.95	**690,871.77**	**312,414.36**	**119,876.51**	**1,044,806.48**	**290,755.94**	**282,161.09**	**87,603.29**
Non-current liabilities									
Payables		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	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		**18,606,339.95**	**690,871.77**	**312,414.36**	**119,876.51**	**1,044,806.48**	**290,755.94**	**282,161.09**	**87,603.29**
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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	Notes	IS2240 TF UKRAINE L&S	IS2260 TF UKRAINE C4	IS2270 TF UKRAINE MEDICAL REHABILITATION	IS2290 TF UKRAINE EOD/CIED	IS2310 TF NATO Defense & Security Campaign –Pilot phase	IS2350 TF NATO-UKRAINE PLATFORM ON COUNTERING HYBRIDE WARFARE	IS2360 TF Commun ication Activities in W-Balkans	IS2370 TF DEEP BIH
Assets									
Current assets									
Cash and cash equivalents		1,222,379.51	3,728,789.98	2,135,048.72	668,724.44	26,230.30	231,917.57	25,410.90	93,470.73
Short term investments		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Receivables		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
Other current assets		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
		1,222,379.51	**3,728,789.98**	**2,135,048.72**	**668,724.44**	**26,230.30**	**231,917.57**	**25,410.90**	**93,470.73**
Non-current assets									
Receivables		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	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		**1,222,379.51**	**3,728,789.98**	**2,135,048.72**	**668,724.44**	**26,230.30**	**231,917.57**	**25,410.90**	**93,470.73**
Liabilities									
Current liabilities									
Payables		0.00	1,158,086.84	290,000.00	0.00	0.00	7,594.92	0.00	0.00
Deferred revenue		1,222,379.51	2,570,703.14	1,845,048.72	668,724.44	26,230.30	224,322.65	23,710.90	93,470.73
Advances		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
Other current liabilities		0.00	0.00	0.00	0.00	0.00	0.00	1,700.00	0.00
		1,222,379.51	**3,728,789.98**	**2,135,048.72**	**668,724.44**	**26,230.30**	**231,917.57**	**25,410.90**	**93,470.73**
Non-current liabilities									
Payables		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	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		**1,222,379.51**	**3,728,789.98**	**2,135,048.72**	**668,724.44**	**26,230.30**	**231,917.57**	**25,410.90**	**93,470.73**
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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	Notes	IS2380	IS5000	IS5051	IS5081	IS5070	IS5090	IS6000	Neutralisation of Internal Transactions	2019	2018
		TF Ukraine Disposal of Radioactive Waste II	TF NRC CAI IV	TF Counter Narcotics	TF Montenegro	TF UK Stratcom	TF MIC-SPS G5395 FR MICR IMAG CURT	Women, Peace and Security			
Assets											
Current assets											
Cash and cash equivalents		300,000.00	177,132.33	128,733.90	167,960.16	405,520.11	100,000.00	416,295.64		41,254,243.12	13,439,184.32
Short term investments		0.00	0.00	0.00	0.00	0.00	0.00	0.00		0.00	10,780,031.20
Receivables		0.00	0.00	0.00	0.00	0.00	0.00	0.00		266,319.53	1,948,976.72
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	37,080.00	0.00	10,000,000.00
Inventories		0.00	0.00	0.00	0.00	0.00	0.00	0.00		0.00	0.00
		300,000.00	**177,132.33**	**128,733.90**	**167,960.16**	**405,520.11**	**100,000.00**	**416,295.64**	**37,080.00**	**41,520,562.65**	**36,168,192.24**
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**	**0.00**
										0	
Total assets		**300,000.00**	**177,132.33**	**128,733.90**	**167,960.16**	**405,520.11**	**100,000.00**	**416,295.64**	**37,080.00**	**41,520,562.65**	**36,168,192.24**
Liabilities											
Current liabilities											
Payables		0.00	0.00	0.00	0.00	1,399.71	0.00	3,467.61		1,692,313.97	353,872.30
Deferred revenue		300,000.00	177,132.33	119,022.86	167,960.16	404,681.77	100,000.00	410,026.29		39,649,583.25	35,702,466.79
Advances		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	9,711.04	0.00	-561.37	0.00	2,801.74	37,080.00	178,665.43	111,853.15
		300,000.00	**177,132.33**	**128,733.90**	**167,960.16**	**405,520.11**	**100,000.00**	**416,295.64**	**37,080.00**	**41,520,562.65**	**36,168,192.24**
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		0.00	0.00
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
Total liabilities		**300,000.00**	**177,132.33**	**128,733.90**	**167,960.16**	**405,520.11**	**100,000.00**	**416,295.64**	**37,080.00**	**41,520,562.65**	**36,168,192.24**
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	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**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**

Extra Budgetary Funds
Statement of financial performance

As at 31 December 2019

(All amounts in EUR)

	Notes	IS0600	IS0700	IS0800	IS0900	IS1000	IS1200	IS2010	IS2040	IS2050	IS2060	IS2090	IS2100	IS2105
		Von Karman Institute	Children Summer Camps	US Tramil	EW Trial Air	EW Trial Nav	Audit of Multi-Nationally Funded Bodies	TF Moldova III	TF Azerbaijan (PFP Proj JCP)	TF Armenia	TF Ukraine II Phase 2	TF CNAD VNCF	TF Jordan III	TF Jordan IV
Revenue														
Non exchange revenue		0.00	334.32	1,032,213.90	30,214.64	60,004.84	-35,770.07	0.00	0.00	0.00	0.00	83,747.08	0.00	0.00
Exchange revenue		0.00	0.00	0.00	0.00	0.00	48,926.92	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other revenue		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
Financial revenue		0.00	0.00	64,296.99	0.00	0.00	0.00	0.00	0.00	0.00	0.00	52.92	0.00	0.00
Total revenue		**0.00**	**334.32**	**1,096,510.89**	**30,214.64**	**60,004.84**	**13,156.85**	**0.00**	**0.00**	**0.00**	**0.00**	**83,800.00**	**0.00**	**0.00**
Expenses														
Personnel		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
Contractual supplies and services		0.00	0.00	1,094,389.29	30,209.77	60,000.00	13,156.85	0.00	0.00	0.00	0.00	83,800.00	0.00	0.00
Depreciation and amortization		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
Impairment		0.00	-1.68	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
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
Other expenses		0.00	336.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Finance costs		0.00	0.00	2,121.60	4.87	4.84	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total expenses		**0.00**	**334.32**	**1,096,510.89**	**30,214.64**	**60,004.84**	**13,156.85**	**0.00**	**0.00**	**0.00**	**0.00**	**83,800.00**	**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**

(All amounts in EUR)

	Notes	IS2110	IS2130	IS2140	IS2160	IS2170	IS2191	IS2200	IS2201	IS2211	IS2220	IS2230	IS2240
		TF Serbia IV	Global NAF (TF APM Destruction Belarus)	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 SPS-DEXTER	TF Georgia Professional Development	TF UKRAINE MCT	TF UKRAINE L&S
Revenue													
Non exchange revenue		0.00	-39,635.24	0.00	1,253,368.49	315,607.80	0.00	-2,238.57	538,335.10	13,876.25	120,314.13	125,762.51	0.00
Exchange revenue		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 revenue		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Financial revenue		0.00	40,016.39	0.00	0.00	90.36	0.00	2.29	0.00	0.00	22.49	247.09	0.00
Total revenue		**0.00**	**381.15**	**0.00**	**1,253,368.49**	**315,698.16**	**0.00**	**-2,236.28**	**538,335.10**	**13,876.25**	**120,336.62**	**126,009.60**	**0.00**
Expenses													
Personnel		0.00	0.00	0.00	93,313.99	154,598.01	0.00	0.00	268,032.04	13,876.25	10,320.47	4,226.64	0.00
Contractual supplies and services		0.00	0.00	0.00	1,160,054.50	161,100.15	0.00	-2,362.12	269,537.60	0.00	110,016.15	121,782.96	0.00
Depreciation and amortization		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Impairment		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
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
Other expenses		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Finance costs		0.00	381.15	0.00	0.00	0.00	0.00	125.84	765.46	0.00	0.00	0.00	0.00
Total expenses		**0.00**	**381.15**	**0.00**	**1,253,368.49**	**315,698.16**	**0.00**	**-2,236.28**	**538,335.10**	**13,876.25**	**120,336.62**	**126,009.60**	**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**

(All amounts in EUR)

	Notes	IS2260	IS2270	IS2290	IS2310	IS2350	IS2360	IS2370	IS2380	IS5000	IS5051	IS5061	IS5070	IS5090	IS6000	2019
		TF UKRAINE C4	TF UKRAINE MEDICAL REHABILITATION	TF UKRAINE EOD/CIED	TF NATO Defense & Security Campaign –Pilot phase	TF NATO-UKRAINE PLATFORM ON COUNTERING HYBRIDE WARFARE	TF Communication Activities in W-Balkans	TF DEEP BIH	TF Ukraine Disposal of Radioactive Waste II	TF NRC CAI IV	TF Counter Narcotics	TF Montenegro	TF UK Stratcom	TF MIC-SPS G5395 FR MICR IMAG CURT	Women, Peace and Security	
Revenue																
Non exchange revenue		1,158,086.84	290,000.00	0.00	89,507.70	31,439.14	15,531.71	0.00	0.00	0.00	109,320.93	0.00	272,236.87	100,000.00	279,367.30	5,841,625.67
Exchange revenue		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	48,926.92
Other revenue		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
Financial revenue		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	6,115.89	0.00	-911.80	0.00	0.00	109,932.62
Total revenue		**1,158,086.84**	**290,000.00**	**0.00**	**89,507.70**	**31,439.14**	**15,531.71**	**0.00**	**0.00**	**0.00**	**115,436.82**	**0.00**	**271,325.07**	**100,000.00**	**279,367.30**	**6,000,485.21**
Expenses																
Personnel		0.00	0.00	0.00	19,460.20	0.00	0.00	0.00	0.00	0.00	0.00	0.00	230,048.95	0.00	181,856.81	975,733.36
Contractual supplies and services		1,158,086.84	290,000.00	0.00	70,047.50	31,439.14	15,531.71	0.00	0.00	0.00	115,370.96	0.00	40,773.23	100,000.00	97,510.43	5,020,444.96
Depreciation and amortization		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
Impairment		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	-1.68
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
Other expenses		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	336.00
Finance costs		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	65.86	0.00	502.89	0.00	0.06	3,972.57
Total expenses		**1,158,086.84**	**290,000.00**	**0.00**	**89,507.70**	**31,439.14**	**15,531.71**	**0.00**	**0.00**	**0.00**	**115,436.82**	**0.00**	**271,325.07**	**100,000.00**	**279,367.30**	**6,000,485.21**
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**

FC(2020)0016

NATO MSIAC

FINANCIAL STATEMENTS
Financial Year 2019

Annexes:

1 Statement of Financial Position

2 Statement of Financial Performance

3 Cash Flow Statement

4 Statement of Changes in Net Assets

5 Statement of Budget Execution

6 Explanatory notes to the financial statements

Charles Denham

C. DENHAM
Project Manager MSIAC

M. BORYCZKA
Financial Controller NATO-IS

ANNEX 1 to
FC(2020)0016

NATO MSIAC

Statement of financial position

As at 31 December 2019

(in EUR)

	Notes	Current Year 2019	Prior Year 2018	Variance CY - PY
Assets				
Current assets				
Cash and cash equivalents	3 & 4	1,395,389.05	1,382,075.21	13,313.84
Short term investments	3	0.00	0.00	0.00
Receivables	5	5,000.00	0.00	5,000.00
Prepayments	6	918.16	1,662.22	-744.06
Other current assets	6	64,151.21	20,996.71	43,154.50
Inventories	7			0.00
		1,465,458.42	**1,404,734.14**	**60,724.28**
Non-current assets				
Receivables	5	0.00	0.00	0.00
Property, plant & equipment	8	0.00	0.00	0.00
Intangible assets	8	0.00	0.00	0.00
Other non-current assets		0.00	0.00	0.00
		0.00	**0.00**	**0.00**
Total assets		**1,465,458.42**	**1,404,734.14**	**60,724.28**
Liabilities				
Current liabilities				
Payables	9	590,033.06	707,125.96	-117,092.90
Deferred revenue	10	0.01	11,850.00	-11,849.99
Advances	11	176,000.00	0.00	176,000.00
Short term provisions	12	0.00	0.00	0.00
Other current liabilities	13	79,713.88	46,245.50	33,468.38
		845,746.95	**765,221.46**	**80,525.49**
Non-current liabilities				
Payables	14	0.00	0.00	0.00
Long term provisions	14	0.00	0.00	0.00
Non Current Deferred revenue	14	0.00	0.00	0.00
Other non-current liabilities	14	0.00	0.00	0.00
		0.00	**0.00**	**0.00**
Total liabilities		**845,746.95**	**765,221.46**	**80,525.49**
Net assets				
Capital assets				
Reserves				
Accumulated surplus / (deficit)		591,711.47	219,512.68	372,198.79
Current year surplus / (deficit)		28,000.00	420,000.00	-392,000.00
Total net assets/ equty	15	**619,711.47**	**639,512.68**	**-19,801.21**
Control Sum Assets-Liabilities=Net Assets		**0.00**	**0.00**	**0.00**

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ANNEX 2 to
FC(2020)0016

NATO MSIAC
Statement of financial performance

As at 31 December 2019

(in EUR)

	Notes	Current Year 2019	Prior Year 2018	Variance CY - PY
Revenue	16			
Non exchange revenue		1,744,538.92	1,799,417.57	-54,878.65
Services, Joining Fees and Early Access Contributions		28,000.00	420,000.00	-392,000.00
Exchange revenue		0.00	0.00	0.00
Other revenue		10,898.78	0.00	10,898.78
Financial revenue		0.00	0.00	0.00
Total revenue		**1,783,437.70**	**2,219,417.57**	**-435,979.87**
Expenses	17			
Personnel		1,308,315.21	1,359,256.00	-50,940.79
Contractual supplies and services		413,299.49	417,237.98	-3,938.49
Depreciation and amortization		0.00	0.00	0.00
Impairment		0.00	0.00	0.00
Provisions		33,212.41	20,996.71	12,215.70
Other expenses		0.00	0.00	0.00
Finance costs		610.59	1,926.88	-1,316.29
Total expenses		**1,755,437.70**	**1,799,417.57**	**-43,979.87**
Surplus/(Deficit) for the period		**28,000.00**	**420,000.00**	**-392,000.00**

ANNEX 3 to
FC(2020)0016

NATO MSIAC
Statement of cash flow
As at 31 December 2019

(in EUR)

	2019	2018
Cash flow from operating activities		
Surplus/(Deficit)	28,000.00	420,000.00
Non-cash movements		
Depreciation/ Amortisation		
Impairment		
Use of Cash Reserves	-47,801.21	-254,417.39
Increase /(decrease) in payables	-117,092.90	23,111.48
Increase/ (decrease) in other current liabilities	197,618.39	-76,006.76
Increase/ (decrease) in provisions		
(Gains)/losses on sale of property, plant and equipment		
Decrease/ (Increase) in other current assets	-42,410.44	-22,270.75
Decrease/ (Increase) in receivables	-5,000.00	7,060.73
Decrease/ (Increase) in other non-current assets		
Net cash flow from operating activities	**13,313.84**	**97,477.31**
Cash flow from investing activities		
Purchase of property plant and equipment / Intangible assets		
Proceeds from sale of property plant and equipment		
Net cash flow from investing activities	**0.00**	**0.00**
Cash flow from financing activities		
Net cash flow from financing activities	**0.00**	**0.00**
Net increase/(decrease) in cash and cash equivalents	**13,313.84**	**97,477.31**
Cash and cash equivalent at the beginning of the period	**1,382,075.21**	**1,284,597.90**
Cash and cash equivalent at the end of the period	**1,395,389.05**	**1,382,075.21**

CCD

ANNEX 4 to
FC(2020)0016

NATO MSIAC
Statement of Change in Net Assets/Equity
As at 31 December 2019

	(in EUR)
Balance at the beginning of the period 2018	**473,930.07**
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	
Use of Cash Reserves	-254,417.39
Surplus/(deficit) for the period	420,000.00
Change in net assets/equity for the year ended 2018	**639,512.68**
Balance at the beginning of the period 2019	**639,512.68**
Changes in accounting policy	
Restated balance	
Exchange difference on translating foreign operations	
Gain on property revaluation	
Use of Cash Reserves	-47,801.21
Surplus/(deficit) for the period	28,000.00
Change in net assets/equity for the year ended 2019	**619,711.47**
Balance at the end of the period 2019	**619,711.47**

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NATO MSIAC
Statement of Budget Execution
as at 31 December 2019

(Amounts in euro)	Initial budget	Transfers	BA2	Transfers	BA3	Increase/Decrease	Final budget	Actuals	Carry forward	Lapsed
Budget 2019										
Chapter 1	1,280,700		1,280,700		1,280,700	30,000	1,310,700	1,308,315	0	2,385
Chapter 2	434,350		434,350		434,350		434,350	413,910	0	20,440
Chapter 3	0		0		0		0			0
Chapter 4	0		0		0		0			0
Total FY 2019	**1,715,050**	**0**	**1,715,050**	**0**	**1,715,050**	**30,000**	**1,745,050**	**1,722,225**	**0**	**22,825**
Budget 2018										
Chapter 1	0		0		0		0	0	0	0
Chapter 2	11,850		11,850		11,850		11,850	0	0	11,850
Chapter 3	0		0		0		0			0
Chapter 4	0		0		0		0			0
Total FY 2018	**11,850**	**0**	**11,850**	**0**	**11,850**	**0**	**11,850**	**0**	**0**	**11,850**
Budget 2017										
Chapter 1	0		0		0		0		0	0
Chapter 2	0		0		0		0		0	0
Chapter 3	0		0		0		0		0	0
Total FY 2017	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total all budgets	**1,726,900**	**0**	**1,726,900**	**0**	**1,726,900**	**30,000**	**1,756,900**	**1,722,225**	**0**	**34,675**

EXPLANATORY NOTES TO MSIAC

2019 FINANCIAL STATEMENTS

NOTE 1: GENERAL INFORMATION

At the October 1990 Conference of National Armaments Directors (CNAD) meeting, the MOU establishing NATO Insensitive Munitions Information Centre (NIMIC) as a Project Office under CNAD was signed. The project transitioned to cover the wider aspects of Munition Safety in 2004 becoming the Munitions Safety Information Analysis Centre (MSIAC)

MSIAC is a member nations' funded and directed NATO Project office. Its goal is to help nations reduce and eliminate the risk to personnel and materiel from explosive incidents associated with own munitions. To help nations realise this goal, the project exchanges and analyses information and technology related to munition safety. MSIAC plays a central role in facilitating member nation's efforts to safely store, design, develop, procure and use safer munitions.

At the end of 2017, MSIAC had thirteen participating countries: Australia, Belgium, Canada, Finland, France, Germany, Italy, the Netherlands, Norway, Spain, Sweden, the United Kingdom and the United States. In 2018, Poland joined MSIAC bringing the membership to fourteen, and the Republic of Korea was granted early access, which allows using MSIAC services pending the completion of the accession procedure. So in 2019 Poland was a full member, while The Republic of Korea is not an official MSIAC's member yet as their joining MOU has not yet been signed by all Member Nations.

MSIAC allows other nations to participate in selected MSIAC sponsored courses or training events. These are called MSIAC Partner Nations.

The MSIAC Steering Committee (one representative per member nation) is the governing body of the MSIAC. Steering Committee members are nominated by their respective national authorities.

For administrative purposes only, MSIAC is attached to the Defence Investment Division of the IS.

The member countries pay all operational and administrative costs relating to the Project office, in accordance with an agreed cost-sharing formula which is based on a share value (EUR 84,000 for 2017 and 2018 and EUR 88,000 for 2019).

In 2019, there were 10 nations paying 1 share and 4 nations paying 2 shares (total of 17 shares from official members, with the Republic of Korea paying a full, 18th share as "Early Access Member").

NOTE 2: ACCOUNTING POLICIES

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

Declaration of Conformity

The MSIAC 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 have been prepared on a going-concern basis. The assumption is that MSIAC 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.

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

The following IPSAS have no material effect on the 2019 MSIAC financial statements:

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

Changes in accounting policy

In 2018, the untaken leave was disclosed as "Other Expenses". However, we have reconsidered this policy because, although NATO IS policy is that untaken leave must be paid only as a last recourse (Staff is compelled to take all their leave before retiring), we believe that, for informative and transparency purposes, this liability should be recognized as if NATO would shut down its activities as of 31Dec19 and disclosed as a Provision instead of an actual expense since its realization is uncertain.

Reclassification of Financial Statements of Previous Years

Due to the change in the Untaken Leave Accounting Policy, below you can find the 2018 Re-classified Statement of Financial Performance for comparative purposes:

(in EUR)	Current Year	Prior Year (New Policy)	Prior Year (Former Policy)
	2019	2018	2018
Expenses			
Personnel	1,308,315.21	1,359,256.00	1,359,256.00
Contractual supplies and services	413,299.49	417,237.98	417,237.98
Depreciation and amortization	0.00	0.00	0.00
Impairment	0.00	0.00	0.00
Provisions	*33,212.41*	*20,996.71*	*0.00*
Other expenses	*0.00*	*0.00*	*20,996.71*
Finance costs	610.59	1,926.88	1,926.88
Total expenses	**1,755,437.70**	**1,799,417.57**	**1,799,417.57**

Restatement of Financial Statements of Previous Years

None.

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 MSIAC budget is authorized and managed in EUR so contributions called are 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 applicable at year end.

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

MSIAC does not have any unrealised gains and losses resulting from the translation of statements.

MSIAC accounting is subject to FC(FAC)(2020)004 which sets out IS/OFC policy for accounting and reporting transactions in foreign Currency.

Financial Risks

MSIAC 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 majority of the NATO-MSIAC's expenditures are made in EUR, the currency of its budget. The current bank accounts are held in EURO.

b. Credit risk

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

The maximum exposure as of 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 NATO MSIAC 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:

BANK NAME	COUNTRY OF HQ	SHORT TERM RATINGS AS AT 10.01.20		
		FITCH	S&P	Moody's
ING BANK	NE	F1+	A-1	P1

The MSIAC outstanding accounts receivable are managed by maintaining control procedures over receivables. Most cash receivables are due from 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 since MSIAC funding mechanism guarantees contributions in relation to approved budgets. Some limited risk could be due to the accuracy of budget forecasts. However, history shows that the budgetary process results in surpluses and, in any case, the applicable rules allow the revision of budgets.

d. Interest rate risk

Except for certain cash and cash equivalent balances, MSIAC's financial assets and liabilities do not have associated interest rates. MSIAC 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 Member Nations.

Current Assets

a. Cash and cash equivalents

Cash and cash equivalents are defined as short-term assets. They include cash in hand, short-term 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.

c. Receivables

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

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.

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 the advances on future staff benefits).

e. Inventories

As mentioned above, NATO's adaptations of IPSAS are spelled out in C-M(2016)0023 of April 2016, which includes 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 capitalized in the Financial Statements if it is above the capitalization 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 follows:

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

The MSIAC will capitalize 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.

The MSIAC 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.

The MSIAC considers 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, the MSIAC 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.

The MSIAC 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 all the above, MSIAC currently has no inventory.

Non-current assets - 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 are 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 capitalized in the Financial Statements if it is above the capitalization 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 follows:

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 MSIAC 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, MSIAC 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 includes 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 capitalized in the Financial Statements if it is above the capitalization threshold. This is applied from January, 2013, under the initial NATO Accounting Framework C-M(2013)0039 of July 2013.

MSIAC will capitalize 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

For anything below the threshold, the MSIAC will have the flexibility to expense specific items.

MSIAC will capitalize integrated systems and include research, development, implementation and can include both software and hardware elements. But the MSIAC will not capitalize 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

MSIAC will capitalize other types of intangible assets acquired after 1 January 2013 including:

- Copyright
- Intellectual Property Rights
- Software development

MSIAC considers Intangible Assets acquired prior to 1 January 2013 as fully expensed.

MSIAC 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.

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

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

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

In consideration of the above thresholds, MSIAC has no Intangible Assets.

Non-Current Assets other than PPE

In case there are any non-current assets, these will be properly disclosed in the Statement of Financial Position.

Current Liabilities

a. Payables

Payables are amounts due to third parties, including Member 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 Member Nations in the context of their budget contributions are booked under Other Current Liabilities.

b. Advances and Unearned revenue

Advances are contributions received related to future year's budgets. Funds are called in advance of their need because MSIAC has no capital that would allow it to pre-finance any of its activities.

Unearned revenue represents Member Nations contributions which have been called for current budgets but that have not yet been recognised as revenue in the absence of any related budgetary expenditure.

c. Other Current Liabilities

Amounts corresponding to the current budgetary surplus (lapsed credits + net interests + miscellaneous income) are considered a liability towards the Member Nations. The settlement does not follow the normal accounts payable process, since the standard approach is to return them to Member 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 MSIAC has no non-current liabilities.

Net Assets

Net Assets correspond to MSIAC's Project Accumulated Surplus. Project Accumulated Surplus relates to funds resulting from past years' contributions by MSIAC 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 MSIAC. It is held at the direction of the Steering Committee.

Revenue Recognition

Revenue comprises contributions from Member Nations, pro-rated contributions (partial calls) and joining fees from new Member Nations.

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.

On the other hand, calls related to non-budgeted contributions (new membership early access, access during the year, and Joining Fees from new Member Nations) are recognized when they are issued and as Non-Exchange revenue in the Statement of Financial Performance, considering that it is not possible to directly identify and value the consideration provided by MSIAC directly in return for the resources received. There are no expenses to be matched against these resources which are not refundable to nations.

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 MSIAC.

Statement of Financial position

NOTE 3 & 4: CASH AND CASH EQUIVALENTS – SHORT TERM INVESTMENTS

The current bank accounts are held in EUR. Cash deposited is immediately available, since it is held in interest-bearing bank accounts deposits. There are no short-term investments. MSIAC does not manage funds for third parties. Below is a snapshot of MSIAC's cash and cash equivalents at year-end:

cash (in EUR)	2019	2018
Cash at bank	1,395,389.05	1,382,075.21
Petty cash	-	-
Total	**1,395,389.05**	**1,382,075.21**

NOTE 5: ACCOUNTS RECEIVABLE

Below a snapshot of MSIAC's Receivables at year-end:

Receivables (in EUR)	2019	2018
Budgetary contributions	-	
Others	5,000.00	
Total	**5,000.00**	

The only receivable corresponds to a debt from Estonia relating to the attendance at an MSIAC training in Germany.

Contributions receivable from Member Nations are funds requested from the Nations to finance the current year MSIAC budget, while Partners are Extraordinary Revenue directly recognized into the surplus/deficit of the period concerned.

Below there is a table with all amounts billed during 2019 to both member and partner nations.

(in EUR)	Contributions	Other Revenue	Grand Total
1 - Member Nations	**1,320,000.00**		**1,320,000.00**
Belgium	88,000.00		88,000.00
Canada	88,000.00		88,000.00
France	176,000.00		176,000.00
Germany	88,000.00		88,000.00
Italy	176,000.00		176,000.00
Netherlands	88,000.00		88,000.00
Norway	88,000.00		88,000.00
Poland	88,000.00		88,000.00
Spain	88,000.00		88,000.00
United Kingdom	176,000.00		176,000.00
United States	176,000.00		176,000.00
2 - Partner Nations	**352,000.00**	**28,000.00**	**380,000.00**
Australia	88,000.00		88,000.00
Croatia		1,000.00	1,000.00
Estonia		5,000.00	5,000.00
Finland	88,000.00		88,000.00
Latvia		2,000.00	2,000.00
New Zealand		20,000.00	20,000.00
Republic of Korea	88,000.00		88,000.00
Sweden	88,000.00		88,000.00
Grand Total	**1,672,000.00**	**28,000.00**	**1,700,000.00**

NOTE 6: PREPAYMENTS and OTHER CURRENT ASSETS

Prepayments and Other Current Assets relate to miscellaneous amounts due to the Project Office in relation to services to be received in the following years and advances made to staff in relation to benefits of the following year (essentially advances to staff for education allowances or for travel, etc.).

(in EUR)	2019	2018
Prepayments to Suppliers	918.16	1,662.22
Prepayments to Staff	-	-
Other Current Assets	64,151.21	20,996.71
Total	**65,069.37**	**22,658.93**

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. Even though NATO policy (both Civilian Personnel Regulations and IS HR directives) is that untaken leave must be paid only as a last recourse (Staff is compelled to take all their leave before retiring), for informative purposes we have chosen to disclose the amount payable, if MSIAC would shut down its activities as of 31 December 2019. For 2019 the recognized Untaken Leave amount is EUR 33,212.41.

This item also includes EUR 20,040.02 of Education Allowance advances and EUR 10,898.78 related with MSIAC's share of the accrual for the DCPS Group insurance compensatory payment (employers part).

NOTE 7: INVENTORIES

Nothing to report, inventories are not considered material.

NOTE 8: NON-CURRENT ASSETS

MSIAC has registered no non-current assets.

NOTE 9: ACCOUNTS PAYABLE

Payables and accrued expenses may relate to commercial suppliers, staff, other NATO bodies or MSIAC Member Nations.

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.

The EUR 27,077.66 of accruals are comprised by a portion (EUR 18,812.90) related to un-invoiced supplies/services and EUR 8,264.76 linked to credit card expenses, commit&pay invoices and other minor accruals.

Payables (in EUR)	2019	2018
Suppliers	116,465.92	24,360.10
Personnel	270.50	1,170.00
Member Nations	446,218.98	622,218.98
Accrued expenses/Education	-	-
Accruals - Others	27,077.66	59,376.88
Total	**590,033.06**	**707,125.96**

Payable to nations

The payable to Member Nations is linked to the reimbursable salaries and represents the amount due to the United States (US) for one civilian staff member who is paid directly by the US government. This amount remains to be regularised. In 2019, the US MSIAC contribution (EUR 176,000.00) was offset with part of this payable item. At the end of the year, this payable account showed a balance of EUR 446,218.98 (622,218.98-176,000.00).

NOTE 10: DEFERRED REVENUE

Deferred Revenue

Deferred revenue corresponds to contributions called for the current year or before (received or receivable) that MSIAC 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 lapse, unless a specific decision is taken by Member Nations for a further carry-forward.

At the end of 2019 there were no appropriations subject to a special carry-forward.

NOTE 11: ADVANCES

The United Kingdom has paid its 2019 contribution (EUR 176,000.00) twice and has requested that the double payment be considered as an advance on the 2020 contribution.

NOTE 12: SHORT TERM PROVISIONS

There were no short-term provisions.

NOTE 13: OTHER CURRENT LIABILITIES

Other Current Liabilities include the Current Year Budget Surplus. Amounts corresponding to the current year budgetary surplus of MSIAC (lapsed credits + net interests + miscellaneous income) are considered a liability towards the Member Nations. The settlement does not follow the standard accounts payable process, since the surplus is to be returned to Member Nations via a deduction of the following year's call for budget contributions. To date, the agreed practice of the MSIAC Steering Committee has been to add these amounts to the Project Accumulated Surplus (see note on Net Assets).

(amounts in EUR)	2019	2018
Lapsed Appropriations	34,674.70	25,248.79
Net Financial Income	5.43	-
Miscellaneous Income	11,021.34	-
Others	34,012.41	20,996.71
Total	**79,713.88**	**46,245.50**

NOTE 14: NON-CURRENT LIABILITIES AND LONG TERM UNEARNED REVENUE

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.

There are no non-current liabilities.

NOTE 15: NET ASSETS

Net Assets correspond to MSIAC's Project Accumulated Surplus from previous years and the surplus (deficit) from the current year.

Project Accumulated Surplus relates to funds resulting from past contributions by MSIAC 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 MSIAC. This reserve also includes the former surpluses originating, for instance, from non-budgeted new membership contributions and joining fees paid by incoming Member Nations to contribute to the products and services developed over the entire lifespan of MSIAC operations. It is held at the direction of the Steering Committee. The Steering Committee may use these funds to contribute to future costs associated with MSIAC operations, or in case of emergency funding needs for the Project. The growth in accumulated surplus over previous years reflects more Nations entering the Project but zero growth in Project staff. A five-year plan is agreed yearly and incrementally reduces this fund to target levels agreed by the MSIAC Steering Committee. At the Steering Committee meeting in March 2019, the nations agreed to keep the target range between EUR 400 and EUR 650K.

At the fall meeting, in October 2019, nations mandated the Program Manager to write a brief explaining the rationale for the MSIAC surplus reserve in order to document a waiver from the NFR's to be approved by the NAC.

In February 2020, the NATO IS Financial Controller and MSIAC's Project Manager have submitted to the RPPB a request for the approval of the stated waiver. This request, if endorsed by the RPPB, will be submitted to the NAC for final approval.

(in EUR)	2019	2018
Cumulated Surplus beginning of the year	639,512.68	473,930.07
+ Lapses from previous year	25,248.79	129,155.73
+ Net Financial Income (Interest, Bank Fees) previous year		- 2,783.40
+ Miscellaneous Income previous year		1,360.28
- Surplus allocated to current year budget	- 73,050.00	- 382,150.00
Cumulated Surplus end of the year	**591,711.47**	**219,512.68**
Current Year Extraordinary Surplus	28,000.00	420,000.00
Net Assets as off 01 Jan Y+1	**619,711.47**	**639,512.68**

The Project Accumulated surplus reduced between 2018 and 2019, in accordance with the policy agreed by the Steering Committee. At the end of 2019, it amounts to EUR 619,711.47 which includes additional income proceeding from training fees collected from partners (EUR 28K), which will revert to equity in the following year.

Statement of Financial Performance

NOTE 16: REVENUE

(in EUR)	2019	2018
Non exchange revenue	**1,744,538.92**	**1,799,417.57**
Called from Nations	1,672,000.00	1,428,000.00
Additional budget to be taken from reserve fund	30,000.00	50,000.00
Budget to be taken from refundable surplus	9,326.51	300,420.86
Provision for Untaken Leave as off 31Dec19	33,212.41	20,996.71
Services, Joining Fees and Early Access Contributions	**28,000.00**	**420,000.00**
Training fees	28,000.00	-
Joining fees		420,000.00
Other revenue	**10,898.78**	-
DCPS Allianz Compensatory	10,898.78	-
Total revenue	**1,783,437.70**	**2,219,417.57**

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.

Revenue from Member Nations' budgetary contributions is considered as non-exchange revenue in consideration of the fact that the contributions by Member Nations are based on the number of shares and not in proportion of the service they receive. Non-exchange revenue is matched with expenses stemming from budget execution.

Other contributions such as non-budgeted contributions (new membership early access, access during the year, and Joining Fees from new Member Nations) whilst being also recognized as Non-exchange revenue, do not follow the matching principle since it is not possible to directly identify and value the consideration provided by MSIAC directly in return for the resources received. There are no expenses to be matched against this revenue and thus is not refundable to nations. Therefore, this result miscellaneous revenue must revert directly into Surplus of the period concerned.

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 and non-related allowances including overtime, medical examinations, recruitment, installation and removal, and for contracted consultants and training.

Services rendered, Supplies and Consumables Used

This item may also include expenses attributed to Capital Expenses (Property, Plant and Equipment) from a budget perspective, if they do not meet the criteria of PPE or Intangible Assets.

Provisions

It contains the posting of Untaken Leave as of 31 December 2019.

The amount is EUR 33,212.41.

Other Expenses

There are no such expenses in 2019. In 2018, the Untaken Leave booking was presented here.

Finance Costs

This item comprises miscellaneous financial costs like bank charges, exchange rates losses, etc.

NOTE 18: BUDGET INFORMATION

NATO MSIAC Budget

Presently, the NATO MSIAC Budget is 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

An analysis of the budget execution for the current and the previous year carry-forward amounts is provided in Annex 5. The MSIAC budget execution compares the budget's authorized credits against the amounts committed and expended.

The MSIAC 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 MSIAC Budget is prepared for the same period (1 January to 31 December) and encompasses the same entity as 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. 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 this principle in 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 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 MSIAC 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. Therefore, 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) Approved Commitments for which no goods could be received or services rendered at year-end will 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 special 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 returned to Member Nations at year-end. Lapses may include cases where a project was eventually not completed or started, and therefore lead to no expense.

Reconciliation between Budget Execution and Statement of Financial Performance

BUDGET EXECUTION		2019	2018
Total Budget (including carried-forward from previous year)	(a)	1,756,900.00	1,815,519.65
Credits Carried Forward in Following Year	(b)	0.00	11,850.00
Lapsed Appropriations	(c)	34,674.71	25,248.79
Budget Execution Expenses	(d) = (a-b-c)	1,722,225.29	1,778,420.86

RECONCILIATION		2019	2018
Financial Performance Expenses (total)	(e)	1,722,225.29	1,799,417.57
Other net expenses (financial and miscellaneous)	(f)	0.00	20,996.71
Increase in Non-Current Assets	(g)		
Other Elements	(h)		
Sub-Total	(i)=(e-f+g+h)	1,722,225.29	1,778,420.86
Difference to Budget Expenses	(d-i)	0.00	0.00

Budget execution

The MSIAC budget execution for the current year appropriations and previous year carry-forwards is shown at Annex 5, which compares the budget's authorized appropriations against the 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.

Reconciliation between Budget and Calls for Contributions

The funding of the budget is made of a call for contributions, carried over credits and a part of previous years' surplus. There is one call for contributions per year, which is usually issued at the beginning of the year. No advances are called for the following financial year.

In accordance with MSIAC's Steering Committee decision, new Member Nations have to contribute a one-off Joining Fee, besides the normal annual contributions.. In 2018 as a result of the accession of Poland and the Republic of Korea, EUR 315,000.00 were collected as joining fees.

There were no new accessions in 2019

Member Nations' contributions are assessed based on a share value of EUR 88,000. In 2019, ten nations paid 1 share and four nations paid 2 shares (total of 18 shares from official and early members).

As directed by the Steering Committee, the calls covered EUR 1,672,000 in 2019.

During 2019, MSIAC also collected 28,000.00 EUR of training fees, due to training provided to partner nations' staff.

Croatia: 1,000 EUR
Estonia: 5,000 EUR
Latvia: 2,000 EUR
New Zealand: 20,000 EUR

These proceedings are considered non-budgetary revenue, recognizable directly as a period surplus and will be moved to equity in the beginning of the following year.

The table below reconciles the approved budget and the sources of funding.

amounts in EUR	2,019	2018
Initial Budget	1,715,050.00	1,760,150.00
Revised Budget	30,000.00	50,000.00
Total Annual Budget	**1,745,050.00**	**1,810,150.00**
Advance called previous year	-	-
Call in current year	1,672,000.00	1,428,000.00
Total Cash Calls	**1,672,000.00**	**1,428,000.00**
Use of Previous Year's Surplus		
Use of Project Accumulated Surplus	73,050.00	382,150.00
Other Funding Sources	**73,050.00**	**382,150.00**
Total Funding	**1,745,050.00**	**1,810,150.00**

NOTE 19: WRITE-OFFS

There are no Write-offs to report in 2019.

NOTE 20: LEASES

MSIAC 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 in 2019.

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 Member Nations.

End 2018, untaken leave was estimated EUR 20,996.71. At 2019 end, the untaken leave was assessed to be EUR 33,212.41.

MSIAC's employee breakdown as of 31 December 2019, is shown below:

MSIAC	Total Approved PE	Total Filled Positions
Civilian (PE)	10	10
VNC	0	0
Short term	0	0
Interns	4	4
Others - explain	0	0

For 2019, MSIAC had an approved Personnel Establishment of 10 positions funded by the MSIAC budget (10 for 2018).

In 2018, one staff member was employed on a reimbursable basis with an agreement between NATO-IS and the United States (same for 2017). The individual was remunerated and accrued pension rights under the United States pension scheme. However, by the end of 2019, MSIAC has no longer any staff member under this arrangement.

From 4 November 2019 to 4 December 2019, there was an overlap of the incoming and exiting project managers.

It should be noted that the NATO-IS is managing centrally two pension programmes, namely the Defined Benefit Pension Scheme (DBPS) 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 NATO-IS Office of Financial Control for the two Pension Schemes and the RMCF, therefore, no post-employment benefit related assets or liabilities are recognised in the MSIAC financial statements.

End 2019, 10 staff members (8 in 2018) participated in the Defined Contribution Pension Scheme (DCPS) administered by NATO. The DCPS provides that the MSIAC budget makes a 12 percent monthly matching contribution to the staff members' contributions for current service.

Furthermore, by end 2019, there was still 1 employee (1 in 2018) participating in NATO's Defined Benefit Pension Scheme (DBPS): a deduction of 9.5% (increased to 11.8% in 2020) of their salaries is made and contributed to the annual financing of this Plan. In addition, the MSIAC budget makes a monthly matching contribution of 19% to the DBPS. These contributions are expensed during the year concerned and represent the sole pension related obligation of the entity. Consequently, the MSIAC has neither DBPS nor DCPS liabilities for its staff members.

The table below presents a list of contributions paid to the different Pension Schemes:

		2019	2018
Provident Fund	Staff		-
	Employer		-
	Total		-
Co-ordinated Pension Scheme	Staff	5,866.68	6,843.36
	Employer	11,733.36	14,476.41
	Total	17,600.04	21,319.77
Defined Contribution Pension Scheme	Staff	80,475.37	73,993.56
	Employer	99,271.12	86,889.74
	Total	179,746.49	160,883.30
TOTAL	Staff	86,342.05	80,836.92
	Employer	111,004.48	101,366.15
	Total	197,346.53	182,203.07

Further to an analysis covering the previous years' history of death in service risks in relation to premiums paid by the Organisation during 2012-2015, into the DCPS Group Insurance scheme, 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 MSIAC during the period 2012-2015 and affiliated to the DCPS are therefore entitled to a compensatory payment. MSIAC staff had initially a global entitlement of EUR 5,183.27. However, this was reduced since one staff member (EUR 666.57) moved to NSPA and thus MSIAC's overall staff amount was decreased accordingly, i.e. EUR 4,516.70. By 31 December 2019, all active staff have been paid (EUR 1,851.69) and during 2020 we plan to complete the payment to the retired staff (EUR 2,665.01). However, this information is being provided here solely for clarity and cross-reference purposes since these transactions are not reflected in MSIAC's books and thus in these financial statements. The stated transactions have been managed directly in DCPS accounts and therefore will be disclosed in the financial statements of the DCPS.

As per BC-DS(2019)0067(INV), the Budget Committee decided that the "Employers" part of this compensatory payment, in the total amount of EUR 4,273,893.73 , shall be returned to the respective NATO bodies. An adequate accrual corresponding to this receivable (MSIAC share of EUR 10,898.78) has been booked in MSIAC's 2019 Financial Statements.

NOTE 25: KEY MANAGEMENT PERSONNEL

The MSIAC Steering Committee (one representative per Member Nation) is the governing body of the MSIAC. 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 MSIAC or NATO any additional remuneration for Steering Committee responsibilities or access to benefits.

The key management personnel of the MSIAC Office consists of the Project Manager established post (A5). The Project Manager is responsible for the overall operational management of MSIAC.

There are no other remunerations or benefits to key management personnel or their family members.

NOTE 26: RELATED PARTIES

Key management personnel have no significant party relationships that could affect the operation of the MSIAC Office.

In 2019, NATO International Staff charged MSIAC for the following burden sharing costs:

Burden Sharing charges

	2019	2018
COMOPS	57,921.76	35,465.00
ADMIN Costs	47,258.50	59,440.46
Others		

* * * * *

List of acronyms:

CNAD	Conference of National Armaments Directors
DBPS	Defined Benefit Pension Scheme
DCPS	Defined Contribution Pension Scheme
IPSAS	International Public Sector Accounting Standards
IS	International Staff
MOU	Memorandum of Understanding
MSIAC	Munitions Safety Information Analysis Centre
NIMIC	NATO Insensitive Munitions Information Centre
PPE	Property, Plant and Equipment
RPPB	Resource Planning and Prioritization Board
NAC	North Atlantic Council
RMCF	Retirees Medical Claims Fund

NATO COORDINATED PENSION SCHEME
FINANCIAL STATEMENTS

For the year ended
31 December 2019

Annexes

Jens STOLTENBERG
Secretary General

Miroslawa BORYCZKA
Financial Controller

Annex 1 to
FC(2020)0032

NATO COORDINATED PENSION SCHEME
Statement of Net Assets Available for Benefits

(All amounts in EUR)	Notes	Current Year	Previous Year
		31-Dec-19	**31-Dec-18**
Assets			
Cash and cash equivalents	4	115,465,541.61	27,216,210.62
Financial investments	5	0.00	40,000,000.00
Staff member contributions receivable	6	535,961.57	368,164.67
Employer contributions receivable	7	32,200.24	1,352,786.02
Nation contributions receivable	8	98,683,407.03	144,756,106.41
Pension tax adjustment contributions receivable	9	28,675,509.02	25,436,772.09
Credit for past service to be refunded by staff	10	55,010.41	65,962.93
Other	2,11	429,467.63	464,877.54
Total assets		**243,877,097.51**	**239,660,880.28**
Liabilities			
Contributions called for y+1	8	167,472,848.00	163,964,400.00
Voluntary advances	8	0.00	659,149.87
Pension tax adjustments called for y+1	9	31,107,500.00	27,543,000.00
Other	12	1,135,978.55	550,732.92
Total Liabilities		**199,716,326.55**	**192,717,282.79**
Net assets available for benefits	13	**44,160,770.96**	**46,943,597.49**

Annex 2 to
FC(2020)0032

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

(All amounts in EUR)	Notes	Current Year 31-Dec-19	Previous Year 31-Dec-18
Increase in net assets		**1,094,132.42**	**1,066,848.89**
Interest income	2,14	35,478.14	32,790.38
Transfers from other pension funds	15	957,205.98	947,287.18
Other	16	101,448.30	86,771.33
Contributions		**169,939,138.99**	**168,123,326.27**
Staff members	6	14,463,111.37	15,308,114.68
Employers	7	270,755.07	292,980.18
Nations	8	155,205,272.55	152,802,326.98
Regularizations previous years		0.00	-280,095.57
Tax adjustments	9	**27,767,387.69**	**27,176,320.84**
Total increase in net assets available for benefits		**198,800,659.10**	**196,366,496.00**
Decrease in net assets		**173,816,097.94**	**164,496,896.32**
Pension benefits	18	173,329,282.12	164,147,209.15
Leaving allowances	18	0.00	0.00
Other costs	2,17	405,691.78	157,631.90
Bank costs	2,14	81,124.04	192,055.27
Tax adjustments	9	**27,767,387.69**	**27,176,320.84**
Total decrease in net assets available for benefits		**201,583,485.63**	**191,673,217.16**
Net change for the year		-2,782,826.53	4,693,278.84
Net assets available for benefits, beginning of year		46,943,597.49	42,250,318.65
Net assets available for benefits, end of year		**44,160,770.96**	**46,943,597.49**

EXPLANATORY NOTES TO THE 2019 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 participated 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 organizations, namely:
- The Organization for Economic Co-operation and Development (OECD)
- The Council of Europe
- The European Space Agency (ESA)
- The European Centre for Medium-Range Weather Forecasts (ECMWF)
- The European Organization for the Exploitation of Meteorological Satellites (EUMETSAT)

These Coordinated Organizations 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 Organizations, 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 in order 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 Organizations.

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 Organizations. The rate was further increased to 9.5% as from 1 January 2015.

In late 2019 the nations approved the CCR recommendation to implement the below changes to the DBPS pension scheme, as of 01 January 2020.

a. Increase the serving staff rate to 11.8%.
b. Disconnect the annual pension increases from the serving staff salaries increase, which has been the rule since the inception of the scheme, and link the DBPS annual pension increases to the inflation rate of the countries of retirement.

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 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 Organization, fail to comply with its obligations, the other countries shall meet the cost thereof in proportion to their contributions to the budget of the Organization 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 Budget, 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 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. Copies of the meeting minutes can be found in the IS/EM-HR Pensions Unit.

None of the above-mentioned management services provided by NATO and the ISRP is 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 organization 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, so that the net pension balance remaining after deduction of the amount of national income tax (or taxes) would 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 (IAS 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 summarize 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.

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 2019.

Restatement of financial statements of previous year

In 2018 financial statements, accrued interest for a total amount of EUR 8,189.71 has not been presented.

To allow a proper data comparison between two consecutive years, 2018 Statement of Financial Position and 2018 Statement of Financial Performance are restated, as per below:

Annex 1: Statement of Net Assets Available for Benefits

(All amounts in EUR)	Restatement	Prior Year FS
	2018	2018
Assets		
Cash and cash equivalents	27,216,210.62	27,216,210.62
Financial investments	40,000,000.00	40,000,000.00
Staff member contributions receivable	368,164.67	368,164.67
Employer contributions receivable	1,352,786.02	1,352,786.02
Nation contributions receivable	144,756,106.41	144,756,106.41
Pension tax adjustment contributions receivable	25,436,772.09	25,436,772.09
Credit for past service to be refunded by staff	65,962.93	65,962.93
Other	464,877.54	456,687.83
Total assets	**239,660,880.28**	**239,652,690.57**
Total Liabilities	**192,717,282.79**	**192,717,282.79**
Net assets available for benefits	**46,943,597.49**	**46,935,407.78**

Annex 2: Statement of Changes in Net Assets Available for Benefits

(All amounts in EUR)	Restatement 2018	Prior Year FS 2018
Increase in net assets	**1,066,848.89**	**1,058,659.18**
Interest income	32,790.38	24,600.67
Transfers from other pension funds	947,287.18	947,287.18
Other	86,771.33	86,771.33
Contributions	**168,123,326.27**	**168,123,326.27**
Tax adjustments	**27,176,320.84**	**27,176,320.84**
Total increase in net assets available for benefits	**196,366,496.00**	**196,358,306.29**
Decrease in net assets	**164,496,896.32**	**164,496,896.32**
Tax adjustments	**27,176,320.84**	**27,176,320.84**
Total decrease in net assets available for benefits	**191,673,217.16**	**191,673,217.16**
Net change for the year	4,693,278.84	4,685,089.13
Net assets available for benefits, beginning of year	42,250,318.65	42,250,318.65
Net assets available for benefits, end of year	**46,943,597.49**	**46,935,407.78**

A minor reclassification has been done, concerning other and bank costs. Currency exchange rate losses (EUR 87,737.07), presented originally as bank charges, are now properly classified as other costs.

The below table discloses a reclassification of 2018 Statement of Changes of Net Assets Available for Benefits.

Statement of Changes in Net Assets Available for Benefits

(All amounts in EUR)	Re-Classification 2018	Prior Year FS 2018
Increase in net assets	**1,058,659.18**	**1,058,659.18**
Contributions	**168,123,326.27**	**168,123,326.27**
Tax adjustments	**27,176,320.84**	**27,176,320.84**
Total increase in net assets available for benefits	**196,358,306.29**	**196,358,306.29**
Decrease in net assets	**164,496,896.32**	**164,496,896.32**
Pension benefits	164,147,209.15	164,147,209.15
Leaving allowances	0.00	0.00
Other costs	157,631.90	69,894.83
Bank costs	192,055.27	279,792.34
Tax adjustments	**27,176,320.84**	**27,176,320.84**
Total decrease in net assets available for benefits	**191,673,217.16**	**191,673,217.16**
Net change for the year	4,685,089.13	4,685,089.13
Net assets available for benefits, beginning of year	42,250,318.65	42,250,318.65
Net assets available for benefits, end of year	**46,935,407.78**	**46,935,407.78**

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 tax 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 Organizations of which he is a national, or in a member country of one of the Coordinated Organizations of which his spouse is a national, or in a country where he/she has served at least five years in one of the organizations of the Coordinated Organizations. Consequently, 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 recognized 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 current bank accounts and deposit accounts. In 2018 DBPS used also a “floored floater” 3-year, capital-guaranteed note held with a registered banking, with an amount of EUR 40,000,000.00, but this note was liquidated during 2019.

Credit risk

The NATO DBPS incurs credit risks from cash, cash equivalents, 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 with registered banking institutions with the following ratings (short term).

BANK NAME	RATING DATE	SHORT TERM RATINGS		
		FITCH	S&P	MOODY'S
ING	10.01.2020	F1+	A-1	P1
BNP PARIBAS FORTIS	08.03.2020	A+	A+	A2

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. 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.

The table below provides a breakdown of the DBPS pension related payments by currency during 2019.

Currency	Percentage/EUR
EUR	84.83%
GBP	7.79%

USD	3.08%
NOK	1.34%
DKK	1.18%
CAD	1.06%
TRY	0.41%
CHF	0.11%
THB	0.05%
AUD	0.05%
MXN	0.03%
SEK	0.03%
NZD	0.03%
CZK	0.01%
PLN	0.01%
Total	**100.00%**

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, history shows that this process results in surpluses.

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 capital-guaranteed financial investments (if any) t 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

At the end of 2019 DBPS is not exposed to market risks. Since 2016, DBPS had a EUR 40,000,000 bank-guaranteed note, yielding 3-month Euribor with a minimum of 0.03% per year.

At the date of maturity (28/06/2019), the note was no longer renewed. The note earned net interests of 0.09%.

NOTE 3: ACTUARIAL VALUATION

The ISRP Actuarial Study Introduction

The International Service for Remunerations and Pensions (ISRP) is an organization that provides statistical, mathematical and actuarial support to the following organizations:

- NATO
- Council or Europe
- Organization for Economic Cooperation and Development (OECD)
- European Space Agency (ESA)
- European Centre for Medium-Range Weather Forecast (ECMWF)
- European Organization for the Exploitation of Meteorological Satellites (EUMETSAT)

In accordance with the requirements of the Letter of Mission (LM/SIRP/NATO(2012)35) signed by NATO and the ISRP, the later performed an actuarial study aiming at:

- Estimating the accrued pension and medical coverage liabilities at 31 December 2019 according to the International Public Sector Accounting Standards (IPSAS).
- Producing the IPSAS accounting disclosures related to these liabilities.

The study is based on comprehensive data of the affiliated population at the end of 2019 provided to ISRP by NATO.

NATO has also supplied data regarding DBPS cash flows over 2019.

NATO IS believes that the results of this report represent a reasonable measure of the DBPS underlying liabilities.

The previous full valuation was performed as at 31 December 2018.

The study has been conducted in accordance with generally accepted actuarial practices, in close collaboration with NATO. Whilst the report complies with IPSAS 39, NATO DBPS financial statements are prepared under IAS 26.

Actuarial Valuation Method

ISRP used the Projected Unit Credit approach. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. In addition, where the amount of a benefit is a constant proportion of final salary for each accrued unit of rights, future salary increases will affect the amount required to settle the obligation, therefore the method requires projecting the salary to its final value.

Only the rights accrued up to the valuation date have been taken into account. The rights of employees with less than 10 years of service are taken into account proportionally.

Actuarial Assumptions

Actuarial assumptions can be classified as either financial or demographic assumptions. Financial assumptions impact the amount of benefits to be paid over time and the net present value whilst demographic assumptions reflect the likelihood of payment and factors internal to NATO.

Financial Assumptions

The below financial assumptions were considered:

Assumption	Assumption as at 31 December 2018	Assumption as at 31 December 2019
Discount Rate		
- Pension Schemes	0.85%	0.27%
Price Inflation	2.00%	2.00%
- Salary Inflation	2.24%	2.24%
Pension Increase Rate	2.24%	2.00%

The discount rate used was the Euro area AAA Government Yield Curve, as at 31 December 2019. The change in discount rate is due to the change in financial market conditions over 2019.

In accordance with past practice, as a long-term inflation rate, the European Central Bank's long-term inflation rate target of 2.0% is used.

Salary inflation is calculated as a 0.24% increase to the derived rate of inflation as recommended, during 2018, by the Administrative Committee on Pensions of the Coordinated Organizations (CAPOC).

The pension increase rate was adjusted to be in line with price inflation for the DBPS from 1 January 2020. Previously the pension increase rate was in line with changes in the salary scale. Therefore, the pension increase rate assumption is 2.0%.

Demographic Assumptions

The demographics at this year-end are the same as those used for the previous year-end.

Mortality tables are a set of probabilities of a person dying within the year at a specific age and are an important assumption for the calculation of pension obligations. The ISRP, have produced mortality tables specific to international civil servants based in Europe since 2008 in order to have more appropriate results, compared to national or regional tables, on the life expectancy of the relevant population. This series of tables is known as the International Civil Servants Life Table (ICSLT).

Set out below is a comparison of life expectancies based on the ICSLT 2018 mortality table projected from 2018 and the ICSLT 2018 projected from 2019:

	ICSLT 2018 (2018 Projection)	ICSLT 2018 (2019 Projection)
Males -		
60 year old	28.3	28.4
40 year old now at 60	29.0	29.0
Females -		
60 year old	31.0	31.1
40 year old now at 60	31.5	31.5

Other demographic assumption taken into consideration are:

- Turnover
- Probability to retire
- Probability of becoming invalid
- Career progression
- Probability of being married
- Age difference in couples
- Age of pension suspension for Orphans
- Family allowances

Results for DBPS current obligation

The DBPS obligation as estimated at the end year 2019 is KEUR 8,446,358. It has increased by 4.6% compared to the 2018 year-end.

The change in the liability during 2019 can be summarized as follows:

Financial Year	**2019**
Currency	*KEUR*
Obligation at 1 January	8,076,490
Current Service Cost	180,567
Interest Cost	67,911
Benefits Paid	(173,805)
Actuarial (Gains)/Losses	617,127
Past Service Cost	(321,932)
Obligation at 31 December	8,446,358

Overall, the pension obligation has increased by KEUR 369,868 during 2019. This is principally due to the reduction in the discount rate which were somewhat offset by the past service cost caused by the change in the pension indexation.

The breakdown of the pension obligation by member status at 31 December 2019 is shown below:

Financial Year	**2019**
Currency	*KEUR*
Actives	3,260,655
Deferreds	141,518
Pensioners	5,044,185
Obligation at 31 December	8,446,358

An actuarial loss of KEUR 617,127 occurred during 2019. This is explained by a number of factors, including the updated population and the decreased discount rate.

NOTE 4: CASH AND CASH EQUIVALENTS

Separate bank accounts are held in various currencies (AUD, CAD, CHF, DKK, EUR, GBP, NOK and USD), namely for those currencies that represent most of the pensions paid, in order to ensure the recurring foreign currency payments. However, payments are also made in other currencies (e.g. NZD, SEK, TRY), but these are usually made from the EUR bank account.

Some cash is also held on account of third parties. 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. (see Note 12).

The below table provides an overview of DBPS's cash holdings as of 31 December 2019:

Cash and Cash Equivalents (EUR)	
As at 31/12/2019	**As at 31/12/2018**
115,465,541.61	27,216,210.62

The sizeable increase in Cash and Cash Equivalents in 2019 is caused by the liquidation of EUR 40,000,000 bank-guaranteed note and the increase of amounts paid in response to y+1 contribution calls (see Note 8- Nations Contributions).

In the table below, we provide comparative data for the short-time deposits held over two consecutive years:

Short-time Deposit Accounts (EUR)		
	As at 31/12/2019	**As at 31/12/2018**
Total	**65,907,518.93**	**2,708.74**

NOTE 5: FINANCIAL INVESTMENTS

At 31 December 2019, the DBPS has no financial investments. EUR 40,000,000 bank-guaranteed note was not renewed at its date of maturity (28/6/2019).

NOTE 6: STAFF MEMBER CONTRIBUTIONS

Staff member contributions are paid monthly by the NATO payroll centers. 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). As of 01 January 2020, a new staff contribution rate of 11.8% will be in force.

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 at year-end (Receivables) are linked to contributions due on staff salaries for December from several NATO entities, which were all received in early 2020.

The below chart provides an overview of the staff contributions over the last two consecutive years:

DBPS Staff Contributions		
	2019	**2018**
CIV	3,316,962.33	3,545,314.62
MIL	11,146,149.04	11,762,800.06
Total	**14,463,111.37**	**15,308,114.68**

NOTE 7: EMPLOYER CONTRIBUTIONS

Employer contributions are due from the following NATO bodies: MSIAC, FORACS, NAGSMA, the NATO BICES Agency, and the New NATO Headquarters Project Office. NATO Headquarters Staff Centre ceased to exist in 2018 as thus stopped its contributions. The Employer contributions are paid monthly.

The outstanding amounts (Receivables) decreased significantly in 2019. The Staff Center EUR 1,352,786.02 debt to DBPS was settled through the Civil Budget contribution.

The below chart provides an overview of the employer's contributions over the last two consecutive years:

DBPS Employer Contributions		
	2019	**2018**
CIV	75,940.10	115,645.80
MIL	194,814.97	177,334.38
Total	**270,755.07**	**292,980.18**

The increase in the Military Employers' contribution reflects the salary increases of, , BICES and NAGSMA, while the decrease in the Civil Employers' contribution (which comprises FORACS, MSIAC, NHQPO and the former Staff Center) is explained by the liquidation of the Staff Centre as well as the reduced number of staff in the NHQPO.

NOTE 8: NATION CONTRIBUTIONS

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 recognized 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 and takes into account the previous year's surplus or deficit, and it also regularizes any adjustments done in the course of the budget year such as budget revisions.

The amounts called at year end as advances for the following year (Liabilities) are:

	2020		2019	
	CIV	**MIL**	**CIV**	**MIL**
Budget called in Y-1	38,562,848.00	128,910,000.00	38,134,400.00	125,830,000.00
	167,472,848.00		163,964,400.00	

In terms of execution (Statements of Changes in Net Assets Available for Benefits), below is provided a reconciliation between the calls and the costs recognized against nations contributions:

Nation contributions	**2019**	**2018**
CIVIL		
Call Y	38,134,400.00	37,842,700.00
Regul revised call Y	1,000,000.00	0.00
Regul call Y-1	-585,419.82	-844,334.09
	38,548,980.18	**36,998,365.91**
MILITARY		
Call Y	125,830,000.00	116,700,000.00
Regul revised call Y	-4,270,000.00	0.00
Regul call Y-1	-4,903,707.66	-896,038.91
	116,656,292.34	**115,803,961.09**
Rounding difference	0.03	0.02
TOTAL	**155,205,272.55**	**152,802,326.98**

Uncollected budgetary contributions from Nations (Receivables) relate mainly to the call for the 2020 pension budget. In 2019, because of the increase of amounts paid in response to y+1 contribution call, the amounts due at the end of the year are lower than in 2018, when reached the level of EUR 144,756,106.41.

Hereunder is a breakdown of such outstanding contributions as at 31 December 2019:

DBPS Nations outstanding receivables as at 31/12/2019	
ALBANIA	180,103.88
BELGIUM	4,300,948.59
BULGARIA	750,166.60
CANADA	2,421,671.88
DENMARK	1,426,331.00
FINLAND	-1,216.07
FRANCE	16,038,498.31
GERMANY	4,840,859.28
GREECE	249,623.37
ICELAND	54,652.36
ITALY	3,091,346.83
LUXEMBOURG	575,874.82
NAMFI	26,896.87
NETHERLANDS	5,902,170.60
NORWAY	3,247,990.32
ROMANIA	3,275,525.66
SLOVAKIA	422,370.55
SLOVENIA	79,765.24
SPAIN	7,488,075.98
SWEDEN	-6,688.25
TURKEY	2,823,681.16
USA	41,494,758.05
Total:	**98,683,407.03**

On occasion, NATO member Nations may voluntarily pay supplementary advance contributions, table below compares these values over the last two consecutive years:

DBPS Nations Voluntary Advances	
2019	**2018**
0.00	659,149.87

NOTE 9: PENSION TAX ADJUSTMENT

For practical reasons, the operations relating to the adjustment of pensions for national taxation on NATO pensions income are included in the present financial statements. Members of the DCPS are also entitled to such an adjustment. DCPS related payments are a very small fraction and therefore are included on DBPS's Tax adjustment call and advanced by the DBPS.

In 2019 the DCPS tax adjustments advanced by DBPS amounted to EUR 101,149.16 (EUR 95,008.26 in 2018)

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 as disclosed under the Statement of Changes of Net Assets Available for Benefits

DBPS Tax Adjustments Payments		
Country	**2019**	**2018**
ALBANIA	0.00	0.00
BELGIUM	13,272,599.60	13,025,918.00
BULGARIA	0.00	0.00
CANADA	267,570.08	250,367.41
CROATIA	0.00	0.00
CZECH REPUBLIC	981.68	0.00
DENMARK	490,933.71	493,519.44
ESTONIA	0.00	0.00
FRANCE	1,529,604.00	1,595,347.00
GERMANY	2,429,179.00	2,245,624.00
GREECE	188,183.00	172,998.00
ITALY	2,161,027.38	2,173,432.00
LATVIA	0.00	0.00
LITHUANIA	0.00	0.00
LUXEMBOURG	1,558,720.00	1,378,309.00
NETHERLANDS	2,864,784.65	2,948,180.00
NORWAY	402,695.50	343,631.77
POLAND	17,519.67	17,605.03
PORTUGAL	141,462.00	162,755.00
ROMANIA	0.00	0.00
SLOVAKIA	0.00	0.00
SLOVENIA	0.00	0.00
SPAIN	402,397.00	288,658.00
TURKEY	0.00	0.00
UNITED KINGDOM OF GREAT BRITAIN	1,559,705.55	1,697,877.61
UNITED STATES OF AMERICA	368,573.71	287,342.71
DCPS transfers	101,149.16	95,008.26
Adjustments	10,302.00	-252.39
Total	**27,767,387.69**	**27,176,320.84**

Pension Adjustment amounts paid to pensioners as reported in euro 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.

In 2020 there will be a need to perform adjustments to 2019 transactions. The amount at stake is not material (EUR 10,302.00), however it has been properly segregated in the table "DBPS Tax Adjustments Payments".

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 recognized 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 (Liabilities) were:

DBPS budget called in Y-1	2020		2019	
	CIV	MIL	CIV	MIL
	11,208,000.00	19,899,500.00	10,190,800.00	17,352,200.00
	31,107,500.00		27,543,000.00	

In 2019, the DBPS tax adjustments calls balance (difference between what is called from the nations and what is paid to pensioners) shows an accumulated deficit of EUR 296,415.69. This accumulated deficit is the sum of 2018 accumulated deficit (EUR 145,692.13) and 2019 deficit (EUR 150,723.56), which means that in 2019 the call for contributions was not high enough to cover the expenses.

Consequently, this accumulated deficit has been classified, in the statement of net assets available for benefits, as a tax adjustment contribution receivable.

The table below provides an overview of Nations' liabilities in terms of tax adjustments at year-end.

DBPS Nations outstanding tax adjustment receivables as at 31/12/2019	
BELGIUM	14,291,684.00
CANADA	329,629.57
DENMARK	501,019.44
FRANCE	1,806,747.00
GERMANY	2,569,361.00
GREECE	158,736.00
ITALY	2,628,784.00
NETHERLANDS	3,715,459.00
NORWAY	330,391.89
PORTUGAL	173,655.00
SPAIN	315,718.00
UK	1,308,248.04
USA	249,660.39
Accumulated deficit	*296,415.69*
Total	**28,675,509.02**

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

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

The table below provides an overview of such receivables for the last two consecutive years:

2019	2018
55,010.41	65,962.93

NOTE 11: OTHER ASSETS

These are essentially accrued interests, occasional advances to the DCPS and miscellaneous amounts to be regularized.

NOTE 12: OTHER LIABILITIES

These correspond to amounts relating to bank fees, life insurance capital due and other miscellaneous amounts due to be regularized (including reimbursement to the DCPS of amounts 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, which date back to the date when the DBPS was established. By that time, 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. The funds left remained unchanged in 2019.

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 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 Organizations, 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 available for benefits	**2019**	**2018**
Credits for Past Services	55,010.41	65,962.93
Pensions rights transferred to DBPS	42,337,523.35	41,380,317.37
Budgetary Surplus at End of Year	1,768,237.20	5,489,127.48
Total:	**44,160,770.96**	**46,935,407.78**

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 (the surplus end of 2019 will be returned to Nations with the call for the 2021 budget to be issued end 2020).

NOTE 14: INTERESTS EARNED AND BANK COSTS

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

The table below provides an overview of these costs and revenues over the last two consecutive years:

	2019	2018
Bank Charges	81,124.04	192,055.27
Financial Income	35,478.14	32,790.38

The decrease in the bank costs is mainly a result of the renegotiation of the bank charges on the monthly pensions' payments. The upturn of the financial income result mainly from the increase in cash holdings.

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 Organization of any amounts corresponding to the retirement pension rights accrued under the pension scheme to which the staff member was previously affiliated as 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.

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 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 Organizations (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 2018, the total amount of inward transfers received throughout the year was EUR 947,287.18.

End 2019 the total amount of inward transfers received throughout the year was EUR 957,205.98, which resulted in a balance of EUR 42,337,523.35 at the end of the year.

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 realized exchange gains and other miscellaneous revenues.

NOTE 17: OTHER DECREASES IN NET ASSETS

This corresponds mainly to realized exchange losses (EUR 373,004.55 in 2019 and EUR 125,630.52 in 2018), the cost of the actuarial study (EUR 21,707.52 in 2019 and EUR 20,973.45 In 2018), and other miscellaneous expenses.

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 2019.

CIVIL BUDGET	
PAYMENTS / PAIEMENTS	
Retirement Pension / Pension d'Ancienneté	30,264,774.74
Survivor Pension / Pension de Survie	5,746,612.98
Orphans Pension / Pension d'Orphelins	130,682.51
Invalidity Pension / Pension d'Invalidité	4,863,139.18
Family Allowance / Allocations Familiales	1,843,629.01
Leaving Allowance / Allocations de Départ	0.00
Validation Costs Paid / Coûts de Validation payés	0.00
Miscellaneous / Divers	76,657.64
Total Payments / Paiements	42,925,496.06
RECEIPTS / RECETTES	
Staff Contributions / Contributions des Agents	3,316,962.33
Employer Contributions / Contributions de l'Employeur	75,940.10
Validation Costs Received / Coûts de Validation reçus	0.00
Interests,Profit &Loss / Intérêts,Pertes & Profits	0.00
Miscellaneous / Divers	0.00
Contributions due by Staff Center	0.00
Total Receipts / Recettes	3,392,902.43
Funding Requirement / Besoin de financement	**39,532,593.63**
MILITARY BUDGETS	
PAYMENTS / PAIEMENTS	
Retirement Pension / Pension d'Ancienneté	92,181,703.20
Survivor Pension / Pension de Survie	17,469,048.34
Orphans Pension / Pension d'Orphelins	490,303.41
Invalidity Pension / Pension d'Invalidité	14,056,708.80
Family Allowance / Allocations Familiales	6,282,679.95
Leaving Allowance / Allocations de Départ	0.00
Validation Costs Paid / Coûts de Validation payés	0.00
Miscellaneous / Divers	233,432.81
Total Payments / Paiements	130,713,876.51
RECEIPTS / RECETTES	
Staff Contributions / Contributions des Agents	11,146,149.04
Employer Contributions / Contributions de l'Employeur	194,814.97
Validation Costs Received / Coûts de Validation reçus	0.00
Interests,Profit &Loss / Intérêts,Pertes & Profits	0.00
Miscellaneous / Divers	-20,656.66
Total Receipts / Recettes	11,320,307.35
Funding Requirement / Besoin de financement	**119,393,569.17**
TOTAL CIVIL + MILITARY BUDGETS	
TOTAL Funding Requirement	**158,926,162.80**

Miscellaneous payments and receipts are financial and miscellaneous expenses and revenues linked to the payment of pension benefits and to the receipt of pension contributions. Examples of these costs/revenues are:

TYPES OF DBPS FINANCIAL AND MISCELLANEOUS REVENUES/EXPENSES	
FINANCIAL	Realized exchange gains and losses
	Bank interests and charges
	Rounding differences (minor)
	Payment differences (minor)
MISCELLANEOUS	General admin support expenses
	Miscellaneous income

These miscellaneous expenses and revenues are allocated between civil and military budgets following the proportion of civil and military payments and receipts in the total amounts.

Only the expenses (whether from civil or military budget) incur financial and miscellaneous revenues and costs. For this reason, all revenues/costs have been dispatched on the payments, except for the realized exchange gains and losses. Those are prorated apart because they also regard the military budget receipts (agency contributions received in currency). No revenue/cost is prorated on civil budget receipts because all contributions are received in euros.

The chart below shows details of these proratas:

BUDGET EXECUTION 2019							*Prorata MISC & FIN expenses*			
							MISC & FIN except 654/754 & 655/755		FIN 654/754	
								-5,615.04		336,362.17
CIV										
Payments										
	Main	42,848,838.42	25%				25%		23%	
	Misc	76,657.65						-1,388.10		78,045.75
	Rounding diff	-0.01								
		76,657.64								
Receipts										
	Main			3,392,902.43	23%					
	Misc									
MIL										
Payments										
	Main	130,480,443.70	75%				75%		71%	
	Misc	233,432.81						-4,226.94		237,659.75
Receipts										
	Main			11,340,964.01	77%				6%	
	Misc			20,656.66						20,656.66
		173,329,282.12	100%	14,733,866.44	100%					

NOTE 19: CONTINGENT ASSETS

Nothing to report.

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 that was the last employer of the retired staff member on the expense side, and the NATO body that is currently employing the contributing staff member on the revenue side).

SEGMENT TABLE NATO BODIES 2019 (1/2)	ACO-ACT	ACO-ACT (16N)	ACO-ACT (17N)	BGOH (2N)	BGOH (8N)	BGOH (9N)	CEPMA (6N)	CEPMA (7N)	CEPMA (8N)	Ex NACISA (14N)	IMS
PAYMENTS / PAIEMENTS											
Retirement Pension / Pension d'Ancienneté	23,260,075.39	14,456,784.73	204,833.68	350,076.11	36,110.14	985,263.69	25,744.94	179,158.94	1,712,854.22	966,955.53	3,905,183.34
Survivor Pension / Pension de Survie	6,409,504.86	2,110,248.36	0.00	35,140.47	13,991.77	695,657.00	1,570.40	3,813.83	703,374.82	477,490.21	721,536.14
Orphans Pension / Pension d'Orphelins	97,239.51	44,676.13	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Invalidity Pension / Pension d'Invalidité	2,063,650.83	5,319,270.97	0.00	86,342.57	6,195.20	199,453.70	66,032.53	22,218.54	71,192.87	36,051.49	581,971.07
Family Allowance / Allocations Familiales	1,430,960.99	1,332,119.40	9,030.12	35,589.48	2,906.58	58,699.38	2,900.85	10,556.38	61,180.37	60,265.72	214,315.01
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	0.00
Validation Costs Paid / Coûts de Validation payés	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Miscellaneous / Divers	59,505.54	41,618.27	382.61	907.30	105.92	3,469.05	172.19	385.98	4,559.51	2,756.46	9,701.89
Total Payments / Paiements	**33,320,937.12**	**23,304,717.86**	**214,246.41**	**508,055.93**	**59,309.61**	**1,942,542.82**	**96,420.91**	**216,133.67**	**2,553,161.79**	**1,543,519.41**	**5,432,707.45**
RECEIPTS / RECETTES											
Staff Contributions / Contributions des Agents	2,064,237.50	1,692,512.18	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	550,445.10
Employer Contributions / Contributions de l'Employeur	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	135,154.70
Validation Costs Received / Coûts de Validation reçus	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interests,Profit &Loss / Intérêts,Pertes & Profits	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Miscellaneous / Divers	-3,759.84	-3,082.78	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-1,248.77
Contributions due by Staff Center	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Receipts / Recettes	**2,060,477.66**	**1,689,429.40**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**684,351.03**
Funding Requirement / Besoin de financement	**31,260,459.46**	**21,615,288.46**	**214,246.41**	**508,055.93**	**59,309.61**	**1,942,542.82**	**96,420.91**	**216,133.67**	**2,553,161.79**	**1,543,519.41**	**4,748,356.42**

SEGMENT TABLE NATO BODIES 2019 (2/2)	IS	NAHEMA (5N)	NAMEADSMA (2N)	NAMMA (3N)	NAPMA (16N)	NCIA	NEFMA (4N)	NETMA (4N)	NSPA	Total
PAYMENTS / PAIEMENTS										
Retirement Pension / Pension d'Ancienneté	30,264,774.74	56,186.67	0.00	29,138.51	2,074,754.36	20,194,796.54	89,396.40	637,282.08	23,017,107.93	122,446,477.94
Survivor Pension / Pension de Survie	5,746,612.98	0.00	0.00	39,007.44	433,828.69	1,589,109.12	80,988.72	235,226.28	3,918,560.23	23,215,661.32
Orphans Pension / Pension d'Orphelins	130,682.51	0.00	0.00	0.00	7,692.24	99,424.30	0.00	16,253.16	225,018.07	620,985.92
Invalidity Pension / Pension d'Invalidité	4,863,139.18	0.00	0.00	78,293.14	445,746.05	1,512,492.67	93,245.28	162,003.78	3,312,548.11	18,919,847.98
Family Allowance / Allocations Familiales	1,843,629.01	7,463.70	0.00	2,530.93	171,066.81	1,389,281.18	8,830.92	42,025.92	1,442,956.21	8,126,308.96
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
Validation Costs Paid / Coûts de Validation payés	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Miscellaneous / Divers	76,657.65	113.87	0.00	266.51	5,605.17	44,341.18	487.44	1,955.03	57,098.87	310,090.46
Total Payments / Paiements	**42,925,496.07**	**63,764.24**	**0.00**	**149,236.53**	**3,138,693.32**	**24,829,444.99**	**272,948.76**	**1,094,746.25**	**31,973,289.42**	**173,639,372.58**
RECEIPTS / RECETTES										
Staff Contributions / Contributions des Agents	3,316,962.33	0.00	13,247.18	0.00	108,589.46	3,844,573.21	0.00	0.00	2,872,544.41	14,463,111.37
Employer Contributions / Contributions de l'Employeur	75,940.10	0.00	0.00	0.00	0.00	59,660.27	0.00	0.00	0.00	270,755.07
Validation Costs Received / Coûts de Validation reçus	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interests,Profit &Loss / Intérêts,Pertes & Profits	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Miscellaneous / Divers	0.00	0.00	-24.13	0.00	-197.79	-7,111.25	0.00	0.00	-5,232.11	-20,656.66
Contributions due by Staff Center	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Receipts / Recettes	**3,392,902.43**	**0.00**	**13,223.05**	**0.00**	**108,391.67**	**3,897,122.23**	**0.00**	**0.00**	**2,867,312.30**	**14,713,209.78**
Funding Requirement / Besoin de financement	**39,532,593.64**	**63,764.24**	**-13,223.05**	**149,236.53**	**3,030,301.65**	**20,932,322.76**	**272,948.76**	**1,094,746.25**	**29,105,977.12**	**158,926,162.80**

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 2019

(amounts in EUR)	Initial Budget (a)	Revised Budget (b)	Actuals (c)	Difference (b-c)
CIVIL BUDGET				
PAYMENTS / PAIEMENTS				
Retirement Pension / Pension d'Ancienneté	29,193,900.00	30,043,900.00	30,264,774.74	-220,874.74
Survivor Pension / Pension de Survie	5,723,800.00	5,823,800.00	5,746,612.98	77,187.02
Orphans Pension / Pension d'Orphelins	176,300.00	176,300.00	130,682.51	45,617.49
Invalidity Pension / Pension d'Invalidité	4,946,500.00	4,946,500.00	4,863,139.18	83,360.82
Family Allowance / Allocations Familiales	1,780,700.00	1,830,700.00	1,843,629.01	-12,929.01
Leaving Allowance / Allocations de Départ	0.00	0.00	0.00	0.00
Validation Costs Paid / Coûts de Validation payés	0.00	0.00	0.00	0.00
Miscellaneous / Divers	0.00	0.00	76,657.64	-76,657.64
Total Payments / Paiements	41,821,200.00	42,821,200.00	42,925,496.06	-104,296.06
RECEIPTS / RECETTES				
Staff Contributions / Contributions des Agents	3,535,600.00	3,535,600.00	3,316,962.33	218,637.67
Employer Contributions / Contributions de l'Employeur	151,200.00	151,200.00	75,940.10	75,259.90
Validation Costs Received / Coûts de Validation reçus	0.00	0.00	0.00	0.00
Interests,Profit &Loss / Intérêts,Pertes & Profits	0.00	0.00	0.00	0.00
Miscellaneous / Divers	0.00	0.00	0.00	0.00
Contributions due by Staff Center	0.00	0.00	0.00	0.00
Total Receipts / Recettes	3,686,800.00	3,686,800.00	3,392,902.43	293,897.57
Funding Requirement / Besoin de financement	**38,134,400.00**	**39,134,400.00**	**39,532,593.63**	**-398,193.63**
MILITARY BUDGETS				
PAYMENTS / PAIEMENTS				
Retirement Pension / Pension d'Ancienneté	96,930,000.00	93,000,000.00	92,181,703.20	818,296.80
Survivor Pension / Pension de Survie	17,960,000.00	17,960,000.00	17,469,048.34	490,951.66
Orphans Pension / Pension d'Orphelins	700,000.00	600,000.00	490,303.41	109,696.59
Invalidity Pension / Pension d'Invalidité	14,600,000.00	14,600,000.00	14,056,708.80	543,291.20
Family Allowance / Allocations Familiales	6,690,000.00	6,600,000.00	6,282,679.95	317,320.05
Leaving Allowance / Allocations de Départ	0.00	0.00	0.00	0.00
Validation Costs Paid / Coûts de Validation payés	0.00	0.00	0.00	0.00
Miscellaneous / Divers	0.00	0.00	233,432.81	-233,432.81
Total Payments / Paiements	136,880,000.00	132,760,000.00	130,713,876.51	2,046,123.49
RECEIPTS / RECETTES				
Staff Contributions / Contributions des Agents	10,950,000.00	11,000,000.00	11,146,149.04	-146,149.04
Employer Contributions / Contributions de l'Employeur	100,000.00	200,000.00	194,814.97	5,185.03
Validation Costs Received / Coûts de Validation reçus	0.00	0.00	0.00	0.00
Interests,Profit &Loss / Intérêts,Pertes & Profits	0.00	0.00	0.00	0.00
Miscellaneous / Divers	0.00	0.00	-20,656.66	20,656.66
Total Receipts / Recettes	11,050,000.00	11,200,000.00	11,320,307.35	-120,307.35
Funding Requirement / Besoin de financement	**125,830,000.00**	**121,560,000.00**	**119,393,569.17**	**2,166,430.83**
TOTAL CIVIL + MILITARY BUDGETS				
TOTAL Funding Requirement	**163,964,400.00**	**160,694,400.00**	**158,926,162.80**	**1,768,237.20**

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.

The table below provides comparative data about the approved budgets and revised budgets for the two last consecutive years:

	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	
Regularization in Y	1,000,000.00	-4,270,000.00	0.00	0.00
	-3,270,000.00		0.00	
Revised budget in Y	39,134,400.00	121,560,000.00	37,842,700.00	116,700,000.00
	160,694,400.00		154,542,700.00	
Regularization in Y+1			-585,419.82	-4,903,707.66
			-5,489,127.48	
Revised budget in Y+1			37,257,280.18	111,796,292.34
			149,053,572.52	

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. Consequently, 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 2019, there have been the following related party transactions:

Administrative Expenses

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

The administrative expenses related to the management of all pensions schemes by NATO IS were close to KEUR 1000 in 2019. This includes miscellaneous operating costs and the personnel costs.

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 in 2019 was EUR 120,819.35.

These administrative expenses are charged to the NATO Civil Budget, which includes the IS. In the framework of the Human Resource Shared Services 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.

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.

NOTE 24: STATISTICAL INFORMATION

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

Year	Retirement Pensions	Survivor and Reversion Pensions	Orphan's and Dependant's Pensions	Invalidity Pensions	Total
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	3,943
2019	2,863	699	41	414	4,017

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
IPSAS:	International Public Sector Accounting Standards
IS:	International Staff
ISRP:	International Service for Remunerations and Pensions
MSIAC:	Munitions Safety Information Analysis Centre
NAGSMA:	NATO Alliance Ground Surveillance Management Agency
NHQPO	New Headquarters Program Office
NSPA:	NATO Support Agency
OECD:	Organization for Economic Co-operation and Development
OFC:	Office of Financial Control

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NATO FORACS OFFICE

FINANCIAL STATEMENTS
Financial Year 2019

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

M. BORYCZKA
Financial Controller NATO-IS

ANNEX 1 to
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NATO FORACS OFFICE
Statement of Financial Position
As at 31 December 2019

(in EUR)

	Notes	Current Year 2019	Prior Year 2018	Variance CY - PY
Assets				
Current assets				
Cash and cash equivalents	(3),(4)	5,398,957.26	3,467,883.54	1,931,073.72
Short term investments	(3),(4)	0.00	866,701.33	-866,701.33
Receivables	(5)	703,063.67	85,592.30	617,471.37
Prepayments	(6)	1,636,053.33	2,614,906.77	-978,853.44
Other current assets	(6)	24,386.09	19,008.40	5,377.69
Inventories	(7)			0.00
		7,762,460.35	**7,054,092.34**	**708,368.01**
Non-current assets				
Receivables				0.00
Property, plant & equipment				0.00
Intangible assets	(8)	1,685,581.64	1,685,581.64	0.00
		1,685,581.64	**1,685,581.64**	**0.00**
Total assets		**9,448,041.99**	**8,739,673.98**	**708,368.01**
Liabilities				
Current liabilities				
Payables	(9)	502,084.38	753,881.85	-251,797.47
Deferred revenue	(10)	26,491.74	52,063.83	-25,572.09
Advances	(11)	5,352,081.27	5,079,662.88	272,418.39
Provisions	(12)	12,676.55	11,243.58	1,432.97
Other current liabilities	(13)	1,431,662.52	784,341.34	647,321.18
		7,324,996.46	**6,681,193.48**	**643,802.98**
Non-current liabilities				
Provisions		0.00	0.00	0.00
Deferred revenue	(14)	1,685,581.64	1,685,581.64	0.00
Other non-current liabilities				0.00
		1,685,581.64	**1,685,581.64**	**0.00**
Total liabilities		**9,010,578.10**	**8,366,775.12**	**643,802.98**
Surplus/Deficit		0.00		0.00
Retained earnings	(15)	437,463.89	372,898.86	64,565.03
Reserves				
Total net assets		**437,463.89**	**372,898.86**	**64,565.03**
Control Sum		**0.00**	**0.00**	**0.00**

NATO FORACS OFFICE
Statement of Financial Performance
As at 31 December 2019

(in EUR)

	Notes	Current Year 2019	Prior Year 2018	Variance
Revenue				
Non-Exchange Revenue		1,192,453.76	970,033.34	222,420.42
Exchange revenue		-	85,239.00	-85,239.00
Financial revenue		226.06	42,158.60	-41,932.54
Other revenue		13,400.56	19,418.42	-6,017.86
Total revenue	(16)	**1,206,080.38**	**1,116,849.36**	**89,231.02**
Expenses				
Personnel		655,607.37	655,525.96	81.41
Contractual supplies and services		527,559.16	400,983.99	126,575.17
Depreciation and amortization		0.00	0.00	0.00
Impairment		0.00	0.00	0.00
Provisions		12,676.55	11,243.58	1,432.97
Other expenses		0.00	0.00	0.00
Finance costs		10,237.30	49,095.83	-38,858.53
Total expenses	(17)	**1,206,080.38**	**1,116,849.36**	**89,231.02**
Surplus/(Deficit) for the period		**0.00**	**0.00**	**0.00**

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NATO FORACS OFFICE
Statement of Cash Flow
As at 31 December 2019

(in EUR)

	Notes	Current Year 2019	Prior Year 2018
Cash flow from operating activities			
Surplus/(Deficit)		0.00	0.00
Non-cash movements			
Depreciation/ Amortisation		0.00	0.00
Impairment		0.00	0.00
Use of Cash Reserves		64,565.03	-219,375.89
Increase /(decrease) in payables		-251,797.47	-115,100.70
Increase/ (decrease) in other current liabilities		894,167.48	362,409.60
Increase/ (decrease) in provisions		1,432.97	0.00
Increase/ (decrease) in other non current liabilities		0.00	287,160.02
(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		356,004.38	-774.13
Net cash flow from operating activities		**1,064,372.39**	**314,318.90**
Cash flow from investing activities			
Purchase of property plant and equipment / Intangible assets		0.00	-287,160.02
Proceeds from sale of property plant and equipment		0.00	0.00
Net cash flow from investing activities		**0.00**	**-287,160.02**
Cash flow from financing activities			
Decrease/ (Increase) Deposit			
Net cash flow from financing activities		**0.00**	**0.00**
Net increase/(decrease) in cash and cash equivalents		**1,064,372.39**	**27,158.88**
Cash and cash equivalent at the beginning of the period		4,334,584.87	4,307,426.00
Cash and cash equivalent at the end of the period		5,398,957.26	4,334,584.87

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NATO FORACS OFFICE
Statement of Changes in Net Assets/Equity
As at 31 December 2019

(in EUR)

Balance at the beginning of the period 2018	**(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)**
Balance at the beginning of the period 2019	**(372,898.86)**
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	(64,565.03)
Gain on property revaluation	
Surplus/(deficit) for the period	
Change in net assets/equity for the year ended 2019	**(437,463.89)**

ANNEX 5 to
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NATO FORACS OFFICE
Statement of Budget Execution
As at 31 December 2019

(Amounts in euro)	Initial budget	Budget increase	BA2	Budget Revision	BA3	Transfers	Final budget	Commitments	Expenses	Total spent	Carry forward	Lapsed
Budget 2019												
Chapter 1	717,000		717,000	-	717,000		717,000		655,607	655,607		61,393
Chapter 2	409,810	160,000	569,810	100,000	669,810		669,810	1,337	384,699	386,036		283,774
Chapter 3	66,000	289,246	355,246	126,550	481,796		481,796	25,155	91,182	116,337		365,460
Chapter 4		-	-		-	-	-			-		-
Total	1,192,810	449,246	1,642,056	226,550	1,868,606	-	1,868,606	26,492	1,131,488	1,157,980	-	710,626
Budget 2018												
Chapter 1	-		-	-	-	-	-			-		-
Chapter 2	1,419		1,419	-	1,419	-	1,419	-	1,092	1,092		326
Chapter 3	33,782		33,782	-	33,782	-	33,782	-	33,723	33,723		59
Total	35,200	-	35,200		35,200	-	35,200	-	34,815	34,815	-	385
Budget 2017												
Chapter 1			-	-	-	-	-			-		-
Chapter 2	16,863		16,863	-	16,863	-	16,863		16,863	16,863		(0)
Chapter 3			-	-	-	-	-			-		-
Total	16,863	-	16,863		16,863	-	16,863	-	16,863	16,863	-	(0)
Total All Budgets	1,244,874	449,246	1,694,120	226,550	1,920,670	-	1,920,670	26,492	1,183,167	1,209,659	-	711,011

EXPLANATORY NOTES TO NATO FORACS OFFICE 2019 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. Collectively the eight nations are referred to as the Member Nations.

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).

Member 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 Office of Financial Control provides accounting and budgeting for the NFO and handles annual calls to Member Nations to fund operations for the Project.

These financial statements relate only to the NFO. The three NATO FORACS Ranges (NFA, NFG and NFN, referred also as Ranges) 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 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*

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 NFO. Funds are called from Member 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 NFO 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 NFO 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 NFO 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 2019 NFO financial statements:

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

In 2018 the untaken leave was disclosed as "Other Expenses", however the NFO has reconsidered this policy, since even though NATO-IS policy is that untaken leave shall be paid only as a last recourse (Staff is compelled to take all their leave before retiring), the NFO believes that for informative and transparency purposes, this liability should be recognized as if NATO would shut down its activities as off 31 December 2019 and disclosed as a Provision instead of an actual expense, since its realization is uncertain.

Restatement of Financial Statements of Previous Years

None.

Reclassification of Financial Statements of Previous Years

A minor reclassification was done, concerning untaken leave. As explained above there was a change in accounting policy, and thus it is no longer disclosed as "Other Expense" in the statement of financial performance, but as a Provision.

The table below summarises the change.

	Re-Classificatior 2018	Prior Year FS 2018
Revenue		
Non-Exchange Revenue	970,033.34	970,033.34
Exchange revenue	85,239.00	85,239.00
Financial revenue	42,158.60	42,158.60
Other revenue	19,418.42	19,418.42
Total revenue	1,116,849.36	1,116,849.36
Expenses		
Personnel	655,525.96	655,525.96
Contractual supplies and servic	400,983.99	400,983.99
Depreciation and amortization	-	-
Impairment	-	-
Provisions	11,243.58	
Other expenses	-	11,243.58
Finance costs	49,095.83	49,095.83
Total expenses	1,116,849.36	1,116,849.36
Surplus/(Deficit) for the period	-	-

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 foreign currency exchange rates as of 31 December 2019.

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:

BANK NAME	COUNTRY OF HQ	SHORT TERM RATINGS AS AT 10.01.20		
		FITCH	S&P	Moody's
ING BANK	NE	F1+	A-1	P1

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 NFO 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 since the budgetary rules provide for revised budgets, it also helps risk mitigation.

The NFO 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 transfers the liquidity risk from the Ranges to the NFO and 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 Member 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, 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.

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 Member Nations. No allowance for loss is recorded with respect to Member Nations' assessed contributions receivable.

d. Prepayments

A prepayment is a payment in advance of the period to which it pertains and is mainly in respect of 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 capitalized in the Financial Statements if it is above the capitalization 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

NFO capitalizes 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 reports 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 includes 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 considers 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 capitalized in the Financial Statements if it is above the capitalization 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:

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

NFO 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 capitalized in the Financial Statements if it is above the capitalization 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 NATO FORACS will capitalize 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 capitalizes all controlled intangible assets above the NATO Intangible Asset Capitalization Threshold. For anything below the threshold, the NATO FORACS will have the flexibility to expense specific items.

FORACS capitalizes integrated systems and include research, development, implementation and can include both software and hardware elements. But FORACS will not capitalize 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 capitalizes other types of intangible assets acquired after 1 January 2013 including:

- Copyright
- Intellectual Property Rights
- Software development

FORACS considers 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 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.

FORACS has no intangible assets acquired or held prior to 1 January 2013.

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

In 2015, the NFO has initiated a replacement of a software required for its operations.

This new software, denoted as Integrated Data Acquisition and Test System version X (IDATS) has completed development and is currently undergoing formal acceptance trials before formal introduction into service with NATO FORACS.

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' 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 financial income + 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 from 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, with North Atlantic Council approval for the NFRs deviation.

Revenue Recognition

Revenue comprises contributions from NATO FORACS 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.

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 – NATO FORACS OFFICE

The current NFO bank accounts are held in EUR. Deposits (if any) are held in interest-bearing bank accounts, immediately available

Cash and cash equivalents		
in EUR	2019	2018
NFO	2,686,848	2,429,847
Petty Cash	0	0
TOTAL	**2,686,848**	**2,429,847**

NOTE 4: CASH AND CASH EQUIVALENTS, SHORT TERM INVESTMENTS - 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.

FUNDS MANAGED FOR THIRD PARTIES

in EUR	2019	2018
NFA	1,003,632	37,471
NFA short term deposit	0	866,701
NFG	623,427	611,836
NFN	1,085,050	388,729
TOTAL	**2,712,109**	**1,904,738**

NOTE 5: ACCOUNTS RECEIVABLE

At the end of 2019 this position consists only of the receivable from lapsed Ranges' credits, being part of their yearly budgetary surplus.

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, at 2019 year-end there was no outstanding contributions receivable to report.

During the Audit to 2018 Financial Statements (IBA(-AR(2019)0022), IBAN made a recommendation that the annual budgetary surpluses of the Ranges, usually known around April of the following year, should be reported as a Current Asset (Receivable) and Liability (refundable Surplus to Nations) in NFO's Financial Statements. In 2019, this recommendation was taken into account and therefore NFO is now reporting those figures (please see also Note 13)

The below table provides an overview of open receivables at year-end for two consecutive years:

Receivables (In EUR)	2019	2018
Budgetary contributions	-	-
Ranges	703,063.67	
Staff	-	-
Other NATO bodies	-	353.30
Users of FORACS services	-	85,239.00
Total	703,063.67	85,592.30

NOTE 6: PREPAYMENTS AND OTHER CURRENT ASSETS

(in EUR)	2019	2018
Prepayments to the Ranges	1,630,421.86	2,610,555.62
Prepayments to Suppliers	2,433.47	-
Prepayments to Staff	3,198.00	4,351.15
Other Current Assets	24,381.07	19,008.40
Total	**1,660,434.40**	**2,633,915.17**

Advances are made to the Ranges based on their respective following year's budget in accordance with the process of centralisation of all budgetary calls under the NFO umbrella.

Prepayments to the Ranges (in EUR)	2019	2018
NFA	624,964.33	560,520.54
NFG	355,350.00	348,396.00
NFN	650,107.53	1,701,639.08
TOTAL	**1,630,421.86**	**2,610,555.62**

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 for the delivery of this project. The software is still undergoing a series of tests before it can be declared available for operational purposes, therefore no depreciation has been recorded in 2019 In the below chart, it is provided an overview of the project's carrying amount at the year-ends.

(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**

(amounts in EUR)	Carrying Amount end 2018	Additions	Disposals	Depreciation	Other Changes	Carrying Amount end 2019
Software	1,685,582	0				1,685,582
TOTAL FORACS	**1,685,582**	**0**	**0**	**0**	**0**	**1,685,582**

NOTE 9: ACCOUNTS PAYABLES

Payables (in EUR)	2019	2018
Suppliers	102,474.80	65,742.52
Personnel	306.92	-
Other FORACS entities	57,466.02	388,109.73
Member Nations	147,417.60	153,960.68
Accruals	194,419.04	146,068.92
Total	**502,084.38**	**753,881.85**

Payables and accrued expenses (accruals) are 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 (accruals) 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 147,417.60 (EUR 153,960.68 end 2018) is in relation to reimbursable salaries and represents the amount due to the United States (US) for civilian staff members who are or have been employed by FORACS but paid directly by the US government. The amount available at the beginning of 2019 was used to offset the budgetary contribution of the US called in 2019. The net outstanding amount remains to be regularised.

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 Ranges 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)	2019	2018
NFO	1,004,291.00	954,248.00
NFA	1,666,571.19	1,494,721.80
NFG	947,599.00	929,054.00
NFN	1,733,620.08	1,701,639.08
TOTAL	**5,352,081.27**	**5,079,662.88**

NOTE 12: PROVISIONS

The only provision relates to the staff Untaken Leave liability.

The valuation of Untaken Leave (which has no impact on the current budget of NFO) amounts to 12,676.55 (EUR 11,243.58 end 2018).

NOTE 13: OTHER CURRENT LIABILITIES

Amounts corresponding to the current year budgetary surplus of NFO (lapsed credits + net financial income + 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). Below there is a snapshot of NFO's current year surplus at year end.

Current Year Budget Surplus NFO		
(in EUR)	**2019**	**2018**
Lapsed Appropriations	711,011.02	659,776.33
Net Financial Income	- 9,930.52	36,202.71
Miscellaneous Income	13,400.56	104,657.42
Total Surplus Current Year NFO	**714,481.06**	**800,636.46**

Miscellaneous income is an over-accrual from 2018 of EUR 10,558 and another accrual for the payment that FORACS will receive in 2020 due to its Employers share of the DCPS Group Insurance compensatory payment receivables from Allianz of EUR 2,842.

Financial income is the result of foreign exchange rate differences on the payments of the supplementary budget to the ranges NFN and NFA, payments to suppliers, bank charges and interest collected throughout the year.

Other current liabilities cover also the current year budgetary surplus of Ranges (lapsed credits + net financial income) and provision for the untaken leave.

Detailed breakout is presented in the table below.

Other Current Liabilities	2019	2018
NFO Current Year Budget Surplus	714,481.06	800,636.46
Lapses NFA	308,886.25	
Lapses NFG	67,515.00	
Lapses NFN	326,662.42	
Financial Surplus Ranges	14,117.79	- 16,295.12
Provision for Untaken Leave	12,676.55	11,243.58
Other		
TOTAL	1,444,339.07	795,584.92

As explained in Note 5, the Ranges lapsed credits were not presented in the 2018 financial statements, thus for comparative purposes, below we provide the respective figures:

2018 Ranges Budgetary Surpluses		
	Local Currency	EUR
Lapses NFN (NOK)	3,071,054.00	266,415.73
Lapses NFG (EUR)	67,420.00	67,420.00
Lapses NFA (USD)	128,051.00	118,554.76
Total		452,390.49

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.
In the future this accounts will be used as a counterpart of the IDATS, once it becomes available for operational used and thus is recognized as an Intangible Asset.

NOTE 15: RETAINED EARNINGS

Retained earnings 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, under "Approval of FORACS 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 Non-Exchange Revenue when it is earned.

Exchange Revenue may result from services provided by FORACS to entities other than the Participating Nations. This type of revenue is assessed on a calculated day rate for services.

Below there is a snapshot of the 2019 revenue breakdown:

(in EUR)	2019	2018
Non Exchange revenue	**1,192,453.76**	**970,033.34**
Called from Nations	238,335.94	226,627.00
Budget to be taken from refundable surplus	800,636.46	665,320.40
Budget to be taken from Operational Reserve	124,840.00	-215,090.00
To be received/paid from/to the ranges	-124,840.00	294,680.00
Provision untaken leave	12,676.55	11,243.58
Extra budget to be taken from call	140,804.81	-12,747.64
Exchange revenue	**0.00**	**85,239.00**
Services provided by FORACS to non member Nations		85,239.00
Financial Revenue	**226.06**	**42,158.60**
Exchange gain	226.06	42,158.60
Other revenue	**13,400.56**	**19,418.42**
DCPS Allianz Compensatory payment	2,842.30	0.00
Overaccrual	10,558.26	19,418.42
Total Revenue	**1,206,080.38**	**1,116,849.36**

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 and non-related allowances including overtime, medical examinations, recruitment, installation and removal, and for contracted consultants and training.

Supplies and Consumables Used

This item may also include expenses attributed to Capital Expenses (Property, Plant and Equipment) from a budget perspective, if they do not meet the criteria of PPE or Intangible Assets.

Depreciation and Amortization

Nothing to report.

Impairments

Nothing to report.

Provisions

This item includes any provisions disclosed in the financial statements, including a valuation of the untaken leave liability.

Other Expenses

Nothing to report.

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) as these financial statements.

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 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) Approved Commitments for which no goods could be received or services rendered 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 may be (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

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.

amounts in EUR	2019	2018
Initial Budget	1,192,810	1,133,135
Supplementary Budget	675,796	840,000
Additions/Reductions		
Total Annual Budget	1,868,606	1,973,135

There were no frozen appropriations.

Budget execution

The NFO budget execution for the current and previous year is shown at Annex 5.

Table below compare the budget's authorized appropriations and the actual amounts committed and expended, i.e. the comparison between the Budget Execution and the Statement of Financial Performance.

BUDGET EXECUTION		
Total Budget (including carried-forward from previous year)	(a)	1,920,670
Credits Carried Forward in Following Year	(b)	26,492
Lapsed Appropriations	(c)	711,011
Budget Execution Expenses	**(d) = (a-b-c)**	**1,183,167**

RECONCILIATION		
Financial Performance Expenses (Excluding financial costs)	(d)	1,195,843
Increase in Non-Current Assets	(e)	-
Provisions	(f)	(12,677)
Other Expenses	(g)	-
Sub-Total	**(h)=(d+e+f+g)**	**1,183,167**
Difference to Budget Expenses	(c-h)	(0)

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	2019	2018
Initial Budget	1,192,810	1,133,135
Supplementary Budget	675,796	840,000
Total Annual Budget	1,868,606	1,973,135
Advance called previous year	954,248	906,508
Call in current year	238,562	226,627
Total Cash Calls	1,192,810	1,133,135
Use of Previous Year's Surplus	800,636	665,320
Use of (Contribution to) Project Accumulated Surplus	-	294,680
Transfer from (to) other FORACS entities	- 124,840	- 120,000
Other Funding Sources	675,796	840,000
Total Funding	1,868,606	1,973,135

NOTE 19: WRITE-OFFS

There were no write-offs during 2019.

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

Employee Status

The tables below provide comparative data about FORACS staff for two consecutive years:

FORACS	NATO Civilians	
	31-12-19	31-12-18
Total Approved PE	4	4
Total Filled Positions	4	4
Arrivals in the year	0	0
Departures in the year	0	0

FORACS	Total Approved PE	Total Filled Positions
Civilian (PE)	4	4
VNC	0	0
Short term	0	0
Interns	0	0
Others – explain	0	0

Leave

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.

Pension Schemes

NATO-IS is managing centrally three pension programs, namely the Defined Benefit Pension Scheme (DBS), the Defined Contribution Pension Scheme (DCPS) as well as the Retiree Medical Claims Fund (RMCF), covering staff employed by all NATO bodies.

NFO staff is covered by one the two NATO pensions schemes (DCPS or DBPS). The DCPS provides that the NFO budget makes a 12 percent monthly matching contribution to the staff members' contributions for current service. As for the DBPS, a deduction of 9.5% (increased to 11.8% in 2020) of staff 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. These contributions are expensed during the year concerned and represent the sole pension related obligation of the entity. Consequently, the NFO has neither DBPS nor DCPS liabilities for its staff members.

The table below provides comparative data about the staff affiliation to the different pension schemes for two consecutive years:

FORACS STAFF PENSION SCHEME AFFILIATION		
	2019	2018
DBPS	2	2
DCPS	1	1

Out of the 4 permanent staff of the NFO, one is a US reimbursable employee and as such it is not affiliated to any of the pension schemes.

The table below indicates the contributions made by NFO to the various pension programs.

(amounts in EUR)		2019	2018
Co-ordinated Pension Scheme	Staff	17,156.64	16,751.22
	Employer	34,313.28	33,502.44
	Total	**51,469.92**	**50,253.66**
Defined Contribution Pension Scheme	Staff	16,046.07	15,357.90
	Employer	14,811.69	14,176.44
	Total	**30,857.76**	**29,534.34**
TOTAL	Staff	33,202.71	32,109.12
	Employer	49,124.97	47,678.88
	Total	**82,327.68**	**79,788.00**

Extraordinary Compensatory payment

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. At the end of 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. The overall entitlement of FORACS staff amounts to EUR 1,140.69. During 2019 EUR 327.11 were paid to FORACS serving staff, while the remaining EUR 813.58 that relate to retired or former employees is expected to be settled in the course of 2020. This information is being provided here solely for clarity and cross reference purposes, since these transactions are not reflected in FORACS books and thus in these financial statements, but instead have been managed directly in DCPS accounts and therefore will be disclosed in the later financial statements.

As per BC-DS(2019)0067(INV), the Budget Committee decided that the Employers' part of this compensatory payment, in the total amount of EUR 4,273,893.73 , shall be returned to the respective NATO bodies.

An adequate accrual has been posted in FORACS books by the amount of its correspondent receivable (EUR 2,842.30).

NOTE 25: KEY MANAGEMENT PERSONNEL

The NATO FORACS Steering Committee (one representative per member nation) is the governing body of the NFO and of the NFG, NFN and NFA. 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 Ranges' 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 Steering Committee members or 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 all 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.

Both the Steering Committee members and Key management personnel have no significant party relationships that could affect the operation of the NFO.

In 2019, NATO International Staff charged FORACS for the following cost- sharing:

FORACS BURDEN SHARING CHARGES		
	2019	**2018**
COMOPS	19,333.37	16,699.00
ADMIN COSTS	31,999.73	36,550.45
OTHER	0	0
TOTAL	**51,333.10**	**53,249.45**

* * * * *

List of acronyms:

AUTEC	Atlantic Underwater Test and Evaluation Center
DOD	Department of Defense
BC	Budget Committee
FORACS	Naval Forces Sensor and Weapon Accuracy Check Sites
IPSAS	International Public Sector Accounting Standards
IS	International Staff
MOD	Ministry of Defense
MOU	Memorandum of Understanding
NCIA	NATO Communication and Information Agency
NFA	NATO FORACS AUTEC
NFG	NATO FORACS Greece
NFN	NATO FORACS Norway
NFO	NFO
NFSC	NATO FORACS Steering Committee
PPE	Property, Plant and Equipment

FC(2020)0040

NATO NEW HQ
FINANCIAL STATEMENTS

For the year ended
31 December 2019

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

Miroslawa BORYCZKA
Financial Controller

ANNEX 1 to
FC(2020)0040

NATO NEW HQ
Statement of financial position
As at 31 December 2019
(All amounts in EUR)

	Notes	2019	2018
Assets			
Current assets			
Cash and cash equivalents	3	20,250,908.51	24,792,449.59
Short term investments	4	30,600,000.00	40,601,828.11
Receivables	5	616,264.13	2,401,197.74
Prepayments	6	8,087,650.70	14,415,775.05
Other current assets	7	5,319.16	90,356.07
Inventories	2	0.00	0.00
		59,560,142.50	**82,301,606.56**
Non-current assets			
Receivables		0.00	0.00
Property, plant & equipment	8	0.00	0.00
Intangible assets		0.00	0.00
Other non-current assets		0.00	0.00
		0.00	**0.00**
Total assets		**59,560,142.50**	**82,301,606.56**
Liabilities			
Current liabilities			
Payables	9	9,696,809.97	12,294,904.13
Deferred revenue	10	41,710,212.41	66,373,700.87
Advances	11	3,216,780.51	3,048,041.40
Short term provisions	13	652,342.53	73,382.26
Other current liabilities	12	4,283,997.08	511,577.90
		59,560,142.50	**82,301,606.56**
Non-current liabilities			
Payables		0.00	
Long term provisions	13	0.00	0.00
Deferred revenue	14	0.00	0.00
Other non-current liabilities		0.00	0.00
		0.00	**0.00**
Total liabilities		**59,560,142.50**	**82,301,606.56**
Net assets			
Capital assets		0.00	
Reserves		0.00	
Current year Surplus / (Deficits)		0.00	
Accumulated surpluses / (deficits) prior year		0.00	
Total net assets/ equity	**17**	**0.00**	**0.00**

ANNEX 2 to
FC(2020)0040

NATO NEW HQ
Statement of financial performance

As at 31 December 2019
(All amounts in EUR)

	Notes	2019	2018
Revenue	**15**		
Non exchange revenue		12,827,129.77	27,835,769.99
Exchange revenue			
		0.00	0.00
Other revenue		51,479.91	0.00
Financial revenue		37,671.22	0.00
Total revenue		**12,916,280.90**	**27,835,769.99**
Expenses	**16**		
Personnel		1,530,559.64	3,547,791.42
Contractual supplies and services		10,727,992.91	24,196,328.29
Depreciation and amortization		0.00	0.00
Impairment		0.00	0.00
Provisions		652,342.53	73,382.26
Other expenses		0.00	
Finance costs		5,385.82	18,268.02
Total expenses		**12,916,280.90**	**27,835,769.99**
Surplus/(Deficit) for the period	**17**	**0.00**	**0.00**

ANNEX 3 to
FC(2020)0040

NATO NEW HQ
Statement of cash flow
As at 31 December 2019
(All amounts in EUR)

	Notes	2019	2018
Cash flow from operating activities	18		
Surplus/(Deficit)		-	
Non-cash movements			
Depreciation/ Amortisation			-
Impairment		-	
Increase /(decrease) in payables		(2,598,094.16)	8,733,138.95
Increase/ (decrease) in other current liabilities		(20,722,330.17)	(70,673,258.62)
Increase/ (decrease) in provisions		(578,960.27)	-
(Gains)/losses on sale of property, plant and equipment			-
Decrease/ (increase) in receivables		1,784,933.61	13,644,910.59
Decrease/ (increase) in other current assets		6,413,161.26	21,816,982.08
Increase/ (decrease) in other non-current liabilities		-	(1,060,427,743.29)
Net cash flow from operating activities		**(15,701,289.73)**	**(1,086,905,970.29)**
Cash flow from investing activities	18		
Purchase of property plant and equipment / Intangible assets		-	1,060,427,743.29
Proceeds from sale of property plant and equipment			
Net cash flow from investing activities		-	**1,060,427,743.29**
Cash flow from financing activities	18		
Net cash flow from financing activities		-	-
Net increase/(decrease) in cash and cash equivalents	18	**(15,701,289.73)**	**(26,478,227.00)**
Cash and cash equivalent at the beginning of the period		65,394,277.70	91,872,504.71
Cash and cash equivalent at the end of the period		50,850,908.51	65,394,277.70

NEW NATO HEADQUARTERS

STATEMENT OF CHANGES IN NET ASSETS AS AT 31/12/2019

(in EUR)

	Accumulated surpluses/(deficits)
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**

Balance at 31 December 2018	**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 2019	**0.00**

(1) fixed assets in progress

NEW NATO HEADQUARTERS

BUDGETARY OPERATIONS FOR FINANCIAL YEAR 2019 - Common Funding

n= 2019

in EUR)

CHAPTER Article		BUDGET AUTHORISATIONS					BUDGETARY SURPLUS	
		BUDGET (ref.) C-M(2017)0070	AUTHORIZED TRANSFERS	ADJUSTED CREDITS	COMMITMENTS	EXPENDITURES	CREDITS CARRIED FORWARD TO n+1	LAPSED CREDITS
		(1)	(2)	(3) = (1)+(2)	(4)	(5)	(6) = (4) - (5)	(7) = (3) - (4)
I.	**PERSONNEL COSTS**							
01.01	Basic salaries and related expenses	0.00	0.00	0.00	0.00	0.00	0.00	0.00
01.02	Temporary staff and consultants	0.00	0.00	0.00	0.00	0.00	0.00	0.00
01.03	Statutory travel	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Financial year n	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Carried forward:							
	Financial year n-1	1.437.800 06	0.00	1,437.800 06	1,437 800 06	567.701.80	880 098 26	0.00
	Financial year n-2	1,430 002 05	0.00	1,430 002 05	1.430 002 05	1,246 843 66	183 158 39	0.00
	Financial year n-3	501 893 46	0.00	501 893 46	501 893 46	99 647,14	402,246 32	0.00
	Financial year n-4	15.700.00	0.00	15 700 00	15,700.00	144 00	15 556 00	0.00
	Financial year n-5	0.00	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	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	0.00
	Financial year n-9	0.00	0.00	0.00	0.00	0.00	0.00	0.00
		3 385 395.57	0.00	3,385 395 57	3,385 395 57	1,904,336 60	1,481,058.97	0.00
II.	**OPERATING COSTS**							
02 01	Official missions	0.00	0.00	0.00	0.00	0.00	0.00	0.00
02 02	Administrative support	0.00	0.00	0.00	0.00	0.00	0.00	0.00
02.03	Hospitality	0.00	0.00	0.00	0.00	0.00	0.00	0.00
02 04	Telecommunications	0.00	0.00	0.00	0.00	0.00	0.00	0.00
02 05	Operating costs	0.00	0.00	0.00	0.00	0.00	0.00	0.00
02 06	Construction Site Guard	0.00	0.00	0.00	0.00	0.00	0.00	0.00
02.07	Materials Procurement	0.00	0.00	0.00	0.00	0.00	0.00	0.00
02 10	Miscellaneous and unforeseen	0.00	0.00	0.00		0.00	0.00	0.00
	Financial year n	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Carried forward:							
	Financial year n-1	5,196,205 64	0.00	5,196,205 64	5,196 205 64	4,135,690 90	1,060,514 74	0.00
	Financial year n-2	3,739 091.19	0.00	3 739 091.19	3 739 091.19	1,559,914.25	2 179,176 94	0.00
	Financial year n-3	552,982 23	0.00	552 982 23	552 982 23	246,937 98	306 044 25	0.00
	Financial year n-4	46.792.06	0.00	46,792 06	46 792 06	0.00	46 792.06	0.00
	Financial year n-5	8,174 95	0.00	8,174 95	8,174 95	83.90	8,091 05	0.00
	Financial year n-6	4,341.42	0.00	4,341 42	4,341.42	2,007.00	2,334 42	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	0.00
	Financial year n-9	0.00	0.00	0.00	0.00	0.00	0.00	0.00
		9 547,587.49	0.00	9 547,587 49	9 547,587 49	5,944 634.03	3,602,953 46	0.00
III.	**INTELLECTUAL SERVICES**							
03 01	Consultants & studies	0.00	0.00	0.00	0.00	0.00	0.00	0.00
03 02	Project management team	0.00	0.00	0.00	0.00	0.00	0.00	0.00
03 04	Concept design team	0.00	0.00	0.00	0.00	0.00	0.00	0.00
03.05	Overall CDT fees on addit Constr W	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Financial year n	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Carried forward							
	Financial year n-1	378,161.00	0.00	378,161.00	378,161.00	809.25	377,351.75	0.00
	Financial year n-2	115 865.13	0.00	115 865.13	115 865.13	242,996 60	-127,131.47	0.00
	Financial year n-3	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Financial year n-4	100,000.02	0.00	100,000 02	100 000 02	0.00	100,000 02	0.00
	Financial year n-5	49 999 98	0.00	49 999 98	49 999 98	0.00	49,999 98	0.00
	Financial year n-6	0.00	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	0.00
	Financial year n-9	0.00	0.00	0.00	0.00	0.00	0.00	0.00
		644,026.13	0.00	644,026 13	644,026 13	243 805.85	400,220 28	0.00
IV.	**CONSTRUCTION WORKS**							
04 01	Works Requirements	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Financial year n	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Carried forward:							
	Financial year n-1	11,260,724 43	0.00	11 260,724 43	11,260,724 43	0.00	11,260,724 43	0.00
	Financial year n-2	9 828 619 54	0.00	9 828,619 54	9,828,619 54	1 263 888 00	8,564 731.54	0.00
	Financial year n-3	1,194,710 29	0.00	1,194,710.29	1,194,710 29	445,055.27	749,655 02	0.00
	Financial year n-4	7,357,226 22	0.00	7 357,226 22	7,357,226 22	3 308,346 25	4 048 879 97	0.00
	Financial year n-5	0.00	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	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	0.00
	Financial year n-9	0.00	0.00	0.00	0.00	0.00	0.00	0.00
		29,641,280 48	0.00	29,641 280 48	29 641,280 48	5 017,289.52	24 623,990 96	0.00
V.	**SPECIAL EQUIPMENT**							
05 01	Special equipment	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Financial year n	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Carried forward:							
	Financial year n-1	360,563 49	0.00	360 563.49	360 563 49	95 922 61	264 640 88	0.00
	Financial year n-2	4,152 006,45	0.00	4,152 006 45	4,152 006 45	1,408,702.39	2,743 304 06	0.00
	Financial year n-3	1,300 802.59	0.00	1,300 802 59	1 300 802 59	276,513.19	1,024,289 40	0.00
	Financial year n-4	206 361.05	0.00	206 361.05	206 361.05	36,032.19	170 328 86	0.00
	Financial year n-5	0.00	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	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	0.00
	Financial year n-9	0.00	0.00	0.00	0.00	0.00	0.00	0.00
		6 019,733.58	0.00	6,019 733 58	6 019,733 58	1,817,170 38	4 202,563 20	0.00
	GRAND TOTAL							
	Financial year n	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Carried forward:							
	Financial year n-1	18 633 454 62	0.00	18,633,454 62	18 633 454 62	4,790 124,56	13 843 330 06	0.00
	Financial year n-2	19 265 584 36	0.00	19 265 584 36	19 265 584 36	5,722,344 90	13,543,239 46	0.00
	Financial year n-3	3 550 388 57	0.00	3 550,388 57	3 550 388.57	1,068 153.58	2 482 234 99	0.00
	Financial year n-4	7.726 079 35	0.00	7.726,079 35	7.726 079 35	3 344 522 44	4 381 556.91	0.00
	Financial year n-5	58 174 93	0.00	58,174 93	58 174 93	83 90	58 091.03	0.00
	Financial year n-6	4 341.42	0.00	4,341.42	4 341.42	2 007.00	2 334 42	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	0.00
	Financial year n-9	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	GRAND TOTAL	49,238,023.25	0.00	49,238,023.25	49,238,023.25	14,927,236.38	34,310,766.87	0.00

ANNEX 5 to
FC(2020)0040

NEW NATO HEADQUARTERS

BUDGETARY OPERATIONS FOR FINANCIAL YEAR 2018
n= 2018

in EUR)

CHAPTER Article		BUDGET AUTHORISATIONS					BUDGETARY SURPLUS	
		BUDGET (ref.) C-M(2017)0070	AUTHORIZED TRANSFERS	ADJUSTED CREDITS	COMMITMENTS	EXPENDITURES	CREDITS CARRIED FORWARD TO n+1	LAPSED CREDITS
		(1)	(2)	(3) = (1)+(2)	(4)	(5)	(6) = (4) - (5)	(7) = (3) - (4)
I.	**PERSONNEL COSTS**							
01.01	Basic salaries and related expenses	1,865,200.00	0.00	1,865,200.00	1,865,200.00	427,399.94	1,437,800.06	0.00
01.02	Temporary staff and consultants	0.00	0.00	0.00	0.00	0.00	0.00	0.00
01.03	Statutory travel	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Financial year n	1,865,200.00	0.00	1,865,200.00	1,865,200.00	427,399.94	1,437,800.06	0.00
	Carried forward:							
	Financial year n-1	3,241,861.65	0.00	3,241,861.65	3,241,861.65	1,869,619.12	1,372,242.53	0.00
	Financial year n-2	1,782,688.32	0.00	1,782,688.32	1,782,688.32	1,280,794.86	501,893.46	0.00
	Financial year n-3	105,787.87	0.00	105,787.87	105,787.87	90,287.87	15,500.00	0.00
	Financial year n-4	50,864.32	0.00	50,864.32	50,864.32	50,864.32	0.00	0.00
	Financial year n-5	11,273.50	0.00	11,273.50	11,273.50	11,273.50	0.00	0.00
	Financial year n-6	0.00	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	0.00
	Financial year n-9	0.00	0.00	0.00	0.00	0.00	0.00	0.00
		7,057,675.66	0.00	7,057,675.66	7,057,675.66	3,730,239.61	3,327,436.05	0.00
II.	**OPERATING COSTS**							
02.01	Official missions	0.00	0.00	0.00	0.00	0.00	0.00	0.00
02.02	Administrative support	125,000.00	0.00	125,000.00	125,000.00	125,000.00	0.00	0.00
02.03	Hospitality	0.00	0.00	0.00	0.00	0.00	0.00	0.00
02.04	Telecommunications	0.00	0.00	0.00	0.00	0.00	0.00	0.00
02.05	Operating costs	8,189,000.00	0.00	8,189,000.00	8,189,000.00	5,092,794.36	3,096,205.64	0.00
02.06	Construction Site Guard	0.00	0.00	0.00	0.00	0.00	0.00	0.00
02.07	Materials Procurement	0.00	0.00	0.00	0.00	0.00	0.00	0.00
02.10	Miscellaneous and unforeseen	0.00	0.00	0.00		0.00	0.00	0.00
	Financial year n	8,314,000.00	0.00	8,314,000.00	8,314,000.00	5,217,794.36	3,096,205.64	0.00
	Carried forward:							
	Financial year n-1	6,952,253.03	0.00	6,952,253.03	6,952,253.03	3,213,161.84	3,739,091.19	0.00
	Financial year n-2	1,124,051.40	0.00	1,124,051.40	1,124,051.40	2,785,048.87	-1,660,997.47	0.00
	Financial year n-3	1,646,647.86	0.00	1,646,647.86	1,646,647.86	1,307,694.54	338,953.32	0.00
	Financial year n-4	11,178.23	0.00	11,178.23	11,178.23	2,251.79	8,926.44	0.00
	Financial year n-5	4,341.42	0.00	4,341.42	4,341.42	0.00	4,341.42	0.00
	Financial year n-6	0.00	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	0.00
	Financial year n-9	0.00	0.00	0.00	0.00	0.00	0.00	0.00
		18,052,471.94	0.00	18,052,471.94	18,052,471.94	12,525,951.40	5,526,520.54	0.00
III.	**INTELLECTUAL SERVICES**							
03.01	Consultants & studies	0.00	0.00	0.00	0.00	0.00	0.00	0.00
03.02	Project management team	269,842.00	0.00	269,842.00	269,842.00	0.00	269,842.00	0.00
03.04	Concept design team	108,319.00	0.00	108,319.00	108,319.00	0.00	108,319.00	0.00
03.05	Overall CDT fees on addit Constr W	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Financial year n	378,161.00	0.00	378,161.00	378,161.00	0.00	378,161.00	0.00
	Carried forward:							
	Financial year n-1	6,631,221.00	0.00	6,631,221.00	6,631,221.00	6,515,355.87	115,865.13	0.00
	Financial year n-2	497,767.72	0.00	497,767.72	497,767.72	497,767.72	0.00	0.00
	Financial year n-3	229,557.07	0.00	229,557.07	229,557.07	129,557.05	100,000.02	0.00
	Financial year n-4	139,999.97	0.00	139,999.97	139,999.97	89,999.99	49,999.98	0.00
	Financial year n-5	387.04	0.00	387.04	387.04	387.04	0.00	0.00
	Financial year n-6	0.00	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	0.00
	Financial year n-9	0.00	0.00	0.00	0.00	0.00	0.00	0.00
		7,877,093.80	0.00	7,877,093.80	7,877,093.80	7,233,067.67	644,026.13	0.00
IV.	**CONSTRUCTION WORKS**							
04.01	Works Requirements	15,331,054.00	0.00	15,331,054.00	15,331,054.00	0.00	15,331,054.00	0.00
	Financial year n	15,331,054.00	0.00	15,331,054.00	15,331,054.00	0.00	15,331,054.00	0.00
	Carried forward:							
	Financial year n-1	18,301,080.90	0.00	18,301,080.90	18,301,080.90	8,463,764.46	9,837,316.44	0.00
	Financial year n-2	1,742,263.56	0.00	1,742,263.56	1,742,263.56	547,553.27	1,194,710.29	0.00
	Financial year n-3	9,679,408.00	0.00	9,679,408.00	9,679,408.00	2,322,181.78	7,357,226.22	0.00
	Financial year n-4	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Financial year n-5	0.00	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	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	0.00
	Financial year n-9	0.00	0.00	0.00	0.00	0.00	0.00	0.00
		45,053,806.46	0.00	45,053,806.46	45,053,806.46	11,333,499.51	33,720,306.95	0.00
V.	**SPECIAL EQUIPMENT**							
05.01	Special equipment	402,430.00	0.00	402,430.00	402,430.00	41,866.51	360,563.49	0.00
	Financial year n	402,430.00	0.00	402,430.00	402,430.00	41,866.51	360,563.49	0.00
	Carried forward:							
	Financial year n-1	11,227,924.90	0.00	11,227,924.90	11,227,924.90	7,075,918.45	4,152,006.45	0.00
	Financial year n-2	5,578,343.50	0.00	5,578,343.50	5,578,343.50	4,277,540.91	1,300,802.59	0.00
	Financial year n-3	776,719.21	0.00	776,719.21	776,719.21	570,358.16	206,361.05	0.00
	Financial year n-4	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Financial year n-5	0.00	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	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	0.00
	Financial year n-9	0.00	0.00	0.00	0.00	0.00	0.00	0.00
		17,985,417.61	0.00	17,985,417.61	17,985,417.61	11,965,684.03	6,019,733.58	0.00
	GRAND TOTAL							
	Financial year n	26,290,845.00	0.00	26,290,845.00	26,290,845.00	5,687,060.81	20,603,784.19	0.00
	Carried forward:							
	Financial year n-1	46,354,341.48	0.00	46,354,341.48	46,354,341.48	27,137,819.74	19,216,521.74	0.00
	Financial year n-2	10,725,114.50	0.00	10,725,114.50	10,725,114.50	9,388,705.63	1,336,408.87	0.00
	Financial year n-3	12,438,120.01	0.00	12,438,120.01	12,438,120.01	4,420,079.40	8,018,040.61	0.00
	Financial year n-4	202,042.52	0.00	202,042.52	202,042.52	143,116.10	58,926.42	0.00
	Financial year n-5	16,001.96	0.00	16,001.96	16,001.96	11,660.54	4,341.42	0.00
	Financial year n-6	0.00	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	0.00
	Financial year n-9	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	GRAND TOTAL	96,026,465.47	0.00	96,026,465.47	96,026,465.47	46,788,442.22	49,238,023.25	0.00

EXPLANATORY NOTES TO NEW NATO HEADQUARTERS PROJECT 2019 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 (TO) within the IS Executive Management (EM) Division was created in 2011 to manage the practical and organisational aspects of the transition from the Previous NATO Headquarters (PNHQ) to the new one.

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).

The HQ Project Office and the Transition Office were consolidated in October 2017 under the dual oversight of the Defence Investment Division and Executive Management of the International Staff. The transition process encompasses not only the actual move from the previous site to the new facilities (that took place in 2018) but also the maintenance of the PNHQ until the final return to Host Nation Belgium in August 2020.

In light of the forthcoming closure of the Headquarters Project Office and Transition Office (NHQPO/TO) in June 2020, most of the activities of HQPO/TO were transferred to EM as of 1 April 2020, except for the management of the Long Term Programme Budget (LTPB) which will remain with Defence Investment Division until 30 June 2020.

NATO member nations maintain oversight of the project through the Deputies Committee (DPRC), a Board comprised of the Deputy Permanent Representatives. HQPO/TO 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.

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).

Basis of preparation

These statements have been prepared on a non-going concern basis. In December 2019, with DPRC-N(2019)0067-REV1- AS1 (INV), NATO Member Nations decided not to continue the New NATO HQ Project beyond 30 June 2020. The final financial closure will take place only when all assets and liabilities related with the New NATO HQ Project are settled. These statements disclose information on the assets and liabilities as known at the date of their preparation. The amounts shown in these financial statements are presented in EUR

The following IPSAS have no material effect on the 2019 financial statements of the New NATO Headquarters Project:

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

In 2018 the untaken leave was disclosed as "Other Expenses", however we have reconsidered this policy, since even though NATO IS policy is that untaken leave shall be paid only as a last recourse (Staff is compelled to take all their leave before retiring), we believe that for informative and transparency purposes, this liability should be recognized as if NATO would shut down its activities as off 31 December 2019 and disclosed as a Provision instead of an actual expense, since its realization is uncertain.

There is also a change in accounting policy towards the way the offset of the cost for the Untaken Leave provision is recognized. Until 2018, this was done by booking a notional receivables towards nations, while in 2019, due to the non-going concern basis, the offset is done by reducing the Project's accumulated surplus.

Until 2018 the costs to the NHQPO, were fully capitalized into the NHQ Project work in progress, however in 2019, as a consequence of the move's completion in June 2018 and subsequent transfer of all fixed assets to NATO IS and NCIA, the work of the NHQPO/TO has no longer been focused on the NHQ project but rather on the Building Z project, the management of the remnants of the LTPB, the maintenance of the PNHQ until its hand-over to the Host Nation, plus some residual NHQ project related activities. Hence, in 2019 the costs related with NHPO have no longer been capitalized, but rather expensed when incurred.

Restatement of Financial Statements of Previous Years

None.

Reclassification of Financial Statements of Previous Years

A minor reclassification was done, concerning untaken leave. As explained above there was a change in our accounting policy, and thus it is no longer disclosed as "Other Expense" in the statement of financial performance, but rather as a Provision.

The table below summarises the change.

NATO NEW HQ
Statement of financial performance
As at 31 December 2018
(All amounts in EUR)

	Notes	2018 - Reclassified	2018
Revenue	15		
Non exchange revenue		27,835,769.99	27,835,769.99
Exchange revenue		0.00	0.00
Other revenue		0.00	0.00
Financial revenue		0.00	0.00
Total revenue		**27,835,769.99**	**27,835,769.99**
Expenses	16		
Personnel		3,547,791.42	3,547,791.42
Contractual supplies and services		24,196,328.29	24,196,328.29
Depreciation and amortization		0.00	0.00
Impairment		0.00	0.00
Provisions		73,382.26	
Other expenses			73,382.26
Finance costs		18,268.02	18,268.02
Total expenses		**27,835,769.99**	**27,835,769.99**
Surplus/(Deficit) for the period	17	**0.00**	**0.00**

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.

NATO IS will estimate the value of provisions for the following costs:

- A Bad Debts Provision is notionally posted for 0.5% of the long outstanding receivables at year-end, however it is reversed in the beginning of the following year. Debts from Member Nations in lieu with Common Funded calls are excluded, since in case of default they shall be collectively covered (by all Allies) as per NATO's charter;
- A notional Untaken Leave Provision if the number of untaken leave days at year-end, is found to be above 10% of the annual leave entitlement, calculated by the man/day cost of December payroll;
- Other present obligations resulting of a past event if resulting of a possible payment of a foreseeable value (incl. loss of job indemnities, court cases, etc.)

Foreign currency transactions

The New NATO Headquarters Project's budget is authorized and managed in EUR so contribution calls have been 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 (National Funding, including Fit-out and EUROCONTROL funds).

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 the banks: ING, BNP Paribas Fortis and AION (former Monte Paschi), which have the following short term credit ratings:

SHORT TERM RATINGS					
BANK NAME	COUNTRY OF HQ	RATING DATE	FITCH	S&P	Moody's
ING BANK	NE	10.01.2020	F1+	A-1	P1
BNP PARIBAS FORTIS	FR	10.01.2020	F1+	A-1	P1
MONTE PASCHI/AION	IT	31.12.2019	B	N/A	N/A

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 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, also known as bad debts. NATO OFC policy is to notionally recognize at year-end, as bad debts all outstanding receivables which are due for more than 360 days. Debts from Member Nations in lieu with Common Funded calls are excluded, since in case of default they shall be collectively covered (by all Allies) as per NATO's charter.

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 or 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.

As explained in the "Changes to Accounting Policy", until 2018 this item also included the receivable counterpart of the Untaken Leave provision, but due to the non-going concern basis of the preparation of these Financial Statements, NATO IS decided that in 2019 the value of the untaken leave provision will instead be offset against the project accumulated surplus under Other Current Liabilities.

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 capitalized in the Financial Statements if it is above the capitalization 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

The NNHQ Project capitalizes 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.

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.

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.

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 capitalized in the Financial Statements if it is above the capitalization threshold. This is applied from January 2013, under the initial NATO Accounting Framework C-M(2013)0039 of July 2013

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.

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, according to NATO Accounting Framework, 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 NATO new site.

In the case of the New NATO Headquarters Project until 2018, 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 capitalized in the Financial Statements if it is above the capitalization 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 capitalizes all controlled intangible assets above the NATO Intangible Asset Capitalization Threshold. For anything below the threshold, the NNHQ has the flexibility to expense specific items.

The NNHQ Project capitalizes integrated systems and include research, development, implementation and can include both software and hardware elements. But the NNHQ Project does not capitalize 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

The NNHQ Project capitalized other types of intangible assets acquired after 1 January 2013 including:

- Copyright
- Intellectual Property Rights
- Software development

The NNHQ could consider Intangible Assets acquired prior to 1 January 2013 as fully expensed, however it has decided not to do so, for the sake of consistency with the treatment given to PPE.

The NNHQ Project reported controlled Intangible assets in its financial statements. Where there was a conflict between more than one NATO Reporting Entity as to the control of intangible assets, only the end-user entity capitalized 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 prevail. 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.

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 presented 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. Voluntary advances made outside of the call for contributions process are accounted as funds managed for third parties. There have been no such advances called for 2020.

Provisions

Under this item, the following types of Provisions are recognized: bad debts provision, untaken leave provision, and the provision for the LOJI payable in lieu with the closure of the NHPO/TO in 30 June 2020.

Other Current Liabilities

Other Current Liabilities include in particular the surplus as per the NATO Financial Regulations (lapsed credits + financial income + miscellaneous income). In authorizing the New NATO Headquarters Project budget, Nations agreed that it would be a special budget extending over several years. 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, namely: LTPB Contribution to the Building Z project and surplus from the US sponsored 9/11 Memorial

Considering the Non-Going Concern issue, NATO IS decided that in 2019 the value of the untaken leave provision will be offset against the project accumulated surplus (see Note 13)

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 and EUROCONTROL 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

Up until 2018 all the costs incurred under the New NATO Headquarters Project since its inception, except those related to the Transition Office and furniture, qualified to be capitalized as PPE Work in Progress. This included personnel and operating costs. The matching budget resources provided by Nations to fund these Works in Progress were recognised as a liability in the Statement of Financial Position as Long Term Unearned Revenue. No revenue was recognised in the Statement of Financial Performance, except for the part attributable to the Transition Office and furniture.

The task of the Transition Office was to plan and execute the transition from the previous NATO HQ to the new NATO HQ. After the completion of the move from the PNHQ the new site in 2018, the Transition Office was merged with the NHQPO, becoming the NHQPO/TO. Since then the work of the NHQPO/TO has no longer focused on the NHQ project but rather on the Building Z project, the management of the remnants of the LTPB and the maintenance of the PNHQ until its hand-over to the Host Nation, residual removal actions and some minor works still performed in the NHQ (design corrections, modifications, etc.). Transition Office and NHQPO/TO relate costs consisted mainly in salaries of its staff and the costs of consultancy services and 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 and NHQPO/TO costs are expended rather than capitalized. Therefore, as explained in "Changes to Accounting Policies", during 2019 all costs related to NHQPO/TO were expensed, i.e. no longer capitalized into the NHQ building project.

In 2019 the only capitalized costs were works performed by Host Nation and NCIA (see note 8), that were transferred at year-end to NATO IS and NCIA.

Revenue from exchange and non-exchange transactions

There is no revenue from exchange transactions, as the contributions by Nations were based on a fixed cost-share of reimbursable costs for the construction of the New NATO Headquarters Project. The outstanding balances are disclosed as deferred revenue.

Long Term Unearned Revenue

Since 2018 all assets have been transferred to NATO IS and NCIA, thus there is no more long term unearned revenue disclosed under NHQ financial statements.

Statement of financial position

NOTE 3: CASH AND CASH EQUIVALENTS

The current bank accounts are held in EUR. Deposits (see note 4) 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.

For the Common funded part of the project the IS Office of Financial Control has issued specific calls for contributions. To meet the Project's payment for the fit-out and nationally funded elements under the NSIP rules and procedures, has issued separate contribution calls. The unspent amounts of Common, National and Fit-Out funding are held as a liability towards the nations.

NNHQ holds also funds from EUROCONTROL (EUR 40,408.94) as the remainder of its contribution to works for a secure pedestrian access between its headquarters and the NNHQ site. This surplus will be returned upon the project closure.

The below table provides comparative data on the NNHQ's Cash Position, over two consecutive years:

NHQ Cash Positions

(amounts in EUR)	2019	2018
Common Funded	12,687,137.66	14,913,687.79
Nationally Funded	2,593,501.75	2,465,763.62
Fit-Out	4,929,860.16	7,372,589.24
Eurocontrol	40,408.94	40,408.94
TOTAL	**20,250,908.51**	**24,792,449.59**

NOTE 4: SHORT TERM INVESTMENTS

The below table provides comparative data on the NHQ's Short term Investments, over two consecutive years:

NHQ Short Term Invested Funds

(amounts in EUR)	2019	2018
Common Funded	30,000,000.00	40,001,828.11
Nationally Funded	600,000.00	600,000.00
Fit-Out		0.00
TOTAL	**30,600,000.00**	**40,601,828.11**

These short-term investments are available at 35 days' notice.

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.

No call for contributions was issued since 2017. Expenses in relation to the project until its completion are covered by credits carried forward. This explains the decrease in budgetary contributions receivables from 2018 to 2019.

There are other receivables from Nations concerning amounts due for cases other than contributions to the NNHQ budget or nationally funded elements.

Other Receivables relate to miscellaneous amounts due to the Project (e.g. reimbursement of operating costs, insurance claims, advances to staff for education allowances etc.).

The below table provides comparative data on the NHQ's Accounts Receivable, over two consecutive years:

Receivables (in EUR)	2019	2018
Budgetary contributions	543,132.85	2,375,270.14
Recoverable Expenses	328.64	25,927.60
Long Outstanding Debts	29,010.52	-
Accruals	43,792.12	
Total	**616,264.13**	**2,401,197.74**

The budgetary contributions refer mainly to the outstanding debt from Montenegro (acquisition of delegation space). The accruals are linked primarily to the compensatory payment to receive from Allianz (see note 25) and the interest to be received from Montenegro for 2019 on the outstanding receivable.

The Long Outstanding Debts disclose receivables that remain open for more than 360 days. The receivable does not relate to a Common Funded call for funds but to the Fit- out (Germany) and security costs (USA).

NOTE 6: PREPAYMENTS

Prepayment are done mainly to Host Nation Belgium (PMT), NCIA (as CIS Host nation) and some staff related advances.

The terms of the MOU between NATO and Host Nation Belgium, stipulate that there will be no national pre-financing of the Project. Therefore, receivables from the PMT relate to advance payments made which are not regularised at year end as they do not correspond to works completed. The NCIA prepayment correspond to advance payments made in connection to CIS works (mainly ANWI), which are not regularised at year end as they do not correspond to works completed

The below table provides comparative data on the NHQ's Prepayments, over two consecutive years:

Prepayments (in EUR)	2019	2018
Prepayment PMT	2,939,029.07	6,260,931.71
Prepayment NCIA	4,918,751.76	7,497,135.92
Other suppliers	215,823.20	619,202.26
Staff (Education Allowance)	14,046.67	38,505.16
Total	**8,087,650.70**	**14,415,775.05**

The final liquidation of these outstanding prepayments will be done in the course of 2020.

NOTE 7: OTHER CURRENT ASSETS

Other Current Assets correspond, essentially to reciprocal bank transactions between the New NATO HQ Project and NATO International Staff accounts and transactions to be regularised. In 2018, this item also included the receivable counterpart of the Untaken Leave provision, but due to the non-going concern basis of the preparation of these Financial Statements, in 2019 the value of the untaken leave provision is offset against the project accumulated surplus under Other Current Liabilities.

NOTE 8: NON-CURRENT ASSETS

By early 2018 all of the main elements of the PPE that have enabled 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 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 the evolution of works related with PPE since 2018 until the end of 2019.

(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)	0
Professional fees (chapter 3)	137,330,474	637,871			(137,968,345)	0
Works (chapter 4)	636,830,828	7,180,289			(644,011,117)	0
Special Equipment (chapter 5)	11,575,136	2,136,981			(13,712,117)	0
SUB-TOTAL COMMON FUNDED	**858,988,822**	**14,157,767**	**0**	**0**	**(873,146,589)**	**0**
						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**
						0
TOTAL	**958,014,138**	**14,157,767**	**0**	**0**	**(972,171,905)**	**0**

(amounts in EUR)	Carrying Amount end 2018	Additions	Disposals	Depreciation	Other Changes	Carrying Amount end 2019
COMMON FUNDED						
Personnel (chapter 1)	0	0			0	0
Operating Costs (chapter 2)	0	0			0	0
Professional fees (chapter 3)	0	219,860			(219,860)	0
Works (chapter 4)	0	644,049			(644,049)	0
Special Equipment (chapter 5)	0	0			0	0
SUB-TOTAL COMMON FUNDED	**0**	**863,909**	**0**	**0**	**(863,909)**	**0**
						0
NATIONALLY FUNDED						0
Works	0	0			0	0
SUB-TOTAL NATIONALLY FUNDED	**0**	**0**	**0**	**0**	**0**	**0**
						0
TOTAL	**0**	**863,909**	**0**	**0**	**(863,909)**	**0**

For 2019, included is an amount of EUR 863,909 corresponding to costs incurred by the PMT for completed works at end 2019. These assets were transferred to IS at 2019 year-end.

The following table reconciles the ANWI Assets since 2018 until the end of 2019:

(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				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)**	**0**

(amounts in EUR)	Carrying Amount end 2018	Additions	Disposals	Depreciation	Other Changes	Carrying Amount end 2019
COMMON FUNDED						
Personnel (chapter 1)	0	0				0
Operating Costs (chapter 2)	0	0				0
Professional fees (chapter 3)	0	1,090			(1,090)	0
Works (chapter 4)	0	12,977			(12,977)	0
Special Equipment (chapter 5)	0	1,368,172			(1,368,172)	0
TOTAL COMMON FUNDED	**0**	**1,382,239**	**0**	**0**	**(1,382,239)**	**0**

During 2019, an additional EUR 1,382,239, were delivered by NCIA in relation to the ANWI, which in accordance with the NATO Accounting Framework is to be considered an NCIA asset and thus were purged out of NNHQ books.

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 2018) 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.

Under this item we also disclose the unused Fit-Out funds of EUR 4,936,958.72 that need to be returned to Nations In 2020 the majority of the nations have decided to offset their Fit-Out surpluses against the Civil Budget call (80.98%), while the others have preferred to offset against 2020 Accommodation Cost charges or receiving direct returns.

Accruals

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

Below a table is provided with comparative data on the outstanding payables at year-end for two consecutive years:

Payables (in EUR)	2019	2018
Payable to suppliers	1,543,591.62	5,951,340.95
Payable to staff	9,268.24	8,716.93
Surplus Fit out to reimburse to Nations	4,936,958.72	
US Reimbursable	1,513,305.90	1,513,305.90
Accruals	1,693,685.49	4,803,675.13
Other Nato Entity		17,865.22
Total	**9,696,809.97**	**12,294,904.13**

NOTE 10: DEFERRED REVENUE

Deferred Revenue from Budgetary Appropriations

Deferred Revenue from budgetary appropriations corresponds to contributions called in relation to approved budgets but for which corresponding expenses will be incurred after the reporting date of 31 December 2019. The Unearned Revenue includes principally those amounts of contributions which will be spent until the closure of the LTPB, 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.

At 2019 year-end the deferred revenue from budgetary appropriations amounts to EUR 42,314,003.00 for the Common funded and EUR 6,070.40 for the National funded parts of the project.

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. As of 2019 year end there are only EUR 6,070.40 left from the National Funding, corresponding to accumulated interest (EUR 3,772.85) and a leftover from the US grant for the 9/11 monument (EUR 2,297.55).

The decision of the use of final balance of Deferred Revenue positions lies with the respective contributors during the final closure of the NHQ accounts.

NOTE 11: ADVANCES

Advances Related to the Budgetary Process

No advances related with the common funded component of the project were paid/received in 2018 and 2019. At 2019 year-end, there are only EUR 248.00 of outstanding advances from nations.

Other Advances

The table below provides an overview of the outstanding advances held at year-end for two consecutive years:

Advances for NF (in EUR)	2019	2018
Advance from Member Nations	3,176,371.60	3,046,002.49
Advance from Third Parties	40,408.91	2,038.91
Total	**3,216,780.51**	**3,048,041.40**

At 2019 year-end, there are no advances left in the Fit-Out program but only in National Funded part of the project. The advance from third party is the surplus reimbursement from PMT related to Eurocontrol contribution to the NHQ Project

The final balance of these items is to be returned to the respective contributors during the final closure of the NHQ accounts.

NOTE 12: PROVISIONS

This item includes all provisions booked, namely:

- The provision for bad debt impairments (EUR 112.88)
- The Untaken Leave Provision (EUR 42,336.48; EUR 73,382.26 end 2018) as a valuation of the potential financial outflow that would be required if this untaken leave were to be paid.
- The LOJI Provision payable to the NHPO/TO staff in lieu with the end of their job related to the closure of NNHQPO/TO on 30 June 2020 as per (DPRC-N(2019)0067-REV1- AS1 (INV)), the total amount have been assessed to be EUR 609,860.99.

Notwithstanding, considering that these financial statements are presented under a non-going concern basis (see Note 2- Basis of Preparation), NATO IS has made an assessment of the untaken leave liability as per 15 April 2020, and concluded that only 0.25 days of leave from 2019 remain unused (which equates to EUR 156.80), while for 2020 there are still 15 days of leave to be used until 30 June 2020 (which equates to EUR 9,408.11 at 2019 salary scales).

NOTE 13: 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 were equal to the gross amount of the approved budget with no deductions for any surplus.

In the absence of lapsed credits, the surplus related to the Project's Common Funded is limited to net financial revenue and miscellaneous revenue.

Other Types of Current Liabilities

Under this item are disclosed all minor surpluses that do not related to the budgetary process (common funding, national funding and Fit-Out), but rather to miscellaneous and financial income, including the surplus of the 9/11 Memorial Grant.

In 2019 under this item, are disclosed as well: the LTPB contribution to the building Z project that has been decided as per DPRC-N(2019)0021-REV3, and the offset of the Untaken Leave Provision.

The table below provides comparative data year-end balances of other type of current liabilities, for two consecutive years:

Other Current Liabilities (in EUR)	2019	2018
Contribution LTPB to Building Z	3,762,403.00	-
Surplus Miscellaneous result	47,437.37	- 4,042.54
Surplus Financial result	504,235.67	494,084.07
Surplus 9/11 Memorial	12,257.52	20,557.52
Offset (Provision untaken leave)	- 42,336.48	
Other		978.85
Total	**4,283,997.08**	**511,577.90**

NOTE 14: LONG TERM UNEARNED REVENUE

This revenue corresponds to the contributions, budgetary and non-budgetary, that funded fixed assets work in progress.

Since the all fixed assets have been transferred out of either NATO IS or NCIA, the NNHQ accounts no longer hold any non-current assets, and hence there is no Long Term Unearned Revenue.

NOTE 15: 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.

After the closure of the project Nations will have to decide what to do with outstanding assets and liabilities of the NHQ project and unspent remnants of the LTPB.

Statement of financial performance

NOTE 16: REVENUE

Until 2018 budgetary revenue has been matched to recognised expenses relating to the activities of the Transition Office.

In 2019 this rationale was also applied to the NHQPO/TO expenses, since as off the hand-over of the building to NATO IS, their work is no longer to be capitalized as PPE Work in Progress.

Any interest gained is attributed to the funding of the construction itself, as a liability towards the nations and is therefore is recognized as a surplus.

Financial revenue originates from bank interests and currency exchange gains, while Miscellaneous revenue originate from minor cost reimbursements and mainly from the compensatory payment obtained from Allianz for the DCPS group insurance (see note on Employee Disclosure- Extraordinary Compensatory Payment).

NOTE 17: EXPENSES

The only expenses recognised are those related Headquarters Project Office and Transition Office (NHQPO/TO). They consist mainly of the costs related with operation and maintenance of the PNHQ until its hand-over to the host nation (utilities, security services), removal costs and some minor works still performed in the NHQ building (design corrections, modifications, etc.), together with the salaries of staff, administrative expenses and miscellaneous consultancy studies.

As explained under Note 2 (Revenue and expense recognition), as off 2019 all costs related to NHQPO were totally expensed, i.e. no longer capitalized into the NHQ building project.

Banking costs are not recognised as expenses but are deducted from interests earned. A total of EUR 5,385.82 has been recognized as financial cost deriving mainly from currency exchange rate losses.

There are also Provision costs for Untaken Leave, Impairment of Long Outstanding Receivables and LOJIs payable to NHQPO/TO staff.

During 2019, the NHQ project did not purchased any additional items of PPE, except those mentioned in Note 8.

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 NHQ 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,
c. 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.

As per the latest NHQPO Financial Status Report (DPRC-N(2019)0022-REV1 (INV), 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 (considering the correction of the EUR 1,97 MEUR correction of the 2017 "Accounting Overlook") related to credits carried over from the previous financial years, also remained available to be used under the LTPB. There were no new requirements for National Funding nor for the Fit-Out programme for 2018 and 2019. The NHPO is due to present an update report (2019 execution) to the DPRC by the end of April 2020.

As per DPRC-N(2019)0067-REV1-AS1 (INV), Nations declared their intent to close the Long Term Programme Budget and to disestablish the HQPO/TO on 30 June 2020. After this date Nations will have to decide what to do with outstanding assets and liabilities of the NHQ Project and unspent remnants of the LTPB.

It should be noted that the credits approved for 2019, 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 2019 commitments and expenses.

Budget execution statements for 2019 and 2018 are provided at Annex 5.

The Revised LTPB (DPRC-N(2019)0022-REV1 (INV)) 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:
Chapter I: Personnel Expenses
Chapter II: Operating Expenses
Chapter III: Intellectual Services
Chapter IV: Demolition/Construction Works
Chapter V: Special Equipment

Up until 2018 with the exception of those relating to the Transition Office, all costs were considered as investing activities. In 2019 only EUR 2,246,148.39 were capitalized and transferred at year-end to NATO IS (EUR 863,909.17) and NCIA (EUR 1,382,239.22)

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 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 2019.

2019 Reconciliation of Budget to Financial Performance

BUDGET EXECUTION		Common Funded	National Funded	Total
Total budget (including Carry-forward from Previous year)	(a)	49,238,023.25	0.00	49,238,023.25
Credits Carried Forward in Following Year	(b)	34,310,786.87	0.00	34,310,786.87
Budget Execution Expenses	(c) = (a-b)	14,927,236.38	0.00	14,927,236.38

RECONCILIATION		Common Funded	National Funded	Total
Financial Performance Expenses (excluding Depreciation, Financial and Other costs)	(d)	12,071,226.97	0.00	12,071,226.97
Increase in Non-Current Assets	(e)	2,246,148.42	0.00	2,246,148.42
Provision LOJI	(f)	609,860.99		
Sub-Total	(g) = (d+e+f)	14,927,236.38	0.00	14,927,236.38
Difference to Budget Expenses	(c-g)	0.00	0.00	0.00

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. There were no changes in 2018 and 2019.

Nationally Funded component

(amounts in EUR)

	Up to 2012	2013	2014	2015	2016	2017	2018	2019	Cumulative
Approved Amounts	37,790,467	12,756,605	25,327,510	21,211,531	1,422,252	516,950	0	0	99,025,315
Cash advances	12,000,000	27,099,999	26,500,000	16,000,000	16,908,366	516,950	0	0	99,025,315
Expenses	11,423,370	22,126,329	22,168,519	21,948,229	18,174,145	3,184,723	0	0	99,025,315

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 and other vendors (ex. move costs) for settlement of related invoices.

NOTE 20: WRITE-OFFS

Nothing to report.

NOTE 21: LEASES

With the completion of the move in 2018 and transfer of the NHQ building to NATO IS, the lease rights granted by Host Nation Belgium over the plot of land where the NHQ is located passed on to NATO IS and therefore no further disclosures are required in this respect under the NHQ financial statements notes.

The New NATO Headquarters Project does not have any financial leases, however in 2019 the following operational leases were funded by the LTPB:

Contract No (CPA)	ASSET LEASED	AMOUNT PAID IN 2019	EXPENSE ACCOUNT CHARGED	AMOUNT TO PAY IN 2020
34231	Building FX	2,332.80	NH0100-0000-000000-00000-0000-444023-00000-0-0	-
38888	Building FX	5,804.20	NH0100-0000-000000-00000-0000-444023-00000-0-0	-
34230	Building XRay	3,120.00	NH0100-0000-000000-00000-0000-444023-00000-0-0	3,000.00
39355	Building Group Entrance	1,671.53	NH0100-2017-940011-00000-0000-615340-25030-0-0	-
37501	Building AB	18,227.86	NH0100-2017-940011-00000-0000-615340-25030-0-0	-
37582	Building NE 1.Level	21,645.32	NH0100-2017-940011-00000-0000-615340-25030-0-0	-
37583	Building NE 2 Level	21,645.32	NH0100-2017-940011-00000-0000-615340-25030-0-0	-
37584	Building NE 3.Level	21,645.32	NH0100-2017-940011-00000-0000-615340-25030-0-0	-
37500	Building NG	714,375.83	NH0100-0000-000000-00000-0000-444023-00000-0-0	-

These leases refer mainly to rental of prefabricated buildings in on the PNHQ, which felt under the Project responsibility after the completion of the move to the new site, during the dual operations period, up till the final hand-over to Host Nation Belgium

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)

References:

(a) DPRC-N(2019)0022-REV1 (INV)
(b) DPRC-N(2019)0021-REV3
(c) DPRC-N(2019)0037-REV1 (INV)
(d) DPRC-N(2019)0040 (INV)
(e) DPRC-N(2019)0065-REV1-AS1 (INV)
(f) DPRC-N(2019)0067-REV1- AS1 (INV)

At reference (a), the DPRC noted the financial status report for the LTPB as of 31 December 2018. A financial status report for the LTPB as of 31 December 2019 will be presented to the DPRC by the NHQPO/TO after the issuance of these financial statements.

The Headquarters Project Office and Transition Office reported that the amount of KEUR 22,854 (reference (a)) is available in contingencies under DPRC control. At reference (b), the Committee approved to use of KEUR 3,762 from contingencies under DPRC control to fund specific costs for the Building Z refurbishment programme. At reference (d), the Committee approved the release of KEUR 2,100 from contingencies under DPRC control to fund continued dual operations until 31 December 2019. At reference (e) the Committee approved the release of KEUR 2,320 from contingencies under DPRC control to fund continued dual operations in the PNHQ from 1 January 2020 until 30 June 2020.

As per DPRC-N(2019)0067-REV1-AS1 (INV), the Nations declared their intent to perform the closure of the Long Term Programme Budget and the disestablishment of the HQPO/TO on 30 June 2020. After this date Nations will have to decide what to do with outstanding assets and liabilities of the NHQ project and unspent remnants of the LTPB.

Reference (f), provides the latest status of the LTPB contingencies under DPRC control, as shown in the table below.

		Amount (KEUR)
1	**Currently available contingencies under DPRC control (ref. (a))**	**22,854**
2	Building Z refurbishment costs funded from the LTPB (ref. (b))	-3,762
3	Accounting error - briefed to the DPRC (ref. (c))	-1,970
4	Dual operations funding 2019 (ref. (d))	-2,100
5	Estimated ANWI security risk exposure – noted by the DPRC as a risk; no contingencies released (ref. (a))	-4,934
6	Estimated refund from HN Belgium from the construction contract – noted by the DPRC (ref. (a))	15,400
7	**Total estimated amount of available contingencies under DPRC control (lines 1+2+3+4+5+6)**	**25,488**
8	Dual operations funding 2020 – pending DPRC approval of document at ref. (e)	-2,320
9	**Total estimated amount of contingencies under DPRC control after DPRC approval of document at ref. (e) (lines 7+8)**	**23,168**

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.

In accordance with information collected from the NHQPO/TO Director, no contingent liabilities are known at 2019 year-end.

NOTE 24: CONTINGENT ASSETS

Nothing to report.

NOTE 25: EMPLOYEE DISCLOSURE

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.

Employee Status

At 31 December 2019, New NATO Headquarters Project Office and Transition Office had the below approved Personnel Establishment.

HQPO	NATO Civilians	
	31-12-19	31-12-18
Total Approved PE	4	12
Total Filled Positions	4	12

HQPO	Total Approved PE	Total Filled Positions
Civilian (PE)	4	4
VNC	n.a.	n.a.
Short term (Temps)	5	5
Interns	n.a.	n.a.

Pension Schemes

The NATO-IS centrally manages three pension programs, namely the Defined Benefit Pension Scheme (DBPS) 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 two Pension Schemes and the RMCF; therefore, no related assets or liabilities are recognised in these financial statements.

The DCPS provides that the New NATO Headquarters Project budget makes a 12% monthly matching contribution to the staff members' contributions for current service. As for the DBPS a deduction of 9.5% (increased to 11.8% in 2020) of their salaries is made and contributed to the annual financing of this plan, 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 below table provides an overview of the Pension Schemes affiliation to the pension schemes, for the last two consecutive years:

NHQPO/TO Staff Affiliation Per Pension Scheme		
	2019	**2018**
DCPS	3	9
DBPS	1	3

During 2019 the NHQPO/TO paid the following amount as contributions for DBPS and DCPS pension schemes:

	2019			2018		
amounts in EUR	Staff	Employer	Total	Staff	Employer	Total
Co-ordinated Pension Scheme	14,946.68	29,893.36	44,840.04	22,335.00	44,670.00	67,005.00
Defined Contribution Pension Scheme	37,247.68	59,157.95	96,405.63	57,128.26	74,887.16	132,015.42
TOTAL	**52,194.36**	**89,051.31**	**141,245.67**	**79,463.26**	**119,557.16**	**199,020.42**

Leave

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. Estimates end 2019 amount to EUR 42,336.48 (EUR 73,382.26 end 2018).

Considering that these financial statements are presented under a non-going concern basis (see Note 2- Basis of Preparation), NATO IS has made an assessment of this liability as per 15 April 2020, and concluded that only 0.25 days of leave from 2019 remain unused (which equates to EUR 156.80), while for 2020 there are still 15 days of leave to be used until 30 June 2020 (which equates to EUR 9,408.11 at 2019 salary scales).

Extraordinary Compensatory payment

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 NHQPO during the period 2012-2015 and affiliated to the DCPS are therefore entitled to a payment to be made from the NATO DCPS accounts. The overall entitlement of NHQPO staff amounts to EUR 8952.16. During 2019 EUR 1,291.49 were paid to NHQPO serving staff, while the remaining 7,660.67 EUR that relate to retired or former employees is expected to be settled in the course of 2020.

This information is being provided here solely for clarity and cross reference purposes, since these transactions are not reflected in NHQ books and thus in these financial statements, but instead have been managed directly in DCPS accounts and therefore will be disclosed in the later financial statements.

As per BC-DS(2019)0067(INV), the Budget Committee decided that the “Employers' part of this compensatory payment, in the total amount of EUR 4,273,893.73 , shall be returned to the respective NATO bodies.

An adequate accrual has been posted in NHQ books by the amount of its correspondent receivable (EUR 25,308.93).

Loss of Job Indemnities (LOJI)

The NHPO/TO is to cease its operations in 30 June 2020 as per DPRC-N(2019)0067-REV1- AS1 (INV) and as such in 2020 there are LOJI's that will paid to the respective staff in lieu with the separation. The total amount have been assessed to be EUR 609,860.99.

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/TO. 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/TO 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 2019, NATO International Staff charged the NHQPO/TO an amount of EUR 194,854 for administrative support costs (EUR 207,301 in 2018).

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. As off 31 December 2019, there were still unfinished elements of the ANWI project that will be delivered during 2020.

The IS acts also as a Host Nation concerning the procurement of Furniture (all as been acquired until 2018) and the Business Data and Applications Migration Project.

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 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.

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 were 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. In 2018 the republic of Montenegro became a member of the Alliance, and decided to also delegate their Fit-out works to the PMT.

* * * * *

List of Acronyms:

ANWI: Area Network Infrastructure
EUROCONTROL: European Organization for the Safety of Air Navigation
DPRC: Deputy Permanent Representatives Committee
IS: International Staff
LOJI: Loss of Job Indemnity
LTPB: NHQ Long Term Program Budget
MOU: Memorandum of Understanding
NCIA: NATO Communication and Information Agency
NHQPO: NATO New HQ Program Office
NHQPO/TO: Combined NHQPO+TO
NSIP: NATO Security Investment Programme
PMT: Project Management Team
PNHQ: Previous NATO HQ
PPE: Property, Plant and Equipment
TO: Transition Office

Latest Budget Execution Report as per DPRC-N(2019)0037-REV1 (INV)

NEW NATO HQ BUDGET EXECUTION REPORT AS OF 31 DECEMBER 2018														
		CREDITS CARRIED FORWARD TO 2018						BUDGET 2018						2019
	DESCRIPTION	CARRY FORWARDS AT 1JAN18	COMMITTED AND PAID AT 31DEC18	COMMITTED 30JUN18	PAID AT 31DEC18	AVAILABLE 31DEC18	EFFECTED TRANSFERS TRANSFERS	2018 APPROVED BUDGET	COMMITTED AND PAID AT 31DEC18	COMMITTED 30JUN18	PAID 31DEC18	AVAILABLE AT 31DEC18	CARRIED FORWARD
		(1)	(2)	HIDE	(3)	(4)=(1)-(2)	(5)	(6)	(7)	HIDE	(8)	(9)=(6)-(7)	(10)
	TOTAL BUDGET (CF)	**71,705,750**	**50,490,967**	**9,389,584**	**41,101,382**	**21,214,783**		**26,290,845**	**12,810,169**	**7,123,108**	**5,687,061**	**13,480,676**	**51,246,137**
01-01-01-00	Basic Salaries	1,163,802	551,430		551,430	612,371		1,213,200	326,654		326,654	886,546	1,498,918
01-01-02-00	Other Emoluments	389,721	365,115		365,115	24,606		250,000	43,247		43,247	206,753	231,359
01-01-04-00	Instruction and Staff Training	462,408	131,818		131,818	330,590	-400,000	38,000	12,428		12,428	25,572	356,162
01-01-06-00	Transition Management - Staff Restructuring	2,500,000	1,951,652		1,951,652	548,348		294,000	0			294,000	842,348
01-01-08-00	Pensions	272,755	74,486		74,486	198,269		70,000	45,071		45,071	24,929	223,198
01-02-01-00	Temporary Staff	286,283	158,704	1,151	157,554	127,579		0	0	0		0	128,729
01-02-02-00	Consultants	174,981	95,960	25,460	70,500	79,022		0	0			0	104,482
01-03-03-00	Travel on Home Leave	285	285		285	0			0			0	0
CHAPTER 1	**PERSONNEL COSTS**	**5,250,235**	**3,329,450**	**26,610**	**3,302,840**	**1,920,785**	**-400,000**	**1,865,200**	**427,400**	**0**	**427,400**	**1,437,800**	**3,385,196**
02-01-00-00	Travel on official business	5,457	3,131		3,131	2,326		0	0		0	0	2,326
02-02-00-00	Administrative Support	0	0			0		125,000	125,000		125,000	0	0
02-03-00-00	Hospitality	4,341	0		0	4,341			0			0	4,341
02-04-00-00	Communications (postage/tel./fax,etc)	756	756		756	0			0			0	0
02-05-01-00	Operating Expenses	1,394,441	1,073,006	23,868	1,049,138	321,436			0			0	345,304
02-05-01-01	Operating Expenses -Overlap costs (Transition)	3,204,969	3,145,658	736,744	2,408,914	59,311		7,778,000	5,251,000	172,945	5,078,055	2,527,000	3,496,000
02-05-03-00	Disposal of current HQ site (Transition)	3,387,530	1,337,426	390,262	947,164	2,050,105		181,000	14,740		14,740	166,260	2,606,626
02-05-04-00	New HQ Launch (Transition)	2,591,863	2,240,918	233,358	2,007,560	350,945	400,000	230,000	0		0	230,000	814,303
02-06-00-00	Construction Site Guard	1,043,495	895,423	4,554	890,869	148,071			0			0	152,625
02-10-00-00	Miscellaneous and Unforeseen	26,687	625		625	26,062		0	0			0	26,062
CHAPTER 2	**OPERATING EXPENSES**	**11,659,539**	**8,696,942**	**1,388,785**	**7,308,157**	**2,962,597**	**400,000**	**8,314,000**	**5,390,740**	**172,945**	**5,217,795**	**2,923,260**	**7,447,587**
03-01-04-01	Legal Consultancy NATO	150,000	0		0	150,000			0			0	150,000
03-01-13-01	ICT Progr Mgt	603,327	584,306		584,306	19,021			0			0	19,021
03-02-00-00	Belgian Project Managt Team	14,000	14,000	14,000	0	0		269,842	269,842	269,842		0	283,842
03-02-01-00	NCIA fees for ICT	6,731,605	6,682,878	34,116	6,648,762	48,727			0			0	82,843
03-04-00-00	Concept Design Team Fees	0	0			0		108,319	0			108,319	108,319

Latest Budget Execution Report as per DPRC-N(2019)0037-REV1 (INV)

NEW NATO HQ BUDGET EXECUTION REPORT AS OF 31 DECEMBER 2018													
		CREDITS CARRIED FORWARD TO 2018						BUDGET 2018					2019
	DESCRIPTION	CARRY FORWARDS AT 1JAN18	COMMITTED AND PAID AT 31DEC18	COMMITTED 30JUN18	PAID AT 31DEC18	AVAILABLE 31DEC18	EFFECTED TRANSFERS TRANSFERS	2018 APPROVED BUDGET	COMMITTED AND PAID AT 31DEC18	COMMITTED 30JUN18	PAID 31DEC18	AVAILABLE AT 31DEC18	CARRIED FORWARD
		(1)	(2)	HIDE	(3)	(4)=(1)-(2)	(5)	(6)	(7)	HIDE	(8)	(9)=(6)-(7)	(10)
	TOTAL BUDGET (CF)	**71,705,750**	**50,490,967**	**9,389,584**	**41,101,382**	**21,214,783**		**26,290,845**	**12,810,169**	**7,123,108**	**5,687,061**	**13,480,676**	**51,246,137**
CHAPTER 3	**INTELLECTUAL SERVICES**	**7,498,932**	**7,281,184**	**48,116**	**7,233,068**	**217,748**	**0**	**378,161**	**269,842**	**269,842**	**0**	**108,319**	**644,025**
04-01-02-00	Construction of new Site and Passive Network	14,331,000	14,331,000	5,928,420	8,402,580	0		6,257,234	6,257,234	6,257,234		0	12,185,654
04-01-02-01	Electronic Security System	25,000	25,000	25,000		0		0	0			0	25,000
04-01-02-02	Addit.conting.Works on DPRC Release	12,864,392	2,464,987	142,805	2,322,182	10,399,405	-175,500	8,650,733	0			8,650,733	19,192,943
04-01-02-04	*Conting. On Transition Programme (DPRC)*	*542,400*	*76,970*	*15,786*	*61,184*	*465,430*		*0*	*0*			*0*	*481,216*
04-01-02-05	*Conting. On one-time requirementsTransition Programme (DPRC)*	*1,651,720*	*924,239*	*407,831*	*516,408*	*727,481*		*0*	*0*			*0*	*1,173,298*
04-01-03-00	Audio Visual Equipment	209,000	209,000	209,000		0		423,087	423,087	423,087		0	632,087
04-01-05-00	Construction Security Equipment Programme	90,543	31,145		31,145	59,398		0	0			0	59,398
CHAPTER 4	**CONSTRUCTION COSTS**	**29,714,056**	**18,062,341**	**6,728,842**	**11,333,499**	**11,651,715**	**-175,500**	**15,331,054**	**6,680,321**	**6,680,321**	**0**	**8,650,733**	**33,749,596**
05-01-01-00	ICT Active Network Infrastructure (NCIA)	10,969,650	8,738,414	145,575	8,592,839	2,231,236		0	0			0	2,376,811
05-01-02-00	ICT Technical Aplication Migration & ICTM	2,911,348	1,377,470	876,691	500,779	1,533,877		124,000	0			124,000	2,534,568
05-01-03-00	Furniture either internal or external (loose)	1,325,863	1,309,198	160,571	1,148,627	16,665		0	0			0	177,236
05-01-03-00	Furniture Contingencies DPRC	400,000	0		0	400,000		0	0			0	400,000
05-01-03-01	Sports or recreational equipment	175,500	108,281	703	107,578	67,219	175,500	0	0			0	67,922
05-01-04-00	*Relocation costs*	*1,800,627*	*1,587,686*	*13,691*	*1,573,995*	*212,941*		*278,430*	*41,866*		*41,866*	*236,564*	*463,196*
CHAPTER 5	**SPECIAL EQUIPMENT**	**17,582,988**	**13,121,049**	**1,197,231**	**11,923,818**	**4,461,938**	**175,500**	**402,430**	**41,866**	**0**	**41,866**	**360,564**	**6,019,733**
TOTAL BUDGET COMMON FUNDING		**71,705,750**	**50,490,967**	**9,389,584**	**41,101,382**	**21,214,783**	**0**	**26,290,845**	**12,810,169**	**7,123,108**	**5,687,061**	**13,480,676**	**51,246,137**

NATO RETIREES MEDICAL CLAIMS FUND
FINANCIAL STATEMENTS

For the year ended
31 December 2019

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

Miroslawa BORYCZKA
Financial Controller

ANNEX 1 to
FC(2020)0036

NATO RETIREES MEDICAL CLAIMS FUND
Statement of Net Assets Available for Benefits

(All amounts in EUR)	Notes	Current Year 31-Dec-19	Prior Year 31-Dec-18
Assets			
Cash and cash equivalent	(4)	1,014,435.07	1,397,570.31
Investments at market value	(5)	369,868,416.37	314,569,443.02
Accounts receivable	(6)	944,473.83	441,394.37
Total Assets		**371,827,325.27**	**316,408,407.70**
Liabilities			
Accounts payable	(7)	4,573,090.31	2,402,099.99
Total Liabilities		**4,573,090.31**	**2,402,099.99**
Net assets available for benefits		**367,254,234.96**	**314,006,307.71**

ANNEX 2 to
FC(2020)0036

NATO RETIREES MEDICAL CLAIMS FUND

Statement of Changes in Net Assets Available for Benefits

(All amounts in EUR)	Notes	Current Year 31-Dec-19	Prior Year 31-Dec-18
Increase in net assets			
Net unrealized gain in market value of investments	(5)	54,789,687.99	-11,607,218.82
Contributions for current year	(8)	26,476,762.44	24,976,569.03
Profit sharing per agreement with insurer	(9)	-	-
Fund rebates	(5)	509,285.36	518,563.99
Interest income	(10)	-	-
Miscellaneous	(12)	2,529.58	1,690.00
Total increase in net assets available for benefits		**81,778,265.37**	**13,889,604.20**
Decrease in net assets			
Insurance premiums	(11)	26,905,920.00	23,480,363.55
Insurance management fee	(11)	1,615,138.20	1,469,660.34
Fund purchase fees/financial costs	(10)	7,653.54	4,621.48
Miscellaneous	(12)	1,626.38	11,127.01
Total decrease in net assets available for benefits		**28,530,338.12**	**24,965,772.38**
Net increase for the year		53,247,927.25	-11,076,168.18
Net assets available for benefits, beginning of year		314,006,307.71	325,082,475.89
Net assets available for benefits, end of year		**367,254,234.96**	**314,006,307.71**

EXPLANATORY NOTES TO THE 2019 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.

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 2019, 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

With a tolerance of 3% for equities (22-28%) and 5% for bonds (45-55%).

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 Organization. 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 (IAS 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 disclosed 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 Statement of Changes in Net Assets Available for Benefits.

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.

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 out-perform 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 2019 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:

BANK NAME	COUNTRY OF HQ	SHORT TERM RATINGS AS AT 10.01.20		
		FITCH	S&P	Moody's
ING BANK	NE	F1+	A-1	P1

Concerning receivables, the credit risk is managed by maintaining control procedures over receivables. These consist essentially of contributions due by NATO agency payroll centers 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	Not rated	Cash
At 31.12.2019	23.1%	37.6%	16.1%	23.0%	0.0%	0.2%	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 centers 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 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

The ISRP Actuarial Study Introduction

The International Service for Remunerations and Pensions (ISRP) is an organization that provides statistical, mathematical and actuarial support to the following organizations:

- NATO
- Council or Europe
- Organization for Economic Cooperation and Development (OECD)
- European Space Agency (ESA)
- European Centre for Medium-Range Weather Forecast (ECMWF)
- European Organization for the Exploitation of Meteorological Satellites (EUMETSAT)

In accordance with the requirements of the Letter of Mission (LM/SIRP/NATO(2012)35) signed by NATO and the ISRP, the later performed an actuarial study aiming at:

- Estimating the accrued pension and medical coverage liabilities at 31 December 2019 according to the International Public Sector Accounting Standards (IPSAS).
- Producing the IPSAS accounting disclosures related to these liabilities.

The study is based on comprehensive data of the affiliated population at the end of 2019 provided to ISRP by NATO.

NATO has also supplied data regarding RMCF cash flows over 2019 and asset information for the RMCF up to 31 December 2019.

NATO IS believes that the results of this report represent a reasonable measure of the RMCF underlying liabilities.

The previous full valuation was performed as at 31 December 2018.

The study has been conducted in accordance with generally accepted actuarial practices, in close collaboration with NATO. Whilst the report complies with IPSAS 39 NATO, RMCF financial statements are prepared under IAS 26.

Actuarial Valuation Method

ISRP used the Projected Unit Credit approach. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. In addition, where the amount of a benefit is a constant proportion of final salary for each accrued unit of rights, future salary increases will affect the amount required to settle the obligation, therefore the method requires projecting the salary to its final value.

Only the rights accrued up to the valuation date have been taken into account. The rights of employees with less than 10 years of service are taken into account proportionally.

For the calculation of NATO's medical liabilities, the expected post-retirement reimbursements of the current DBPS and DCPS population have been estimated, and the expected post-retirement contributions from current and future pensioners have been subtracted. The pensioners pay 1.67% of their last salary towards the medical coverage.

Actuarial Assumptions

Actuarial assumptions can be classified as either financial or demographic assumptions. Financial assumptions impact the amount of benefits to be paid over time and the net present value whilst demographic assumptions reflect the likelihood of payment and factors internal to NATO.

Financial Assumptions

The below financial assumptions were considered:

Assumption	Assumption as at 31 December 2018	Assumption as at 31 December 2019
Discount Rate		
- Post-Employment Medical Scheme	0.91%	0.34%
Price Inflation	2.00%	2.00%
- Medical Inflation	4.00%	4.00%

The discount rate used was the Euro area AAA Government Yield Curve, as at 31 December 2019. The change in discount rate is due to the change in financial market conditions over 2019.

In accordance with past practice, as a long-term inflation rate, the European Central Bank's long-term inflation rate target of 2.0% is used.

Medical inflation is calculated as a 2.0% increase to the derived rate of inflation.

Demographic Assumptions

The demographics at this year-end are the same as those used for the previous year end.

Mortality tables are a set of probabilities of a person dying within the year at a specific age and are an important assumption for the calculation of pension obligations. The ISRP, have produced mortality tables specific to international civil servants based in Europe since 2008 in order to have more appropriate results, compared to national or regional tables, on the life expectancy of the relevant population. This series of tables is known as the International Civil Servants Life Table (ICSLT).

Set out below is a comparison of life expectancies based on the ICSLT 2018 mortality table projected from 2018 and the ICSLT 2018 projected from 2019:

	ICSLT 2018 (2018 Projection)	ICSLT 2018 (2019 Projection)
Males		
60 year old	28.3	28.4
40 year old now at 60	29.0	29.0
Females		
60 year old	31.0	31.1
40 year old now at 60	31.5	31.5

RMCF Specific Assumptions

The medical inflation assumption remains at 4.0%, like last year.

6.6% of medical reimbursements paid to pensioners are considered for an estimate of the future administrative costs.

100% of the current active staff, who become vested deferred members after age 55, are assumed to return to claim medical benefits during their retirement.

Results for RMCF current obligation

The RMCF obligation as estimated at the end year 2019 is KEUR 3,442,045. It has increased by approximately 15% compared to the 2018 year-end.

The estimation of the present value of the Post-Employment Medical Scheme Obligation at the end of 2018 was KEUR 2,980,591. The change in the liability during 2019 can be summarized as follows:

Financial Year *Currency*	2019 *KEUR*
Obligation at 1 January	2,980,591
Current Service Cost	192,695
Interest Cost	27,006
Benefits Paid	(25,808)
Actuarial (Gains)/Losses	267,561
Obligation at 31 December	3,442,045

Overall, the medical obligation has increased by 461,454 KEUR during 2019. An actuarial loss of KEUR 267,561 on the liabilities occurred during 2019. This is explained by a number of factors including the updated population and the decreased discount rate.

An analysis of the impact of the actuarial gains and losses is included below:

Impact of change in ...	Type of loss / (gain)	Amount KEUR	% of 2019 YE liability
Population	Experience	(260,164)	-7.6%
Financial assumptions	Assumption	527,725	+15.3%
Total actuarial loss / (gain)		**267,561**	**+7.8%**

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

	2019		2018	
	EUR	%	EUR	%
Euro Gov't Bond Index Fund	164,663,770.78	44.52%	154,839,123.45	49.22%
Europe Stock Index Fund	98,489,666.72	26.63%	77,713,225.57	24.70%
Global Stock Index Fund	106,714,978.87	28.85%	82,017,093.99	26.07%
TOTAL	**369,868,416.37**	100.00%	**314,569,443.01**	100.00%

Details of the changes in investment fund balances available for benefits over the past two years are as follows:

in EUR	Euro Govt Bond Index Fund 281010	Europe Stock Index Fund 280030	Global Stock Index Fund 280000	TOTAL
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	1,189,850.63	-9,147,372.58	-3,649,696.87	-11,607,218.82
31 Dec 2018 balance	**154,839,123.46**	**77,713,225.57**	**82,017,093.99**	**314,569,443.02**
Purchases before purchase fees	0.00	0.00	0.00	0.00
Withdrawals	0.00	0.00	0.00	0.00
Distributions	0.00	0.00	0.00	0.00
Rebates received	179,786.99	175,898.46	153,599.91	509,285.36
Purchase Fees	0.00	0.00	0.00	0.00
2019 net transactions	179,786.99	175,898.46	153,599.91	509,285.36
Sum of 31 Dec 2018 balance and 2019 net transactions	155,018,910.45	77,889,124.03	82,170,693.90	315,078,728.38
Gain/loss in market value excluding 2019 net transactions	9,644,860.33	20,600,542.69	24,544,284.97	54,789,687.99
31 Dec 2019 balance	**164,663,770.78**	**98,489,666.72**	**106,714,978.87**	**369,868,416.37**

Fund's Overall Performance

In 2019, 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:

Returns						
Vanguard index fund				**Benchmark**		
ISIN	**Fund name**	**2019**	**2018**		**2019**	**2018**
IE0007472990	Euro Government Bond Index Fund EUR Institutional Shares	6.35%	0.89%	Spliced Euro Govt Float Adj Bond Index	6.34%	0.92%
IE0007987708	European Stock Index Fund EUR Institutional Shares	26.73%	10.34%	MSCI Europe	26.05%	10.57%
IE00B03HD191	Global Stock Index Fund EUR Institutional Shares	30.11%	-4.09%	MSCI World	30.02%	-4.11%

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:

	2019			2018		
	Units	NAV in EUR	Market Value in EUR	Units	NAV in EUR	Market Value in EUR
Euro Gov't Bond Index Fund	692,964.30	237.6223	164,663,770.78	692,197.24	223.6922	154,839,123.45
Europe Stock Index Fund	4,324,596.88	22.7743	98,489,666.72	4,316,130.56	18.0053	77,713,225.57
Global Stock Index Fund	3,769,928.14	28.3069	106,714,978.87	3,763,961.34	21.7901	82,017,093.99
TOTAL			**369,868,416.37**			**314,569,443.02**

NOTE 6: ACCOUNTS RECEIVABLE

Receivables at year-end were as follows:

(amounts in EUR)	2019	2018
Contributions	944,473.83	441,394.37
Receivable from insurer	-	-
Total accounts receivable	**944,473.83**	**441,394.37**

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

The chart below provides comparative data of the amounts receivable at year end for the last two consecutive years:

(amounts in EUR)	2019	2018
Insurance Premiums	3,425,556.45	2,301,663.55
Insurer Management Fee	145,477.85	71,034.48
Cash Advance	1,000,000.00	-
Miscellaneous	2,056.01	29,401.96
Total accounts payable	**4,573,090.31**	**2,402,099.99**

The cash advance refers to the monthly cash advance made to the third party administrator (ALLIANZ) in lieu with the annual insurance premium.
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	2019	2018
Active Staff and NATO Employer	25,721,653.04	24,398,862.60
Retired Staff from DBPS (Defined Benefit Pension Scheme)	704,692.87	545,392.19
Retired Staff from DCPS (Defined Contribution Pension Scheme)	8,140.43	7,949.80
Other Retired Staff	42,276.10	24,364.44
Total	**26,476,762.44**	**24,976,569.03**

NOTE 9: PROFIT SHARING AGREEMENT WITH INSURER

A profit-sharing arrangement has been entered into, covering the period 2012-2016, whereby NATO would be refunded the totality of the difference Premiums X 97% – Reimbursements, if it is positive. The final settlement for this period 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, being tacitly renewed annually.

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 subject to the NATO Group Insurance Policy agreement.

The value of the insurance premium paid to the insurance company is essentially based on the number and age of the beneficiaries.

The Management Fee is payable annually to the third party administrator (ALLIANZ).

In accordance with the group insurance contract, NATO IS pays a monthly advance to the third party administrator. Around February of the following year, when the final costs are known, these are offset against the advances paid during the year.

The below chart provides comparative data on the insurance premiums and management fee costs over the last two consecutive years:

RMCF Insurance Premiums and Management Fees Costs (EUR)		
	2019	**2018**
Insurance Premium	26,905,920.00	23,480,363.55
Management Fee	1,615,138.20	1,469,660.34

In 2019, for the first time, the contributions received during the year were lower than the costs (Insurance premiums and Management Fee).

The chart below provides comparative data for the two last consecutive years:

	2019	2018
Contributions	26,476,762.44	24,976,569.03
Insurance Premiuns	26,905,920.00	23,480,363.55
Management Fees	1,615,138.20	1,469,660.34
Net Result	**(2,044,295.76)**	**26,545.14**

The negative net result is the combined effect of the 2019 increase of:

- Insurance Premiums, caused by 5% rise of its rate and by 7% increase of number of beneficiaries (affiliates and their family members);
- Management Fees, caused by 10% increase of the number of family members.

The actual increase of cost on both the insurance Premium and the Management Fees, has been higher than estimated in spring 2019. It is to be expected that the trend will continue in the coming years which will, eventually, have a growing impact on the long term RMCF financial sustainability.

The below chart shows the gap between the estimated and the verified 2019 costs:

Dif Estimation vs Real Costs	
Insurance Premiums	3,425,556.45
Management Fees	145,477.85
	3,571,034.30

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 under Note 9, there is a profit-sharing agreement with the insurer, covering the period 2017-2021.

Annually NATO IS Human Resources checks with ALLIANZ if the yearly execution produced any positive profit-sharing dues. For 2019 the profit sharing mechanism did not produce any income to RMCF.

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 2019.

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. 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 is the Chairperson of the Supervisory Committee.

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

NOTE 17: STATISTICAL INFORMATION

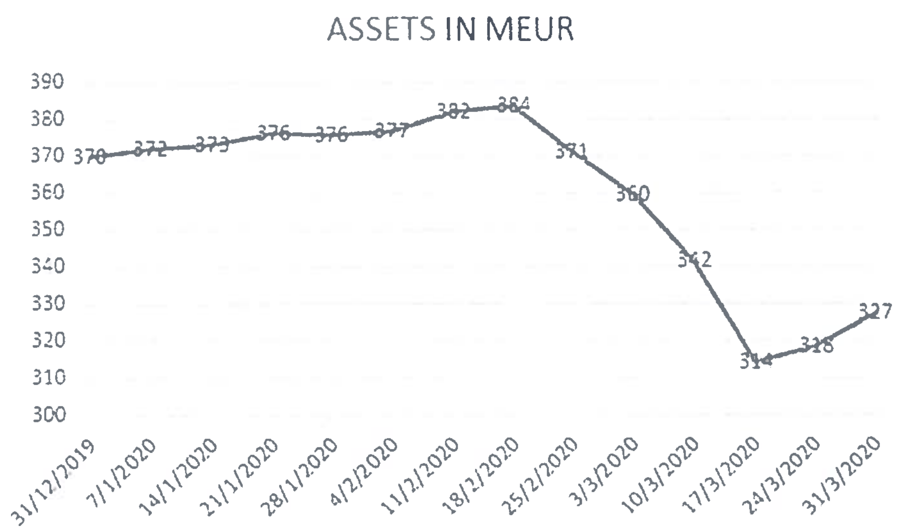
Evolution of RMCF membership (number of affiliates)			
year-end	2000	Affiliates	0
year-end	2001	Affiliates	166
year-end	2002	Affiliates	415
year-end	2003	Affiliates	640
year-end	2004	Affiliates	868
year-end	2005	Affiliates	1,181
year-end	2006	Affiliates	1,412
year-end	2007	Affiliates	1,646
year-end	2008	Affiliates	1,942
year-end	2009	Affiliates	2,240
year-end	2010	Affiliates	2,519
year-end	2011	Affiliates	2,881
year-end	2012	Affiliates	3,119
year-end	2013	Affiliates	3,324
year-end	2014	Affiliates	3,795
year-end	2015	Affiliates	4,018
year-end	2016	Affiliates	4,611
	2017	Joined	286
	2017	Exited	-211
year-end	2017	Affiliates	4,686
	2018	Joined	305
	2018	Exited	-146
year-end	2018	Affiliates	4,845
	2019	Joined	350
	2019	Exited	-214
year-end	2019	Affiliates	4,981

NOTE 18: EVENTS AFTER THE REPORTING DATE

As at 31 December 2019 the RMCF Investments had a market value of MEUR 369,868.42 having recorded at year-end a unrealized market value gain of MEUR 54,789.69

Due to the COVID19 crisis the financial markets have plummeted since mid-February 2020, and as such IS-OFC is disclosing the latest available information on the market value of such investments.

The below graphic shows the evolution of the market value of RMCF investments, since the beginning of 2020 until 31 March 2020.



As of 31 March 2020 the RMCF Investment portfolio shows an unrealized loss of MEUR 42,562.28

Given the ongoing COVID19 crisis, it is very difficult to predict the short to medium term behavior of the markets, but it's not unreasonable to expect that the high volatility will persist in the coming months, therefore resulting in further value decline.