

28 mars 2014

COLLÈGE INTERNATIONAL DES COMMISSAIRES AUX COMPTES DE L'OTAN

RAPPORT SUR LA VÉRIFICATION DES ÉTATS FINANCIERS

DU COLLÈGE DE DÉFENSE DE L'OTAN (NADEFCOL)

POUR L'EXERCICE CLOS LE 31 DÉCEMBRE 2013

**OPINION DU COLLÈGE INTERNATIONAL
DES COMMISSAIRES AUX COMPTES DE L'OTAN
À L'INTENTION DU CONSEIL DE L'ATLANTIQUE NORD**

Rapport sur les états financiers

Le Collège international des commissaires aux comptes de l'OTAN a procédé à la vérification des états financiers du Collège de défense de l'OTAN (NADEFCOL), ci-joints, qui se composent de l'état de la situation financière au 31 décembre 2013 et de l'état de la performance financière, de l'état des variations de la situation nette et du tableau des flux de trésorerie pour l'exercice clos à cette date, ainsi que d'un résumé des méthodes comptables importantes et de diverses notes explicatives. Le Collège a également vérifié l'état de l'exécution du budget pour l'exercice clos le 31 décembre 2013.

Responsabilité de la direction

La direction est chargée d'établir les états financiers conformément au cadre comptable OTAN et aux dispositions du Règlement financier de l'OTAN telles qu'ils ont été fixés par le Conseil de l'Atlantique Nord, et de veiller à ce que les états financiers donnent une image fidèle de la situation de l'entité. Elle est ainsi responsable de la conception, de l'application et de la tenue d'un système de contrôle interne de nature à permettre l'établissement et la présentation d'états financiers qui soient exempts d'inexactitudes significatives, que celles-ci relèvent d'une fraude ou d'une erreur.

Responsabilité du Collège

Il incombe au Collège de formuler sur ces états financiers une opinion qui soit fondée sur son travail de vérification, lequel aura été effectué conformément aux dispositions de sa charte et aux normes internationales d'audit. Ces normes exigent que le Collège respecte certains principes déontologiques, et qu'il planifie et effectue sa vérification de manière à parvenir à une assurance raisonnable sur le point de savoir si les états financiers sont exempts d'inexactitudes significatives.

Un audit consiste à appliquer des procédures permettant d'obtenir des éléments probants relatifs aux montants et aux informations figurant dans les états financiers. Les procédures retenues à cette fin sont laissées à l'appréciation de l'auditeur, qui évalue notamment les risques d'inexactitudes significatives dans les états financiers, que celles-ci relèvent d'une fraude ou d'une erreur. Pour l'évaluation de ces risques, le système de contrôle interne sur lequel s'appuient l'établissement et la présentation des états financiers de l'entité concernée est pris en considération, le but étant d'élaborer des procédures d'audit qui soient adaptées à la situation considérée et non pas d'exprimer une opinion sur l'efficacité du système de contrôle interne. Il s'agit aussi de déterminer si les méthodes comptables appliquées sont appropriées et si les estimations comptables faites par la direction sont raisonnables, ainsi que d'évaluer la présentation générale des états financiers.

Le Collège estime qu'il a obtenu par son audit les éléments probants nécessaires et suffisants pour lui permettre de formuler une opinion.

Opinion sur les états financiers

L'opinion du Collège est qu'à tous égards significatifs, les états financiers donnent une image fidèle, conforme au cadre comptable OTAN, de la situation financière du NADEFCOL au 31 décembre 2013, ainsi que de sa performance financière et de ses flux de trésorerie pour l'exercice clos à cette date.

Rapport sur la conformité

Responsabilité de la direction

En plus d'être responsable, comme il est dit plus haut, de l'établissement et de la présentation des états financiers, la direction est chargée de veiller à ce que les opérations financières et les informations présentées dans les états financiers soient conformes aux dispositions du Règlement financier de l'OTAN et du Règlement du personnel civil de l'OTAN telles qu'elles ont été fixées par le Conseil de l'Atlantique Nord.

Responsabilité du Collège

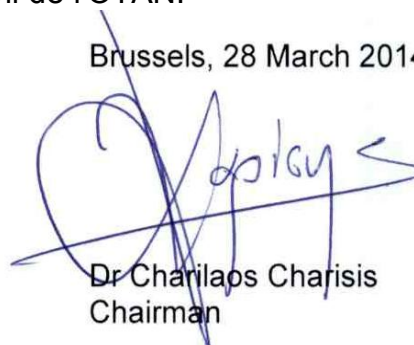
En plus d'être responsable, comme il est dit plus haut, de la formulation d'une opinion sur les états financiers, le Collège est chargé de se prononcer sur le point de savoir si les opérations financières et les informations présentées dans les états financiers sont, à tous égards significatifs, conformes au Règlement financier de l'OTAN et au Règlement du personnel civil de l'OTAN. Il lui incombe notamment d'appliquer des procédures lui permettant d'obtenir une assurance raisonnable sur le point de savoir si les fonds ont été utilisés pour le règlement de dépenses autorisées et si les opérations correspondantes ont été exécutées conformément à la réglementation en vigueur dans le domaine financier et en matière de personnel. De telles procédures prévoient notamment l'évaluation des risques de non-conformité significative.

Le Collège estime qu'il a obtenu par son audit les éléments probants nécessaires et suffisants pour lui permettre de formuler une opinion.

Opinion sur la conformité

Le Collège estime que les opérations financières et les informations présentées dans les états financiers sont, à tous égards significatifs, conformes au Règlement financier de l'OTAN et au Règlement du personnel civil de l'OTAN.

Brussels, 28 March 2014



Dr Charilaps Charisis
Chairman

NATO DEFENSE COLLEGE FINANCIAL STATEMENTS (BUDGET 303)

2013



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ITALY

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STATEMENT OF INTERNAL CONTROL

As Senior Manager, I have responsibility for maintaining a sound system of internal control that supports the achievement of the organisation's policies, aims and objectives, set by NATO, whilst safeguarding the funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me.

The system of internal control is designed to manage and reduce, rather than eliminate, the risk of failure to achieve the organisation's policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of the organisation's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31 December 2013 and up to the date of approval of the annual report and accounts.

As Commandant of the **NATO Defense College**, I also have responsibility for reviewing the effectiveness of the system of internal control. To that effect, I ensure that:

- qualified officials are assigned to the financial positions prescribed by the NFRs;
- the tasks and responsibilities of those officials are clearly reflected in the relevant Job Descriptions;
- formal delegation of authority for financial matters is in place;
- specific procedures (SOPs and ToRs) are in place to adapt NATO financial rules to local circumstances;
- audits from International Board of Auditors for NATO (IBAN), from internal IMS auditors and from internal NDC agents are carried out regularly and the results and findings are brought to my attention.

My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the organisation who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letters and other reports.

The IBAN report for year 2012 accounts of the NATO Defense College issued an unqualified opinion, and did not require particular actions or intervention from the senior management. Also internal audits both for NATO and non-appropriated funds did not raise any particular area of attention.

Rome, 13 February 2014

Introduction by the Financial Controller

1. The NATO Defense College's (NDC) mission and organization is formally established under the document MC 123/8 (Final). The mission is to contribute to the effectiveness and cohesion of the Alliance by serving as the cornerstone of Alliance education, playing a strong role in public outreach efforts, acting as a forum of excellence for transatlantic security studies and conducting research projects contributing to the identification and analysis of issues important for the Alliance.
2. The Financial Statements (FS) for Financial Year 2013 have been produced in accordance with the applicable International Public Sector applicable International Public Sector Accounting Standards (IPSAS)¹ as adapted by NATO², and the NATO Financial Regulations.
3. These FS are specific to the NDC and are one of a number that are produced for the different entities comprising the International Military Staff (IMS) Budget Group (BG). The IMS BG is a 'virtual' body created by the nations for financial management purposes and linked together by a common Financial Controller (FC) – the IMS and Science and Technology Organisation FC. The NDC statements reflect the financial position, the financial performance, the budget execution, the cash flow and the change in net assets for the reporting period. Notes provide further disclosures on key transactions following the materiality principle. The financial statements have been prepared primarily using the FinS accounting software, where the NDC is a separate set of financial books/balancing segment: code 320 (Budget Code 303)
4. As the IPSAS are continuously evolving, compliance is a dynamic process that requires staff to keep updating their knowledge. Also it requires that the accounting tools are suitably maintained and, when appropriate, upgraded. An ongoing challenge is that NATO Bodies undertake financial reporting in a consistent way. Therefore the NDC, through the IMS FC and his Office, maintains a dialogue with the other NATO Bodies and plays a full part in the IPSAS Working Group and the Working Group of Financial Controllers. The NDC remains committed to developing its IPSAS expertise and producing FS fully compliant with the applicable standards (as adapted, where relevant, by NATO) and any instructions issued by Nations e.g. from the Resource Policy and Planning Board. The NDC will also continue to work openly and constructively with the IBAN.

¹ These are the IPSAS as set out in the Handbook of IPSAS Pronouncements 2012 Edition

² C-M(2013)0039

NATO DEFENSE COLLEGE
STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013

	<i>Notes</i>	31-12-2013 Euro	31-12-2012 Euro	Difference
ASSETS				
Current Assets				
Cash and Cash Equivalents				
Cash Accounts	1-A	2,029	18,194	(16,165)
Petty Cash and Advances	1-B	5,100	5,100	-
Current Bank Accounts	1-C	2,467,529	2,453,726	13,804
Total Cash and Cash Equivalents		2,474,658	2,477,020	(2,362)
Receivables				
Receivable Budget Increase thru IYR BC 28 N	2-A	-	400,000	(400,000)
Receivables from non-consolidated NATO Entities	2-B	135,943	236,440	(100,497)
Receivables from Staff Members	2-C	2,628	19,653	(17,025)
Receivables from Governments	2-D	23,805	70,745	(46,940)
Other Receivables/Recoverables	2-E	-	1,245	(1,245)
Total Receivables		162,376	728,084	(565,708)
Advances and other Current Assets				
Advances - Non Assigned Expenditures	3	16,930	50,450	(33,520)
Total Advances and other Current Assets		16,930	50,450	(33,520)
Non-Current Assets				
Fixed Assets - Property, Plant & Equipment				
Fixed Assets	4-A	16,726,977	16,573,864	153,114
Fixed Assets Accumulated Depreciation	4-B	(3,490,440)	(3,249,088)	(241,352)
Total Fixed Assets - Property, Plant & Equipment		13,236,537	13,324,776	(88,238)
TOTAL ASSETS		15,890,502	16,580,330	(689,828)
LIABILITIES				
Current Liabilities				
Payables				
Payable to Suppliers	6-A	(63,920)	(49,232)	(14,688)
Inventory AP Accrual	6-B	(270,134)	(349,339)	79,205
Payable to staff members	6-C	-	(1,781)	1,781
Total Payables		(334,054)	(400,352)	66,298
Unearned Revenue & Advance Contributions				
Unearned Revenue BC 303	7-A	(222,423)	(756,674)	534,251
Liability Operational Result	7-B	(54,243)	(371)	(53,872)
Liability Financial Result	7-C	(18,461)	(52,362)	33,901
Liability Lapses BC 303	7-D	(11,760)	(32,241)	20,480
BC Advance Contributions	7-E	(2,000,000)	(2,000,000)	-
Advance Contributions National borne costs	7-F	(13,025)	(13,555)	531
Total Unearned Revenue & Advance Contributions		(2,319,911)	(2,855,202)	535,291
Non-Current Liabilities				
Long-term Provisions				
Property, Plant & Equipment	8	(13,236,537)	(13,324,776)	88,238
Total Long-term Provisions		(13,236,537)	(13,324,776)	88,238
TOTAL LIABILITIES		(15,890,502)	(16,580,330)	689,828
TOTAL NET ASSETS/EQUITY		0	0	0

NATO DEFENSE COLLEGE
STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 DECEMBER 2013

	<i>Notes</i>	<i>01 Jan - 31 Dec 2013 Euro</i>	<i>1 Jan - 31 Dec 2012 Euro</i>	<i>Difference</i>
OPERATING PERFORMANCE				
Revenue				
Revenue from BCode 303 Operating Activities	9-A	(8,269,434)	(7,942,567)	(326,866)
Revenue from Non-BCode 303 Operating Activities		(1,301,425)	(1,169,923)	(131,502)
Financial Revenue	9-C	(11,287)	(13,295)	2,008
Revenue Recognition from PP & E	9-D	(367,800)	(360,252)	(7,547)
Total Revenue		(9,949,946)	(9,486,038)	(463,908)
Expenses				
BCode 303 Expenses				
Personnel	10-A-1	5,273,771	5,417,883	(144,112)
Contractual Supplies and Services	10-A-2	2,830,228	2,419,202	411,026
Capital and Investments Budgeting	10-A-3	165,435	105,482	59,952
Total BCode 303 Expenses		8,269,434	7,942,567	326,866
Non-BCode 303 Expenses				
Personnel	10-B-a	116,610	180,190	(63,581)
Contractual Supplies and Services	10-B-b	1,184,816	989,733	195,083
Capital and Investments Budgeting	10-B-c	-	-	-
Total Non-BCode 303 Expenses		1,301,425	1,169,923	131,502
Finance Costs	10-C	11,287	13,295	(2,008)
Depreciation PP & E	10-D	367,800	360,252	7,547
Total Expenses		9,949,946	9,486,038	463,908
SURPLUS / DEFICIT FOR THE PERIOD	11	0	0	0

NATO DEFENSE COLLEGE
STATEMENT OF THE CASH FLOWS FOR THE YEAR ENDED
31 DECEMBER 2013

<i>01 Jan - 31 Dec</i>	<i>1 Jan - 31 Dec</i>
<i>2013</i>	<i>2012</i>
<i>Euro</i>	<i>Euro</i>

CASH FLOWS FROM OPERATING ACTIVITIES

Surplus/Deficit from ordinary activities - -

Non-cash movements

Depreciation	367,800	360,252
Increase - (Decrease) in payables	(66,298)	131,450
Increase - (Decrease) in other current liabilities	(535,291)	342,439
(Increase) - Decrease in receivables	565,708	(82,184)
(Increase) - Decrease in other current assets	33,520	59,332
(Increase) - Decrease in Long-term Provisions	(88,238)	(196,386)

NET CASH FLOWS FROM OPERATING ACTIVITIES

277,200 614,902

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of property plant and equipment	(279,561)	(163,866)
Proceeds from sale of property plant and equipment	-	-
Proceeds from sale of investments	-	-

NET CASH FLOWS FROM INVESTING ACTIVITIES

(279,561) (163,866)

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from borrowings	-	(2,500,000)
Repayment of borrowings	-	-

NET CASH FLOWS FROM FINANCING ACTIVITIES

- (2,500,000)

Notes to the Cash Flow Statement

(a) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and balances with banks. Cash and cash equivalents included in the Cash Flow Statement comprise the following statement of financial position amounts as at 31 December 2013.

Cash on hand and balances with bank
Short term investments

2,474,658	2,477,020
-	-

Change in cash on hand and balance with bank is a decrease of

(2,362) (2,048,964)

NATO DEFENSE COLLEGE
STATEMENT OF CHANGES IN NET ASSETS/EQUITY FOR THE YEAR ENDED 31 DECEMBER 2013

	ALL COST SHARES (Euro)	BC 28N (2011) (Euro)	BC 28N (2012) (Euro)	BC 28N (2013) (Euro)	OTHER (Euro)
BALANCE AT 31 DECEMBER 2012	0	0	0	0	0
SURPLUS/DEFICIT FOR THE PERIOD 2013	0	0	0	0	0
BALANCE AT 31 DECEMBER 2013	0	0	0	0	0

NATO DEFENSE COLLEGE
STATEMENT OF THE BUDGET EXECUTION AS AT 31 DECEMBER 2013

EURO	Initial Budget	Transfers	BA-2	Transfers	BA-3	Transfers	Final Budget	Commitments	Expenses	Total Spent	Carry Forward	Lapsed
BUDGET 303 - 2013												
Chapter 1	5,562,118	0	5,562,118	0	5,562,118	(244,437)	5,317,681	113,959	5,203,722	5,317,681	113,959	0
Chapter 2	2,451,139	0	2,451,139	0	2,451,139	246,971	2,698,110	83,064	2,615,046	2,698,110	83,064	0
Chapter 3	13,247	0	13,247	0	13,247	(2,534)	10,713	0	10,713	10,713	0	0
TOTAL FY 2013	8,026,504	0	8,026,504	0	8,026,504	0	8,026,504	197,023	7,829,481	8,026,504	197,023	0
BUDGET 303 - 2012												
Chapter 1	90,509	0	90,509	0	90,509	0	90,509	17,000	70,050	87,050	17,000	3,460
Chapter 2	217,941	0	217,941	0	217,941	0	217,941	2,000	215,181	217,181	2,000	760
Chapter 3	441,224	0	441,224	0	441,224	0	441,224	6,400	434,283	440,683	6,400	541
TOTAL FY 2012	749,674	0	749,674	0	749,674	0	749,674	25,400	719,514	744,914	25,400	4,760
BUDGET 303 - 2011												
Chapter 1	7,000	0	7,000	0	7,000	0	7,000	0	0	0	0	7,000
Chapter 2	0	0	0	0	0	0	0	0	0	0	0	0
Chapter 3	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL FY 2011	7,000	0	7,000	0	7,000	0	7,000	0	0	0	0	7,000
GRAND TOTAL BUDGET 303 ALL FYs	8,783,178	0	8,783,178	0	8,783,178	0	8,783,178	222,423	8,548,995	8,771,418	222,423	11,760

Expenses are recognized / recorded on an accrual basis

A. Accounting Policies

Accounting Period

These Financial Statements are based on the accounting records of the NATO Defense College (NDC) as of 31 December 2013. In accordance with Article 2 of the NATO Financial Regulations (NFRs), the financial year at the NDC begins on 01 January and ends on 31 December of the year.

Reporting Currency

The functional and reporting currency used throughout these Financial Statements is the Euro (€).

Basis of Preparation

The Financial Statements have been prepared on a going-concern basis.

Financial Reporting Framework

The NDC Financial Statements have been prepared on the accrual basis of accounting in accordance with the International Public Sector Accounting Standards (IPSAS), 2012 Edition, issued by the IPSAS Board (IPSASB) and relevant to NDC as decided by the North Atlantic Council in 2002, and where appropriate, their adaptation as approved by the NAC in the "NATO Accounting Framework" Document C-M(2013)0039, dated 3 August 2013.

The accounting principles recognized as appropriate for the recognition, measurement and reporting of the financial position, performance and cash flows on an accrual based accounting using historical costs have been applied consistently throughout the reporting period to ensure that the financial statements provide information that is relevant to the decision-making and reliable, comparable, and understandable in light of the qualitative characteristics of financial reporting as well as of the principle of the right balance between the benefits derived from the information and the costs of providing it as required by IPSAS 1.29 and further summarized in Appendix A of IPSAS 1.

The Cash Flow Statement is prepared using the indirect method and the format follows the layout provided by IPSAS 2 (Cash flow Statements).

No accounting standard has been adopted earlier than the application date as stated in the IPSAS standards. The following IPSAS are not relevant for the NDC Financial Statements 2013: IPSAS 26 - Impairment of Cash-Generating Assets, IPSAS 27 - Agriculture. The following IPSAS have no material effect on the financial statements: IPSAS 5, IPSAS 6, IPSAS 7, IPSAS 8, IPSAS 10, IPSAS 11, IPSAS 16 and IPSAS 18.

The NDC Financial Statements have also been prepared in accordance with the accounting requirements of the NFRs and the Financial Rules and Procedures (FRP) and the relevant entity directives and policies. In instances where there is a conflict between IPSAS, the NATO Accounting Framework, and the NFRs and FRP, this has been noted.

Changes in Accounting Policy

The same accounting policies are applied within each period and from one period to the next, unless a change in accounting policy meets one of the criteria set out in IPSAS 3. For the 2013 Financial Statements, the NATO Accounting Framework which adapts certain IPSAS for NATO context has been applied for any new assets only within Plant, Property and Equipment (PPE) and Intangibles. This has: potentially impacted on what is recognized due to consideration of control criteria; the threshold for capitalization; and in some cases the depreciation life is revised.

The impacts of any changes to the NDC's accounting policy have been identified in the notes under the appropriate headings.

Foreign Currency Transactions

Transactions in currencies other than the functional currency are converted into Euro at the NATO exchange rates prevailing at the time of the transaction.

Realized gains and losses resulting from the settlement of such transactions are recognized in the Statement of Financial Performance. The NDC has neither monetary assets nor liability at-year-end nor unrealized gains and losses denominated in foreign currencies.

Consolidation

Consolidated Financial Statements include the financial results of the controlling entity and its controlled entities. When consolidation occurs, inter-entity balances and transactions are eliminated.

However, the NDC as separate NATO Body with its own legal entity and operational and geographical independence does not consolidate its Financial Statements with any other bodies in IMS Budget Group (BG). Moreover, consistent with NATO Accounting Framework and IPSAS 6 - Adapted therein, any Morale and Welfare Activities are not consolidated.

Services In-Kind

Services in-kind are services provided by individuals to public sector entities in a non-exchange transaction. These services meet the definition of an asset because the entity controls a resource from which future economic benefits or service potential is expected to flow to the entity. An entity may, but is not required to, recognize services in-kind as revenue and as an asset, and a decrease in an asset and an expense upon consumption of the service in-kind. Due to many circumstances surrounding services in-kind, including the ability to exercise control over the services, and measuring the fair value of the services, IPSAS does not require the recognition of services in-kind.

Assets – Current Assets

The entity holds the following types of current assets:

a. Cash and Cash Equivalents

Cash and Cash Equivalents are defined as short-term assets. They include cash on-hand, petty cash, current bank accounts, deposits held with banks, other short-term highly liquid investments.

b. Receivables

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

In accordance with IPSAS, receivables are broken down into amounts receivable from user charges, taxes, receivables from related parties, etc.

Contributions receivable are recognized when a call for contribution has been issued to the member nations. No allowance for loss is recorded with respect to Member countries' assessed contributions receivable except for exceptional and agreed technical reasons.

c. Inventories

IPSAS 12 defines inventories, establishes measurement requirements under the historical costs system and establishes disclosure requirements. The NDC assesses inventories under IPSAS 12 and 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. This is the same approach as in the Financial Statements 2012 but this policy will be reviewed each fiscal year for changes in materiality.

d. Prepayments

This reflects prepayments given to suppliers and to other NATO entities.

Assets – Non - Current Assets

In this category, the NDC is reporting all assets invested for more than 12 months or receivable beyond 12 months from the closing date of the Financial Statements.

a. Financial Assets

Long-term receivables from the nations for future payment of provisions are reported as a financial asset.

b. Property, Plant and Equipment

Basic Principles:

- Buildings are offered to be used by the NDC by the MOD Italy. The amounts shown represent the historic cost as provided by the MOD Italy and will be revalued in case any relevant information is received from the MOD Italy;
- All other property, plant and equipment are stated at historical cost less accumulated depreciation and any recognized impairment loss;
- No external evaluator to set values for assets;
- The capitalization threshold has been set at € 5,000 unless specifically stated otherwise;
- No grouping of assets;
- Depreciation is calculated on a straight-line basis;
- Full depreciation / amortization in the month of acquisition, and nil in the month of disposal.
- As an accounting principle, land cannot be depreciated. The land value shown represents its fair value after internal investigation.

PP&E categorizations for purposes of determining the appropriate depreciable life of the assets is listed in the tables below - the categories for both tangible and intangible assets complete with the years in which the asset is to be depreciated. Straight-line depreciation method is used for all categories; however the depreciable life of an asset is dependent on the particular category it is in.

For assets acquired up to and including 31 December 2012 the following policy will be applied until the asset is de-recognized:

- i. Any building improvements eligible for capitalization will only be recognized where the value exceeds 100,000 EUR.
- ii. Installed equipment (e.g. air-conditioning units, PABX, networks), furniture, and machinery not part of another category will have a life of 10 years.
- iii. CIS equipment (i.e. IT and telecoms equipment except PABX) will have a life of 4 years.
- iv. Cars (and similar) will have a life of 7 years.

For assets acquired on or after 1 January 2013 the following changed accounting policy is applied:

IPSAS 17 Adapted - PPE

v. Control. In addition to the standard assessment of "substance over form", the following criteria should be used to assist in assessing the level of control that any NATO Reporting Entity has for reporting assets in its financial statements. Criteria that evidence the control of PPE include:

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

If the NATO Reporting Entity responds positively to six of the above criteria, it is likely that the asset is controlled by the NATO Reporting Entity. In this case, the reporting entity will need to capitalize the assets in its Financial Statements (if it is also above the capitalization threshold).

vi. Capitalization Thresholds. Taking account of the above mentioned control criteria, and the guidance in IPSAS 17, the IMS (including the NSA) and NDC shall capitalize each item of PPE above the following thresholds and apply the stated depreciation life below:

Category	Threshold – per item (no grouping)	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 (e.g. airco)	€ 5,000	10 years	Straight line
Machinery	€ 5,000	10 years	Straight line
Vehicles	€ 5,000	5 years	Straight line
Mission equipment	€ 5,000	3 years	Straight line
Furniture	€ 5,000	10 years	Straight line
Communications (e.g. networks; PABX)	€ 5,000	3 years	Straight line
Automated information systems	€ 5,000	3 years	Straight line

Impairment of tangible assets

The carrying values of fixed assets are reviewed for impairment if events or changes in circumstances indicate that they may be not recoverable. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Any provision for impairment is charged against the statement of financial performance in the year concerned.

c. Intangible Assets

i. Prior to 31 December 2012, intangibles were reviewed on a case-by-case basis against IPSAS 31 requirements. The NDC had no intangibles that met the criteria for capitalization up to 31 December 2012. Post 1 January 2013, the following changed accounting policy is applied to review new acquisitions:

IPSAS 31 Adapted - Intangibles

ii. Control. In addition to the standard assessment of “substance over form”, the following criteria should be used to assist in assessing the level of control that any NATO Reporting Entity has for reporting assets in its financial statements. Criteria that evidence the control of intangibles include:

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

If the NATO Reporting Entity responds positively to six of the above criteria, it is likely that the asset is controlled by the NATO Reporting Entity. In this case, the reporting entity will need to capitalize the assets in its Financial Statements (if it is also above the capitalization threshold).

iii. Capitalization Thresholds. Taking account of the above mentioned control criteria, as well as guidance in IPSAS 31, the IMS (including the NSA) and NDC shall capitalize each intangible item above the following thresholds and apply the stated depreciation life below:

Category	Threshold – per item (no grouping)	Depreciation life	Method
Computer software (commercial off the shelf)	€ 5,000	4 years	Straight line
Computer software (bespoke)	€ 5,000	10 years	Straight line
Computer database	€ 5,000	4 years	Straight line
Integrated system	€ 5,000	4 years	Straight line

Integrated systems include research, development, implementation and both software and hardware elements.

Other intangibles to be considered for capitalization are:

- Copyright (but not historical documents or publications)
- Intellectual Property Rights
- Software development

iv. The NDC had no intangibles acquired post 1 January 2013 that met the criteria for capitalization under the adapted accounting policy.

d. Leases (IPSAS 13)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Rental payments under such leases are charged to the Statement of Financial Performance on straight-line basis.

Liabilities – Current Liabilities

a. Payables

Payables are amounts due to third parties for goods received or services provided that remain unpaid as of the reporting date. Accruals are estimates of the cost for goods and services received at year-end but not yet invoiced.

b. Unearned Revenue and Advances

Unearned revenue represents contributions from Nations and/or third parties that have been called for current or prior years' budgets but that have not yet been recognized as revenue. Funds are called in advance of their need because the entity has no capital that would allow it to pre-finance any of its activities. Contributions called for following-year budgets are recorded as advances.

c. Employee benefits

IPSAS 25 prescribes the accounting treatment of the following employee benefits:

- Short-term benefits which fall due wholly within twelve months after the end of the accounting period in which employees render the related service;
- Post-employment benefits;
- Termination benefits.

Defined Contribution plans

Certain employees are members of the Provident Fund. Certain employees are members of the NATO-wide Defined Contribution Pension Scheme (DCPS). The assets of the plans are held separately from those of NDC in funds under the control of independent trustees or an Administrator. The NDC is required to contribute a specified percentage of payroll costs to the DCPS to fund the benefits. Payments to the DCPS are recognized as an expense when employees have rendered service entitling them to the contributions. The only obligation of NDC with respect to the DCPS is to make the specified contributions.

Defined Benefit plans

Certain employees who have joined NATO before 1 July 2005 are members of the NATO Coordinated Pension Scheme, which is a funded defined benefit plan. Under the plans and upon completion of 10 years employment with NATO, the employees are entitled to retirement benefits of 2% per year of service of final basic salary on attainment of a retirement age

of 60. No other post-retirement benefits are provided to these employees. Staff members whose length of service is not sufficient to entitle them to a retirement pension are eligible for a leaving allowance.

The assets and liability for the NATO's Defined Benefit Plan and the Retirees Medical Contribution Fund (RMCF) are accounted for centrally at NATO Headquarters by the International Staff and therefore are not recognized in these financial statements.

Liabilities - Non-Current Liabilities

Provisions - Including Long-term Provisions for PP & E

Provisions are recognized when the entity has a legal or constructive obligation as a result of past event, and where it is probable that an outflow of resources will be required to settle the obligation, and where a reliable estimate of the amount of the obligation can be made.

Long-term Provisions are non-current liabilities of uncertain value or timing.

They can also derive from the recognition of the fixed assets' present net value to be spent in the form of depreciation/amortization, which is not due for at least one fiscal year and perhaps will not be settled until many years in the future.

Contingent Liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly in the control of the entity. A contingent liability is not recognized as a liability because it is yet to be confirmed whether there is a present obligation that could lead to a possible outflow of resources or a sufficiently reliable estimate of the obligation cannot be made.

Net Assets

Net assets represent the residual interest in the assets of the entity after deducting its liabilities.

Revenue and Expense Recognition

a. 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. Contributions when called are booked as unearned revenue and subsequently recognized as revenue when it is earned.

Revenue comprises contributions from Member Nations and other customers to fund the entity's budgets. It is recognized as revenue in the Statement of Financial Performance when such contributions are used for their intended purpose as envisioned by operational budgets. 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 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 recognizes a liability until the condition is fulfilled.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Bank interests earned and accrued as of 31 December 2013, exchange rate revenue due to transactions in foreign currency and realized exchange rate revenue in accordance with the entity Policy IPSAS 4 - Effect of the foreign exchange rate - are recognized as financial revenue.

b. Expenses

Budgetary expenses are recognized when occurred. Accruing of expenses is based on the concept of accruing when goods and services are received. Bank charges, exchange rate losses due to transactions in foreign currency and realized exchange rate losses are recognized as financial expenses.

Bank charges, exchange rate losses due to transaction in foreign currency and realized exchange rate losses in accordance with the IPSAS 4 - Effect of the foreign exchange rate - are recognized as financial expenses.

Surplus or Deficit for the Period

In accordance with the IMS Budget Group accounting policies, the NDC revenue is recognized up to the amount of the matching expenses.

Other Issues – Related Party Disclosure (IPSAS 20)

A formal process is followed to verify the existence or not of any related party relationships. All key personnel have to make a written declaration. Any such relationships have to be fully disclosed in the notes to the Financial Statements.

B. Significant Accounting Judgments and Estimates

In accordance with Generally Accepted Accounting Principles, the Financial Statements necessarily include amounts based on estimates and assumptions made by the management and based on historical experience as well as on the most reliable information available. In exercising the judgments to make the estimates, a degree of caution was included in light of the principle of 'prudence' required by IPSAS in order not to overstate assets or revenue or understate liabilities or expenses. The estimates and underlying assumptions are reviewed on an ongoing basis. These estimates and assumptions affect the amounts of assets, liabilities, revenues and expenses reported. By their nature, these estimates are subject to measurement uncertainty. The effect of changes to such estimates and assumptions in future periods could be significant to the financial statements.

C. Notes to Statement of Financial Position

Assets – Current Assets

1. Cash and Cash Equivalents

	31-Dec-13	31-Dec-12
a. Cash Accounts	2,029	18,194
b. Petty Cash and Advances	5,100	5,100
c. Current Bank Accounts in Euros	2,467,529	2,453,726
Total	2,474,658	2,477,020

a. Cash is normally the money invested on a short term deposit or business account. For cash and cash equivalents, there are restrictions on their use. Decrease in respect of 2012 witnesses the managerial effort to minimize cash handling.

b. Petty Cash holdings are small amounts of cash kept in the NATO Defense College to pay small expenses and rechargeable credit cards for air-tickets and other purchases through the internet.

c. Current Bank Accounts are held in Euro. The accounts reflect the situation reconciled with the bank statements as at 31 December 2013.

Short-term Loans, to cover the cash requirements during the period between the contributions, received from the IMS totalling 3 MEUR, were refunded before the end of FY 2013.

2. Accounts Receivable

	31-Dec-13	31-Dec-12
a. Receivables Budget Increase thru IYR BC 28N	0	400,000
b. Receivables from NATO Entities	135,943	236,440
c. Receivables from Staff Members	2,628	19,653
d. Receivables from Governments	23,805	70,745
e. Other Receivables	0	1,245
Total	162,376	728,084

a. Receivables Budget Increase thru IYR BC 28N

Receivables Budget Increases are supplementary Budget Authorizations not taken into account in the 2nd Contribution Call of the current year. There is no such increase in 2013.

b. Receivables from NATO Entities

The Receivables from NATO Entities at year-end 2013 reflect the following:

- Invoice to NATO IMS for the reimbursement of the expenses paid for against the Outreach (ZNC/504-508-514-524) Budgets 2013 (€ 128,636);
- Invoice to MOD Norway for the reimbursement of expenses paid for on its behalf (€ 6,384);
- Invoice for a mission advance (€ 923)

c. Receivables from Staff Members

These are receivables from staff members, such as short-term loans, salaries to be reimbursed, allowances to be reimbursed by staff members and receivables not belonging to these categories. Collections are assured through payroll withholding and staff separate payments.

d. Receivables from Governments

The Receivables from Governments at year-end reflect the following:

- Deposits paid for the Subsidized Course Members to the 3rd Field Study of SC 123 (€ 18,150);
- Mobile phones' bills for the US Support Element (€ 119);
- MOD Norway for various national hospitality expenses (€ 5,535)

e. Other Receivables

Other receivables are miscellaneous receivables from multiple sources not applicable for 2013.

3. Prepayments and Miscellaneous Assets

Prepayments are mainly in respect of advance payments made to third parties.

	31-Dec-13	31-Dec-12
Advances - Non Assigned Expenditures	16,930	50,450
Total	16,930	50,450

- Remaining advances to NSPA (former NAMSA) for software licenses for 2012-2013 i.a.w. the NSPA funding policy agreed by the IMS BG (€ 8,901);
- Prepayment of the deposit for the participation of NDC Civilian Staff at the last Field Study of 2013 (€ 1,650);
- Travel advances for late December missions (€ 3,600) and
- Procurement of cheap air tickets for missions in early January 2014 (€ 2,779).

Assets - Non-current Assets

4. Property, Plant and Equipment

	31-Dec-13	31-Dec-12	Difference
a. Fixed Assets	16,726,977	16,573,864	153,114
b. Accumulated Depreciation	-3,490,440	-3,249,088	-241,352
Total	13,236,537	13,324,776	-88,238

For the FY 2013 only items that meet the capitalization threshold of EUR 5,000 are included here. Opening balances have been calculated as of 1 January 2013 and all subsequent changes to arrive at the closing balance are disclosed below. The deletions refer to assets entirely depreciated at 31 December 2012, thus having zero value at 1 Jan 2013, and have also been subject to write-off in line with the NFR.

Changes in Property, Plant and Equipment and related depreciation for the year were as follows:

	AIS and Communication Systems	Furniture	Machinery	Installed Equipment	Land	Building	Totals
Gross Book Value (31 Dec 2012)	68,119.49	26,960.65	128,406.00	1,693,377.01	7,718,220.00	6,938,780.49	16,573,863.64
Deletions (31 Dec 2012)	-29,353.60	0.00	0.00	-97,093.90	0.00	0.00	-126,447.50
Gross Book Value (1 Jan 2013)	38,765.89	26,960.65	128,406.00	1,596,283.11	7,718,220.00	6,938,780.49	16,447,416.14
Accumulated Depreciation (31 Dec 2012)	42,152.85	10,784.26	72,027.12	899,266.06	0.00	2,224,857.47	3,249,087.76
Deletions (31 Dec 2013)	-29,353.60	0.00	0.00	-97,093.90	0.00	0.00	-126,447.50
Accumulated Depreciation (1 Jan 2013)	12,799.25	10,784.26	72,027.12	802,172.16	0.00	2,224,857.47	3,122,640.26
Net Book Value (1 Jan 2013)	25,966.64	16,176.39	56,378.88	794,110.95	7,718,220.00	4,713,923.02	13,324,775.88
Additions in 2013	70,756.05	0.00	6,980.00	201,825.10	0.00	0.00	279,561.15
Disposal in 2013	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Depreciation in 2013	-29,089.49	-2,696.07	-12,572.05	-149,972.52	0.00	-173,469.51	-367,799.64
Net Book Value (31 Dec 2013)	67,633.20	13,480.33	50,786.83	845,963.53	7,718,220.00	4,540,453.51	13,236,537.40
Gross Book Value (31 Dec 2013)	109,521.94	26,960.65	135,386.00	1,798,108.21	7,718,220.00	6,938,780.49	16,726,977.29
Accumulated Depreciation (31 Dec 2013)	-41,888.74	-13,480.33	-84,599.17	-952,144.68	0.00	-2,398,326.98	-3,490,439.89
Net Book Value (31 Dec 2013)	67,633.20	13,480.33	50,786.83	845,963.53	7,718,220.00	4,540,453.51	13,236,537.40

5. Intangible Assets

The NDC owns no intangible assets

Liabilities – Current Liabilities

6. Payables

	31-Dec-13	31-Dec-12
a. Payables to Suppliers	63,920	49,232
b. Accruals	270,134	349,339
c. Payables to Staff Members	0	1,781
Total	334,054	400,352

a. Payables to Suppliers

Payables to Suppliers include invoices received from suppliers but not yet settled.

b. Accruals

Accounts payable Accrued include goods and services received from suppliers but not yet billed/invoiced as of 31 December 2013.

c. Payables to Staff Members

Payables to Staff members do not exist as of 31 December 2013

7. Unearned Revenue and Advances

	31-Dec-13	31-Dec-12
a. Unearned Revenue BCode 303	222,423	756,674
b. Liabilities from Operational Result	54,243	371
c. Liabilities from Financial Result	18,461	52,362
d. Liabilities from Lapsed Budget Authorization	11,760	32,241
e. BC Advance Contributions	2,000,000	2,000,000
f. Advance Contributions National borne costs	13,025	13,555
Total	2,319,911	2,855,202

a. Unearned Revenue and Advances

Unearned Revenue consists of contributions and other transfers received or receivable, but for which corresponding charges will be incurred after the reporting date.

It is accounted for by type, cost-share, budget and year in accordance with the IMS Budget Group policy.

a.	FY 2012 credits carried-forward to FY 2014	25,400
b.	FY 2013 credits carried-forward to FY 2014	197,023
	Total	222,423

b. Liabilities from Operational Results

In accordance with the IMS Budget Group policy, the Liabilities from Operational Results are shown separately for reasons of clarity. They are composed of miscellaneous income generated by reimbursements and include the accrual write-off for previous years where the final invoice was lower than the estimated accrued amount.

a.	FY 2010	46,422
b.	FY 2012	7,821
	Total	54,243

- FY 2010 accrual write-off refers to NSPA Software licenses actually received by the NDC but formally notified not to be billed
- FY 2012 accrual write-off refers to various minor discrepancies between accrued and finally billed services.

c. Liabilities from Financial Results

The Liabilities from Financial Results are, after offsetting the expenses, the net amount of bank interest received, bank charges and realized gains and losses generated during 2013.

In accordance with the IMS Budget Group policy, the amount is shown separately for reason of clarity. Details are provided in the following table:

	31-Dec-13	31-Dec-12
a. Gross Bank Interest	29,207	65,354
b. Realized exchange rate Gains	541	304
Gross Amount due to the Nations	29,748	65,658
c. Bank Charges	-9,557	-8,766
d. Realized exchange rate Losses	-1,730	-4,529
e. Rounding Account	0	-1
Total Financial Expenses	-11,287	-13,296
Total to be returned to the Nations	18,461	52,362

The decrease of the Gross Bank Interest compared to the one of last year, is the consequence of the economic situation.

d. Liabilities from Lapses

The lapses from budget authorizations are broken down as follows:

a.	FY 2011	7,000
b.	FY 2012	4,760
	Total	11,760

e. Advance Contribution

The advance Contribution is called for the Fiscal Year 2014 and represents the 25% of the 2013 budget authorization.

f. Advance Contributions for National borne costs

Advance Contribution for National borne costs received from Japan (EUR 12,000) for the participation of a Course Member in the Senior Course 124 (first semester 2014) and carried forward from year 2013 into 2014 for the SC 123 Course Member from one PfP nation (EUR 1,025).

Liabilities – Non-Current Liabilities

8. Long-term provisions: PP&E and Intangible Assets

Revenue is recognized incrementally and equally with the depreciation.
The provision is the counterpart of the PP&E Assets Net Value.

D. Notes to Statement of Financial Performance

9. Revenue

The revenue recognition is matched with the recognition of expenses against the entity budgets.

Contributions when called are booked as an advance under unearned revenue and subsequently recognized as revenue when it is earned.

The revenue recognition is matched with the recognition of expenses against the NDC (303). For the IMS Reimbursable Budgets (ZNC-504/508/514/524), revenues are recorded when the invoices are sent to the IMS for reimbursement every quarter.

The table below shows the breakdown of the operating revenue between different sources:

	31-Dec-13	31-Dec-12
a. Revenue from BCode 303 Operating Activities	8,269,434	7,942,567
b. Revenue from Non-BCode 303 Operating Activities	1,301,425	1,169,923
c. Financial Revenue	11,287	13,295
d. Revenue for Depreciation	367,800	360,252
Total	9,949,946	9,486,038

a. Revenue from BCode 303 Operating Activities

The revenue recognition is matched with the recognition of expenses exclusively against the NATO Defense College Budget (303). The amount is net of the capitalized PP&E.

b. Revenue from Non-BCode 303 Operating Activities

The revenue is the total from NATO/Other Entities and Nations matched with the recognition of expenses for several activities such as:

- Outreach/Cooperation activities (PfP, MED, ICI and OMC)
- Reimbursable Activities (Co-sponsoring Seminars, Workshops etc.)

Field Study expenses paid for on behalf of Nations amounting to 1,143,505 EUR are not included (see the NON-BCode 303/Reimbursable Budget Execution Statement) since the NDC acts as a "Procurement Agent" for those services i.a.w. IPSAS 9, Paragraph 12 – Revenue from Exchange Transactions.

c. Financial Revenue

The Financial Revenue consists of the bank interest earned and realized exchange rate gains and is recognized up to the amount of financial expenses incurred (See Note 10C).

d. Revenue for Depreciation

The revenue is matched to the depreciation in order to match revenue earned with the consumption of the Assets which is in line with the Accrual Accounting assumption in IPSAS 1 and the income method described in IAS 20 (see Note 10D).

Reconciliation between Revenue and Unearned Revenue

The table below explains to what extent the unearned revenue from previous years and the net calls in the current year are recognized as operating revenue in the current year. The remaining balance is unearned revenue for the funds that are carried-forward to future years and payable credits that are lapsed and payable for budget decreases.

Unearned Revenue Opening Balance 01-Jan-2013	756,674
a. Assessment call for the Budget increase/decrease	0
b. Contributions called for the year 2013	
1 st - FC(CC)(2013)0007(MB-01) - Funds received from Italy	6,019,878
2 nd - FC(CC)(2013)0012(MB-02) - Funds received from Italy	2,006,626
Total Contributions called	8,026,504
c. Revenue earned in 2013 (Budget Execution including Chapter 3)	-8,548,995
d. Lapses 31-Dec-2013	-11,760
Unearned Revenue Closing Balance 31-Dec-2013	222,423

10. Expenses

Expenses are recognized by nature within the following groups:

	31-Dec-13	31-Dec-12
a. BCode 303 Expenses		
1. Personnel FY2013	5,203,722	0
2. Contractual Supplies and Services FY2013	2,615,046	0
3. Capital and Investment FY2013	10,713	0
Sub-Total FY 2013	7,829,481	0
1. Personnel FY2012	70,050	5,354,252
2. Contractual Supplies and Services FY2012	215,181	2,307,076
3. Capital and Investment FY2012	434,283	15,502
Sub-Total FY 2012	719,514	7,676,830
1. Personnel FY2011	0	56,351
2. Contractual Supplies and Services FY2011	0	112,126
3. Capital and Investment FY 2011	0	89,980
Sub-Total FY 2011	0	258,457
1. Personnel FY2010	0	7,280
Sub-Total FY 2010	0	7,280
Total BCode 303 Expenses	8,269,434	7,942,567
b. Non-BCode 303/Reimbursable Expenses		
1. Personnel	116,610	180,190
2. Contractual Supplies and Services	1,184,816	989,733
3. Capital and Investment	0	0
Total Non-BCode 303/Reimbursable Expenses	1,301,425	1,169,923
c. Finance Costs	11,287	13,296
d. Depreciation Expenses	367,800	360,252
Total	9,949,946	9,486,038

a. These expenses are funded exclusively through the BCode 303 Budget. See the Budget Execution Statement and Note H for Capital & Investments reconciliation.

a.1. Personnel

All civilian Personnel expenses as well as other non-salary related expenses, in support of common funded activities, include expenses for salaries and emoluments for approved NATO permanent civilian positions and temporary personnel; other salary related and non-related allowances, such as overtime; medical examinations; recruitment; installation; removal expenses etc. About the Employee Benefits see Note F:

a.2. Contractual Supplies and Services

Contractual Supplies and Services expenses required for administrative support to the NDC. Includes expenses for general administrative overheads, and the maintenance costs of buildings/grounds, communications and information systems, transportation, travel expenses, representation/hospitality and miscellaneous expenses. Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term and are included in Contractual Supplies and Services expenses.

a.3. Capital and Investments

Capital and Investment expenses costing more than 50% of level A of EFL, including only the non-capitalized expenditures.

b. Non-Budget Code 303/Reimbursable Expenses

These expenses are funded through various sources to include the Cooperation/Outreach Budgets (504-508-514-524), which are treated as Reimbursable Budgets from the IMS. Other portions are funded as reimbursable costs from other NATO and Partner Entities for several activities. Field Study expenses paid on behalf of Nations are not included. For the detailed presentation see the Non-BCode 303/Reimbursable Budget Execution Statement.

c. Finance costs

Finance costs include bank charges of 9,557 EUR and realized exchange rate losses of 1,730 EUR. They are matched to financial revenue 11,287 EUR. (See also note 9C.)

d. Depreciation expenses of the period

	31-Dec-13	31-Dec-12	Difference
a. AIS	29,089	12,749	16,340
b. Furniture	2,696	2,696	0
c. Machinery	12,572	10,820	1,752
d. Installed Equipment	149,973	160,518	-10,545
e. Land	0	0	0
f. Buildings	173,470	173,470	0
Total	367,800	360,252	7,547

11. Surplus or Deficit for the Period

In accordance with the IMS accounting policies, revenue is recognized up to the amount of the matching expenses and therefore the result is zero, i.e. no surplus or deficit.

E. Related Parties Disclosure

Under IPSAS 20, Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial and operating decisions. IPSAS 20 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. This information is required for accountability purposes and to facilitate a better understanding of the financial position and performance of the reporting entity.

A specific statement on disclosure of Related Parties is signed by the Management Personnel and retained for auditing purposes.

The key management personnel includes: the Commandant, the Dean, the Director of Management, the Chief Personnel & Administration Branch, the Purchasing & Contracting Officer and the Head of Budget & Finance Branch. They are all rotated, typically every three years with the exception of the Head Budget & Finance Branch. The detailed work related to these tasks tends to be undertaken by staff officers. The key management personnel of the entity have no significant known related party relationships that could affect the operation of this reporting entity. Key management is remunerated in accordance with the applicable National or NATO pay scales. They do not receive from NATO any additional remuneration for Board responsibilities or access to preferential benefits such as the entitlement to receive loans over and above those available to all NATO personnel under normal rules.

For areas such as recruitment and procurement any potential risks are mitigated as follows:

- the appropriate staffs, drawing on their professional competence, lead on carrying out the related day-to-day tasks rather than key personnel;
- there is segregation of duties e.g. requirements definition is separate from the procurement and contracting function, and also a number of internal actors are involved in staffing an issue for key personnel decision(s);
- maximum use is made of competition including advertising via the NDC website;
- documentation trails are maintained for all decisions and there are compliance checks against the relevant NATO regulations;
- the Internal Audit Service from the NATO IS undertakes periodic independent reviews upon coordination with the IMS FC being also the NDC FC.

A specific statement on disclosure of Related Parties is signed by the key Management Personnel and retained in Budget & Finance files for auditing purposes.

During the year, the NDC entered into material transactions with other NATO entities outside the IMS Budget Group, as set out below:

Party	Nature of relationship	Transaction	2013 Expenses
NSPA (former NAMSA)	NATO Entity	Purchases of Software Licenses	57,489
NATO IS	NATO Entity	Provident Fund – Administrative expenses	1,785
NATO IS	NATO Entity	PMIS – Annual contribution	1,287

F. Employee Disclosure

Employees in the NDC are compensated for the service they provide in accordance with rules and amounts established by NATO.

Peacetime Establishment (PE)

	Authorized PE *	Filled Positions
Civilians	52	50
Military (IMP)	53	42
Consultants**		
National Manpower Overage	1	1
Voluntary National Contribution (VNC)		
Host Nation	24	24
PfP	1	1
Civilians (CBC)		
LWR		
Total	131	118

* NDC PE was changed in 2013. The numbers mentioned are in line with the MC-500 in force at the end of 2013.

** Consultants are not included since their number is variable as reported to the NDMC.

Employee Benefits

The costs in Chapter 71 are for staff members hired under the NATO Civilian Personnel Regulations as well as for consultants and contractors. The figures represent the costs of personnel including basic salary, allowances, insurance and pension plan contributions. It also includes accruals for entitlements to leaving allowance and loss of job indemnity. About the Employee Benefits that are summarized in the following table see also Note A, Liabilities-Current Liabilities, para. c.:

	31-Dec-13	31-Dec-12
a. Employee benefits	4,000,925	4,061,547
b. Provident Fund	2,374	7,956
c. DCPS	170,254	154,875
Total	4,173,553	4,224,378

Different pension plans are applicable to employees in the NDC; defined benefit plan, and defined contribution plan. All pension plans are centrally managed by NATO HQ and are therefore not included in the NDC Financial Statements. Contributions to the plans are expensed when occurred.

Untaken Leave

The situation of untaken leave at the end of 2013 (463 days) is slightly below of that at the end of 2012 (488 days). Since the estimated amount involved (€ 76,900) is not material (less than 1% of the budget), no adjusting entry has been recorded for untaken leave. The NDC has taken measures to ensure all leave is taken by 30 April of the following year in accordance with NATO Civilian Personnel Regulations (CPRs). Already the untaken leave days decreased to 356 by the end of January 2014 and the same trend is expected in the following months. Leave is only paid on rare circumstances and in 2013 no leave has been paid.

G. Financial Instruments Disclosure/Presentation

The NDC uses only non-derivative financial instruments as part of its normal operations. These financial instruments include, cash, bank accounts, deposit accounts, accounts receivable, provisions and loans between NATO entities. All the financial instruments are recognized in the Statement of Financial Position at their fair value.

Credit Risk: In the normal course of business, NDC incurs credit risk from trade receivables and transactions with banking institutions. NDC manages its exposure to credit risk by:

- Holding current account bank balances and short-term deposits with registered banking institutions with a minimum rating of "B";
- Maintaining credit control procedures over receivables.

The maximum exposure as at 31 December 2013 is equal to the total amount of bank balances, short-term deposits, and receivables disclosed in the Statement of Financial Position. Receivables considered uncollectible are adequately provided for. There is a very limited credit risk associated with the realization of these instruments.

Currency risk: The NDC's exposure to foreign currency exchange risk is very limited, as most of its transactions are dealt with in Euros. A limited number of transactions are paid to suppliers in foreign currencies.

Liquidity risk: The liquidity risk is based on the assessment whether the organization will encounter difficulties in meeting its obligations associated with financial liabilities. There is a very limited exposure to liquidity risk because of the budget funding mechanism that guarantees contributions in relation to approved budgets. The limited risks are primarily the validity of forecasts that result in the calls for contributions.

Interest rate risk: The organization is restricted from entering into borrowings and investments, and therefore there is no interest rate risk identified.

H. Comparison of Budget Execution and Statement of Financial Performance

Budget Execution

The Budget Execution Statement shows the budget allocations and their execution status for the fiscal year 2013 including the credits carried-forward from 2011 and 2012 for the budget 303 (NDC).

There are two budget execution statements, one for the BCode 303 NDC Budget and another one for all reimbursable budgets (ZNC/504 (PfP) - 508 (MD) - 514 (ICI) - 524(OMC)), reimbursable expenses (Z01), national borne expenses (MC4) and multinational budgets for the field study program (FSP).

The initial budget was reviewed by the Budget Committee and issued in BA1: BC-BA(2013)0001 dated 14 January 2013. Similarly, the 2013 revised authorizations were issued in BA2: BC-BA(2013)0002 dated 26 June 2013 and BA3: BC-BA(2012)0003 dated 07 November 2013.

In accordance with the NFRs, all the changes between the initial and the final budget, which were due to reallocations, were either authorized by the BC or were within the authority of the IMS/STO Financial Controller. These changes are presented in the Budget Execution Statement that is prepared on the same basis as the Financial Statements.

As required by the NFRs (NFR part II, Art 11Bis), the credits carried forward are presented in the Budget Execution Statement. They represent the unspent balances at year-end for which there is a legal liability and are equal to the closing Unearned Revenue (see also Note 9).

The following elements are disclosed in the Budget Execution Statement on the face of the Financial Statements:

- The original and final budget;
- The actual amounts on a comparable basis;
- The explanation of material differences between the budget and actual amounts.

Reconciliation between the NDC Budget Execution Report and the NDC Statement of Financial Performance:

	Statement of Financial Performance	Budget Execution Statement	Difference
a. Personnel (Chapter 1)	5,273,771	5,273,772	0
b. Contractual Supplies and Services (Chapter 2)	2,830,228	2,830,227	0
c. Capital & Investments (Chapter 3)	165,435	444,996	-279,561
Total	8,269,434	8,548,995	-279,561

As shown above, the expenses in Chapter 3 of the Budget Execution Statement and the corresponding expenses in the Statement of Financial Performance diverge due to the inclusion of the capitalized expenditures in the Budget Execution Statement.

Statement of Credits Carried-Forward

The table below provides further detail on the Credits Carry-Forward in 2014 and the reconciliation with unearned revenue:

BC 303 - Budget	
a. Carry-forward from 2012 into 2014	25,400
b. Carry-forward from 2013 into 2014	197,023
Total	222,423

Non-BCode 303 - Budget	
a. Carry-forward from 2012 into 2014	7,500
b. Carry-forward from 2013 into 2014	68,168
Total	75,668

Statement of Transfers

In accordance with the NATO Financial Regulations (NFR II Art. 10), all the changes between the initial and the final budget which were due to reallocations were either authorized by the BC or by the Financial Controller in accordance with the NFRs for inter and intra-budget transfers.

Transfers IN – Transfers OUT	NDC Budget
a. Chapter 1 – Personnel	-244,437
b. Chapter 2 – Contractual Supplies and Services	246,971
c. Chapter 3 – Capital and Investment	-2,534
Total	0

I. Write-Off

In accordance with the NATO Financial Regulations (NFR II Art. 19, FRP XIX.c.), an annual summary of property and cash written-off in 2013 is annexed to the annual financial statements at the following table.

Items (Quantity)	Purchased in	Total cost	Report of survey	Reason for write -off
Furniture (61)	2002 → 2012	3,766	02-05/2013	Beyond state of repair. No more serviceable
CIS (81)	2002 → 2007	42,762	04/2013	
Miscellaneous (30)	1967 → 2012	10,808	01-03-06/2013	
Total		57,336		

J. Operating Lease

The NDC has 1 rental/lease contract which started in 2011 that has been classified as cancelable operating leases as it does not transfer substantially all the risks and rewards incidental to ownership. The classification has been based on the fact that the ownership is not transferred by the end of the lease term, the lease term is not for the major part of the asset's economic life and the leases do not contain a bargain purchase option. This approach is reviewed every year. The rental/lease Contract NDC BFB/4/132/11/NDC for copiers signed in September 2011 for a period of 2 years with a yearly cost of 40,757 EUR is included in Chapter 2 expenses (see Note 10.a.2.).

K. Morale & Welfare Activity

Morale & Welfare Activity (MWA) is conducted at the NATO Defense College on a relatively limited scale. The majority of transactions refer to Petrol products, Rationed items and a small Shop offering mementoes and other few items. In accordance with the new IPSAS Accounting Framework (C-M(2013)0039), there is no need to consolidate the MWA into the Entity's Financial Statements. An annual MWA report, including the NDC relevant information, is issued by the IMS for Budget Committee screening and assessment (Ref. IMSTAM(FC)0027-2014).

NATO DEFENSE COLLEGE
STATEMENT OF NON BCode 303 / REIMBURSABLE BUDGET EXECUTION AS AT 31 DECEMBER 2013

EURO		Initial Budget	Adjustments	Final Budget	Commitments	Expenses	Total Spent	Carry Forward Open Funding	Lapsed
REIMBURSABLE BUDGETS									
BUDGET ZNC (504 - Pfp (IMS))*									
	2013	463,000	33,045	496,045	22,176	473,868	496,045	22,176	0
	2012	28,500	0	28,500	0	28,500	28,500	0	0
TOTAL		491,500	33,045	524,545	22,176	502,368	524,545	22,176	0
BUDGET ZNC (508 - MD (IMS))*									
	2013	336,000	64,000	400,000	29,851	370,149	400,000	29,851	0
	2012	8,748	0	8,748	0	8,748	8,748	0	0
TOTAL		344,748	64,000	408,748	29,851	378,898	408,748	29,851	0
BUDGET ZNC (514 - ICI (IMS))*									
	2013	154,000	(9,356)	144,644	1,250	143,394	144,644	1,250	0
	2012	0	0	0	0	0	0	0	0
TOTAL		154,000	(9,356)	144,644	1,250	143,394	144,644	1,250	0
BUDGET ZNC (524 - OMC (IMS))*									
	2013	300,000	(120,658)	179,342	14,891	164,451	179,342	14,891	0
	2012	108,596	(4,112)	104,484	7,500	96,984	104,484	7,500	0
TOTAL		408,596	(124,770)	283,826	22,391	261,435	283,826	22,391	0
TOTAL REIMBURSABLE BUDGETS		1,398,844	(37,081)	1,361,763	75,668	1,286,095	1,361,763	75,668	0
(*) According to the IMS Directives, since Pfp, MD, ICI and OMC are reimbursable budgets, the accrued and carried forward amounts are shown in both IMS and NDC books. Expenses are recognized / recorded on an accrual basis									
REIMBURSABLE EXPENSES									
BUDGET Z01 (REIMBURSABLE EXPENSES)									
	2013	9,600	0	9,600	0	9,600	9,600	0	0
TOTAL		9,600	0	9,600	0	9,600	9,600	0	0
BUDGET MC4 (NATIONAL BORNE EXPENSES - Pfp PARTNER NATION)									
	2013	5,000	0	5,000	1,025	3,975	5,000	1,025	0
	2012	1,755	0	1,755	0	1,755	1,755	0	0
TOTAL		6,755	0	6,755	1,025	5,731	6,755	1,025	0
TOTAL REIMBURSABLE EXPENSES		16,355	0	16,355	1,025	15,331	16,355	1,025	0
GRAND TOTAL ALL NON BCode303 / REIMBURSABLE BUDGETS AND EXPENSES		1,415,199	(37,081)	1,378,118	76,693	1,301,425	1,378,118	76,693	0
MULTINATIONAL									
BUDGET FS1 (EUROPEAN PERSPECTIVES - SC 122)									
	2013	209,573	0	209,573	0	209,573	209,573	0	0
TOTAL		209,573	0	209,573	0	209,573	209,573	0	0
BUDGET FS2 (TRANSATLANTIC LINK - SC 122)									
	2013	188,736	0	188,736	0	188,736	188,736	0	0
TOTAL		188,736	0	188,736	0	188,736	188,736	0	0
BUDGET FS3 (REGIONAL APPROACH - SC 122)									
	2013	186,837	0	186,837	0	186,837	186,837	0	0
TOTAL		186,837	0	186,837	0	186,837	186,837	0	0
BUDGET FS4 (EUROPEAN PERSPECTIVES - SC 123)									
	2013	186,304	0	186,304	0	186,304	186,304	0	0
TOTAL		186,304	0	186,304	0	186,304	186,304	0	0
BUDGET FS5 (TRANSATLANTIC LINK - SC 123)									
	2013	222,252	0	222,252	0	222,252	222,252	0	0
TOTAL		222,252	0	222,252	0	222,252	222,252	0	0
BUDGET FS6 (REGIONAL APPROACH - SC 123)									
	2013	149,803	0	149,803	0	149,803	149,803	0	0
TOTAL		149,803	0	149,803	0	149,803	149,803	0	0
TOTAL MULTINATIONAL - FIELD STUDY BUDGETS		1,143,505	0	1,143,505	0	1,143,505	1,143,505	0	0