

**NATO UNCLASSIFIED**

30 September 2015

**DOCUMENT**  
C-M(2015)0066-AS1

**IBAN REPORT ON THE FINANCIAL AUDIT OF THE IMS, THE NSA, THE IMS  
BUDGET GROUP - PARTNERSHIP FOR PEACE (PFP) AND OTHER MILITARY  
COOPERATIONS (OMC) FINANCIAL STATEMENTS FOR 2013**

**ACTION SHEET**

On 29 September 2015, under the silence procedure, the Council noted the IBAN report IBA-AR(2014)15 attached to C-M(2015)0066 and agreed the RPPB recommendation regarding public disclosure contained in the RPPB note.

(Signed) Alexander Vershbow  
Deputy Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2015)0066.

**NATO UNCLASSIFIED**



**NATO UNCLASSIFIED**

24 September 2015

**NOTICE**

C-M(2015)0066

**Silence Procedure ends:**

**29 Sep 2015 18:00**

**IBAN REPORT ON THE FINANCIAL AUDIT OF THE IMS, THE NSA, THE IMS BUDGET GROUP - PARTNERSHIP FOR PEACE (PFP) AND OTHER MILITARY COOPERATIONS (OMC) FINANCIAL STATEMENTS FOR 2013**

**Note by the Deputy Secretary General**

1. I attach the International Board of Auditors for NATO (IBAN) report on the audit of the financial statements of the IMS, the NSA, the IMS Budget Group – Partnership for Peace (PfP) and Other Military Cooperations (OMC) Financial Statements for the year ended 31 December 2013. The audit report sets out an unqualified opinion.
2. The IBAN report was brought to the attention of the Resource Policy and Planning Board (RPPB).
3. In line with PO(2015)0052, the RPPB recommends to Council to disclose to the public the 2013 IMS, the NSA, the IMS Budget Group – Partnership for Peace (PfP) and Other Military Cooperations (OMC) Financial Statements and the associated IBAN report.
4. I consider that no further discussion regarding this report is required. Consequently, unless I hear to the contrary **by 18:00 hours on Tuesday, 29 September 2015**, I shall assume that the Council has noted the IBAN report IBA-AR(2014)15 and agreed the RPPB recommendation regarding public disclosure contained in the enclosed RPPB note.

(Signed) Alexander Vershbow

20 July 2015

**NOTICE**  
AC/335-N(2015)0021-REV3  
**Silence Procedure ends:**  
10 Sep 2015 12:00

**RESOURCE POLICY AND PLANNING BOARD**

**IBAN REPORT AND LETTER OF OBSERVATIONS AND RECOMMENDATIONS ON  
THE AUDIT OF THE FINANCIAL STATEMENTS OF THE IMS BUDGET GROUP, THE  
NSA, PARTNERSHIP FOR PEACE AND OTHER MILITARY CO-OPERATIONS FOR  
THE YEAR ENDED 31 DECEMBER 2013**

**Note by the Chairman**

References: (A) IBA-A(2014)158  
(B) IBA-AR(2014)15

1. Council agreed with PO(2015)0052 that, in principle, unclassified IBAN audit reports, together with any related financial statements, should be made publicly available after they have been dealt with by Council.
2. The IBAN issued an unqualified audit opinion on the 2013 audit of the Financial Statements of the IMS, the IMS Budget Group, the NSA, Partnership for Peace and other Military Co-Operations. The unqualified audit report will be forwarded to Council for notation, as per agreed procedures
3. The IMS Financial Controller has reviewed the financial statements in accordance with agreed policies (C-M(2018)0116 and PO(2015)0052) as well the IBAN report and has raised some concerns with regard to the public disclosure of some elements of the IBAN report which in the IMS view contain sensitive personal information.
4. The Board expressed its appreciation for the way in which the assigned common funds had been managed by the IMS Financial Controller, which had resulted in an unqualified audit opinion. It noted that the IBAN observation in respect of representation allowance was the direct result of PO(2013)0154 having been approved in the middle of financial year 2013.

5. What constitutes sensitive personal information is clearly defined in the Directive on the Public Disclosure of NATO Information (AC/324-D(2014)0010)<sup>1</sup>. After due consideration of the arguments brought by the IMS Financial Controller with respect to disclosure, the RPPB concluded that the issues raised did not meet any of the criteria specified in this directive.

6. The RPPB therefore agreed that the subject audit report does not contain information which, according to the NATO Policy on Public Disclosure of NATO Information, should be withheld from public disclosure, and that therefore, in line with the agreed policy in PO(2015)0052, the IBAN report IBA-A(2014)158, the related financial statements and other component parts should be publicly disclosed

(Signed) Giorgio Romano

Action Officer: R. Strasser  
ext. 2617; Helene Ronning, ext 4463  
Original: English

---

<sup>1</sup> Sensitive personal information is any fact or opinion about an individual's workplace performance, discipline, physical or mental health, financial affairs or private life, the release of which could reasonably be expected to put the person in physical danger, or harm their career or reputation.

**Note by the Secretary**

On 14 September 2015, under the silence procedure, the Board approved the report to Council (AC/335-N(2015)0021-REV3).

**Summary Note for the Council by the  
International Board of Auditors for NATO  
on the audit of the financial statements of the  
NATO International Military Staff (IMS),  
the NATO Standardisation Agency (NSA),  
the IMS Budget Group – Partnership for Peace (PfP),  
the Mediterranean Dialogue (MD), the Istanbul Cooperation Initiative (ICI)  
and Other Military Cooperations (OMC)  
for the year ended 31 December 2013**

**Introduction**

The International Military Staff (IMS) is the executive body of the Military Committee (MC), NATO's senior military authority. The IMS is tasked with ensuring that the policies and decisions of the MC are implemented. The IMS also prepares plans, initiates studies and recommends policy on matters of a military nature.

The component parts of the IMS Financial Statements are:

- The NATO Standardisation Agency (NSA): a single, integrated body composed of Military and Civilian staff headed by a Director. The mission of the NSA is to initiate, co-ordinate, support and administer the standardisation activities conducted under the authority of the NATO Committee for Standardisation.
- The Partnership for Peace (PfP) Work Programme which operate under the framework of the NATO-wide Partnership for Peace program.
- The Mediterranean Dialogue (MD) which is intended to contribute to security and stability for the Alliance by developing a better mutual understanding and dispelling misconceptions.
- The Istanbul Cooperation Initiative (ICI) which was launched to offer cooperation in the broader Middle East region through practical cooperation and assistance in different areas, and specific activities.
- The Other Military Cooperation (OMC) activity reflects the evolving cooperation with Afghanistan, Pakistan and the African Union.

The above components are incorporated into one set of Financial Statements, which is the subject of this report.

The total authorisations of the IMS, NSA, PfP, MD, ICI and OMC for the year ended 31 December 2013 were EUR 24.6 million.

This page is intentionally left blank

18 July 2014

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

**AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF THE**

**INTERNATIONAL MILITARY STAFF (IMS),  
THE NATO STANDARDISATION AGENCY (NSA),  
THE IMS BUDGET GROUP – PARTNERSHIP FOR PEACE (PfP),  
THE MEDITERRANEAN DIALOGUE (MD),  
THE ISTANBUL COOPERATION INITIATIVE (ICI) AND  
OTHER MILITARY COOPERATION (OMC)**

**FOR THE YEAR ENDED 31 DECEMBER 2013**



**REPORT OF THE INTERNATIONAL BOARD OF AUDITORS  
FOR NATO TO THE NORTH ATLANTIC COUNCIL****Report on the Financial Statements**

The International Board of Auditors for NATO (Board) audited the accompanying financial statements of the International Military Staff (IMS), incorporating the IMS, the NATO Standardisation Agency (NSA), the IMS Budget Group – Partnership for Peace (PfP), the Mediterranean Dialogue (MD), the Istanbul Cooperation Initiative (ICI) and the Other Military Cooperation (OMC) budget which comprised the Statement of Financial Position as at 31 December 2013, and the Statement of Financial Performance, Statement of Changes in Equity and Cash Flow Statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies. The Board also audited the Statement of Budget Execution for the year ended 31 December 2013.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the NATO Accounting Framework and the requirements of the NATO Financial Regulations as authorized by the North Atlantic Council (NAC). This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

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

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

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

*Opinion on Financial Statements*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the International Military Staff (IMS), the NATO Standardisation Agency (NSA), and the IMS Budget Group – Partnership for Peace (PfP), the Mediterranean Dialogue (MD), the Istanbul Cooperation Initiative (ICI) and the Other Military Cooperation (OMC) budget as of 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with the NATO Accounting Framework.

**Report on Compliance***Management's Responsibility for Compliance*

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

*Auditor's Responsibility*

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

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

*Opinion on Compliance*

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

Brussels, 18 July 2014

Dr Charilaos Charisis  
Chairman

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

**LETTER OF OBSERVATIONS AND RECOMMENDATIONS**

**FOR THE INTERNATIONAL MILITARY STAFF (IMS),  
THE NATO STANDARDISATION AGENCY (NSA),  
THE IMS BUDGET GROUP – PARTNERSHIP FOR PEACE (PfP),  
THE MEDITERRANEAN DIALOGUE (MD),  
THE ISTANBUL COOPERATION INITIATIVE (ICI) AND  
OTHER MILITARY COOPERATION (OMC)**

**FOR THE YEAR ENDED 31 DECEMBER 2013**

## **Introduction**

The International Board of Auditors for NATO (Board) audited the International Military Staff (IMS) Budget Group Financial Statements for the year ended 31 December 2013, and issued an unqualified opinion on the presentation of those financial statements and on compliance.

## **Observations and Recommendations**

During the audit, the Board had three observations pertaining to the Lack of Compliance with New Regulations on the Representation Allowances, Lack of Internal Audit Activities, and Excessive Average Treasury Holding per the NATO Financial Regulations.

Due to the possible public release of the formal comments, the Director General, IMS was not in a position to provide the Board with detailed responses at this stage (ref. IMSTAM(FC)-0060-2014). However, detailed responses were provided to the Board by the IMS Financial Controller.

**OBSERVATIONS AND RECOMMENDATIONS****1. LACK OF COMPLIANCE WITH NEW REGULATIONS ON THE REPRESENTATION ALLOWANCES****Reasoning**

In 2013, the North Atlantic Council (Council) approved updated rules and procedures relating to the receipt and use of the Representation Allowances. The new rules are set out in PO(2013)0154 and are applicable, without exception, to all those in NATO entitled to such allowances and were effective from 1 June 2013. These allowances should now only be paid on a reimbursable basis, as opposed to being given to the recipient up-front, and the NATO bodies Financial Controllers are now responsible for ensuring the expenditures meet the criteria for reimbursement.

**Finding**

The Board found that IMS Financial Controller issued an internal procedure (IMSTAM(FC)-077-2013-REV1) regarding the Representation Allowances. The procedures suggested in this document do not fully comply with PO(2013)0154 and there is no report on the Representation Allowances expenses regarding 2013, nor a disclosure in the financial statements.

**Recommendation**

For 2014 the IMS should develop and implement procedures in order to properly follow the newly issued regulations on the receipt and use of the Representation Allowances.

***Factual and Formal Comments of the IMS Financial Controller***

*Partly agreed;*

*As explained during the 'out brief' of 30 April 2014, the original PO was drafted in the context of civilian staff on a "payroll". The Budget Committee (28 Nations forum) noted that "implementation measures to transition PO(2013)0154 to the Military Budget could be considered at a further meeting (BC-DS(2013)0016 XII. C)". Therefore, the exact modalities of implementation for the Military Community remain under Budget Committee consideration. New policies on RA are not - as yet - applicable to Military Budgets.*

*It remains for the Military Budget community to coordinate a suitable approach to the satisfaction of the Budget Committee. It is my intention that a process will be in place at the IMS no later than 1st January 2015.*

*In anticipation of Budget Committee deliberations, the IMS OFC has acted proactively and issued an internal procedure (IMSTAM) to enable more rigorous oversight in the future.*

**Board's position**

The Board's position is that the new Representation Allowances rules should be applicable, without exception, to all those in NATO entitled to such allowances.

**2. LACK OF INTERNAL AUDIT ACTIVITIES****Reasoning**

An internal audit function is an important element of an entity. The services provided by internal audits include, among others, detecting and preventing fraud, testing internal controls, and monitoring compliance with applicable rules and regulations.

**Finding**

The IMS does not have its own internal auditor function. Rather, internal audits were conducted at the IMS by the Internal Audit Service (IAS) of the International Staff. However, such audits by the IAS have not happened recently, and it is not known if and when it would continue. Furthermore, the IMS has not had an IT internal audit since the implementation of FinS.

**Recommendation**

The IMS should establish a regular cycle of internal audit. This can be done either by cooperating with the IS or with other NATO bodies.

***Factual and Formal Comments of the IMS Financial Controller***

*Agreed.*

**3. EXCESSIVE AVERAGE TREASURY HOLDINGS PER THE NATO FINANCIAL REGULATIONS****Reasoning**

Article 13 of the NATO Financial Regulations (NFRs) states that each contribution instalment shall be calculated to restrict total currency holdings to the minimum required to meet forecast expenditures prior to the receipt of the following contribution instalment. The Financial Rules and Procedures (FRPs) define excessive treasury holdings as being the average treasury holdings exceeding three times one month's average expenditures. As there are only two calls per year, the definition is adjusted to be six times one month's average expenditures (EUR 12.6 million in 2013, or six times one month's average expenditure of EUR 2.1 million). The FRPs also state that the circumstances having caused the excess shall be reported to the Budget Committee.

**Finding**

The Board found that the average monthly treasury holdings in 2013 (EUR 15.7 million) were seven and a half times one month's average expenditures (EUR 2.1 million), which is considered as excessive per the NFRs and FRPs. The circumstances having caused the excess were not reported to the Budget Committee.

**Recommendation**

The Board recommends that the IMS research the causes for the excessive treasury holdings as defined by the NFRs and FRPs. Improved liquidity analysis should be performed in the future to try to better estimate the timing of forecast expenditures. Also, future instances of excessive treasury holdings should be reported to the Budget Committee.

***Factual and Formal Comments of the IMS Financial Controller***

*Partly Agreed;*

*The main determinate of cash holdings for common funded entities is already known: It is a function of the timing of national contributions received. Calls for contributions are calculated and coordinated by the International Staff Treasury Service. In order to reduce the number of payments made by the Nations, calls are "issued simultaneously for the Budgets of all NATO Bodies (Article 13.4)".*

*The IMS do not therefore calculate or make calls for contributions. Moreover, the IMS only accounts for a limited part (some 1.5%) of Military Budget contributions called. When the Nations receive a call, the timing of any payment is a then a national responsibility.*

*The IBAN are finalising a NATO-wide thematic audit on treasury holdings. Given the coordinated nature of calls for contributions, any observations on this centralised process would be better addressed at the NATO-wide level.*

*However, for the Financial Statements FY 2014, the IMS will include a commentary for the Budget Committee on any cash holdings above the target threshold in accordance with as per FRP XIII (2).*



INTERNATIONAL MILITARY STAFF  
ETAT-MAJOR MILITAIRE INTERNATIONAL



28 April 2014

IMSTAM(FC)-0028-2014

CHAIRMAN BUDGET COMMITTEE

**IMS FINANCIAL STATEMENTS 2013, INCORPORATING:**

**INTERNATIONAL MILITARY STAFF (IMS, BUDGET CODE 301)  
NATO STANDARDIZATION AGENCY (NSA, BUDGET CODE 302)  
PARTNERSHIP FOR PEACE (PfP, BUDGET CODE 504)  
MEDITERRANEAN DIALOGUE (MD, BUDGET CODE 508)  
ISTANBUL COOPERATION INITIATIVE (ICI, BUDGET CODE 514)  
OTHER MILITARY COOPERATION (OMC, BUDGET CODE 524)**

1. Please find attached the IMS Financial Statements (FS) 2013 incorporating the IMS, NSA, PfP, MD, ICI and OMC.
2. Information on the NATO-IRAQ Trust Fund is also included within these FS.

  
P. BONTINCK  
BELCV  
Financial Controller  
International Military Staff &  
Science and Technology Organisation

Enclosure:

1. IMS FS 2013

Copy To: DIRECTOR NSA, MA DG IMS, FC, RECORDS

Action Officer: Mr P. Bontinck, Financial Controller IMS,(4339)



NATO UNCLASSIFIED

# **INTERNATIONAL MILITARY STAFF (IMS) FINANCIAL STATEMENTS 2013**

**Incorporating  
IMS (301), NSA (302), PfP (504), MD (508), ICI (514) and  
OMC (524)**



NATO UNCLASSIFIED

NATO UNCLASSIFIED

## Table of Contents

STATEMENT ON INTERNAL CONTROL .....	3
INTRODUCTION BY THE FINANCIAL CONTROLLER (FC).....	5
STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013 .....	7
STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 DECEMBER 2013 .....	8
CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2013 .....	9
STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 31 DECEMBER 2013 .....	10
STATEMENT OF BUDGET EXECUTION AS AT 31 DECEMBER 2013 (NOTE 13) .....	11
NOTES .....	13
<b>Note 1: Accounting Policies</b> .....	13
<b>Note 2: Accounting Judgements and Estimates</b> .....	20
<b>Note 3 : Cash and Cash Equivalents</b> .....	21
<b>Note 4 : Receivables</b> .....	21
<b>Note 5 : Prepayments and Miscellaneous Assets</b> .....	22
<b>Note 6: Property, Plant And Equipment</b> .....	22
<b>Note 7: Payables</b> .....	23
<b>Note 8: Unearned Revenue and Advance Contributions</b> .....	23
<b>Note 9: Non – Current Liabilities</b> .....	24
<b>Note 10: Revenue</b> .....	25
<b>Note 11: Expenses</b> .....	26
<b>Note 12: Surplus or deficit for the Period</b> .....	27
<b>Note 13: Budget Execution Statement</b> .....	27
<b>Note 14: Related Parties</b> .....	28
<b>Note 15: Employee disclosure</b> .....	28
<b>Note 16: Financial Instruments</b> .....	29
<b>Note 17: Write-offs</b> .....	30
<b>Note 18: Operating Leases</b> .....	30
<b>Note 19: MWA Activities</b> .....	30
ANNEX 1 .....	31
<b>IMS Non Current Asset Register</b> .....	31
ANNEX 2 .....	32
<b>NATO-Iraq Trust Fund Status as of 31<sup>st</sup> December 2013</b> .....	32

NATO UNCLASSIFIED

## STATEMENT ON INTERNAL CONTROL

To : International Board of Auditors for NATO

Subject : **Management Representation relating to Financial Statements for the year ended 31 December 2013**

As the Director General, International Military Staff (IMS) 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 the North Atlantic Council and the Military Committee whilst safeguarding the funds and assets for which I am responsible, in accordance with the responsibilities assigned to me.

The system of internal control is designed to manage and reduce, rather than entirely eliminate, the risk of failure to achieve the organisation's policies, aims, and objectives; it can therefore provide reasonable but 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. The system of internal control can be primarily summarised as follows:

- a. Risk reduction by "outsourcing" administrative tasks to the NATO International Staff (IS) where practical. This is also a measure of efficiency by avoiding duplication of services. The tasks of guarding the premises, operating and maintaining the facilities, arranging for utilities, and administering entitlements and processing payrolls for civilian personnel are carried out by the relevant services of the IS and I am relying, in the first instance on the internal review of these services conducted by the IS Financial Controller.
- b. Risk reduction by eliminating the use of cash except for limited petty cash operations.
- c. Utilising qualified staff, the principles of checks and balances, and separation of duties. It is ensured that staff working throughout the financial system are suitably qualified and trained which includes having a sound understanding of their responsibilities in accordance with the NATO Financial Regulations and IMS Standard Operating Procedures. Goods and services are requested (on behalf of end-users) by the relevant fund managers; procurement, using competition wherever possible, is effected by the Purchasing and Contracting Officer after approval by the Financial Controller, IMS. Invoices introduced by the fund managers are verified and approved for payment by the fiscal staff but payment is effected and bank records reconciled by separate staff members. This separation of duties is

NATO UNCLASSIFIED

- d. supported by the levels of delegation for decision making being appropriate to rank and experience.
- e. Direct inspection on a sample basis of financial records and activities with a financial impact. When deemed necessary, the Internal Audit Service of the IS is asked to perform inspections on behalf of the Financial Controller, IMS for set periods according to the management agreement with the IS.
- f. Reporting and explaining aspects of budgetary control and fiscal execution to the BC.

According to the NATO Financial Regulations the Financial Controller exercises in my name the responsibility for administration of the financial and budgetary control system. I have directed that the Financial Controller reports to me without delay any irregularities that cannot be resolved at his level. No such issues occurred in 2013.

The work of the IBAN also informs the system of internal control with any observations or comments it makes being acted upon to further improve processes. The IBAN report for the IMS Financial Statements 2012 issued an unqualified opinion as was the case for the preceding years.

In signing this statement I am acknowledging on behalf of the Director NSA that the above approach is also applicable for the NSA.



*For*  
Sir Christopher Harper  
Air Marshal  
Director General  
International Military Staff

NATO UNCLASSIFIED

NATO UNCLASSIFIED

## **INTRODUCTION BY THE FINANCIAL CONTROLLER (FC)**

1. The International Military Staff (IMS) is an international organisation created by the Ottawa Agreement and operating under the authority of the North Atlantic Council (NAC), and is domiciled in Belgium. The principal functions of the IMS are to support the Military Committee in its decision making process and to coordinate the implementation of its decisions. Its financial statements have been produced using the Financial Services System (FinS) and incorporate as part of the same set of financial books the IMS (Budget Code 301), The NATO Standardisation Agency (NSA, Budget Code 302), Partnership for Peace (PfP, Budget Code 504) the Mediterranean Dialogue (MD, Budget Code 508), the Istanbul Cooperation Initiative (ICI, Budget Code 514) and Other Military Cooperation (OMC, Budget Code 524) as well as the NATO Iraq Trust Fund. The NSA co-ordinates, supports and administers all NATO standardization activities conducted under the authority of the Committee for Standardization (CS). The NSA is subordinate to the NAC with the CS as its Board of Directors. The Director is operationally independent of the Director General (DG) IMS, although the DG is a member of the CS. The IMS FC's Office undertakes many of the NSA's day-to-day financial management activities.
2. The Financial Statements (FS) for Financial Year 2013 have been produced in accordance with NATO Financial Regulations and the applicable International Public Sector Accounting Standards (IPSAS)<sup>1</sup> as adapted by NATO<sup>2</sup>.
3. The statements reflect the financial position, the financial performance, the budget execution, the cash flow and the change in net assets for year 2013 compared to year 2012. Notes disclose the significant variations and changes, following the materiality principle and the statements take account of the comments made by the IBAN during the audit of the FS 2012.
4. In order to efficiently and effectively execute its budget the IMS has instructed the NATO Defense College and the Collaboration Support Organization, other entities in the IMS Budget Group (BG), to undertake certain outreach activities which are accounted for as Reimbursable Activities. Subject to the provisions of the applicable IPSAS, the revenue and expenditure made through the reimbursable budgets are fully accounted for in the IMS financial statements with corresponding entries in the separate NDC and STO financial statements.

---

<sup>1</sup> These are the IPSAS as set out in the Handbook of IPSAS Pronouncements 2012 Edition

<sup>2</sup> C-M(2013)0039

NATO UNCLASSIFIED

5. 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 IMS BG maintains a dialogue with the other NATO Bodies and plays a full part in the IPSAS WG and the Working Group of Financial Controllers. The IMS BG remains committed to developing its IPSAS expertise and producing FS fully compliant with the applicable standards and any instructions issued by Nations eg. from the Resource Policy and Planning Board or the Budget Committee. The IMS BG will also continue to work openly and constructively with the IBAN.



P. BONTINCK  
BELCV  
Financial Controller  
International Military Staff

NATO UNCLASSIFIED  
IMS

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013

(in euro)

		2013	2012	Difference
<b>ASSETS</b>				
<b>Current Assets</b>				
Notes				
Cash and Cash Equivalents				
Petty Cash and Advances	3a	26,200	26,000	200
Current Bank Accounts	3b	11,908,602	13,574,208	(1,665,606)
Cash Equivalents	3c	4,026,618	3,066,275	960,343
Total Cash and Cash equivalents		15,961,420	16,666,483	(705,063)
Receivables				
Receivables from Staff Members	4a	875	38	837
Other Receivables	4b	164,865	95,932	68,932
Total Receivables		165,739	95,970	69,769
Prepayments and Miscellaneous Assets				
Non-Assigned Expenditures	5a	86,427	69,832	16,594
Advances and Prepayments	5b	929,253	1,079,209	(149,956)
Total Prepayments and Miscellaneous Assets		1,015,680	1,149,042	(133,362)
<b>Non-current Assets</b>				
Property Plant and Equipment				
AIS	6a	13,373	30,061	(16,688)
Communication Systems	6b	1,246,620	1,439,042	(192,422)
Furniture	6c	156	1,075	(920)
Transport Equipment	6d	113,380	150,862	(37,482)
Installed Equipment	6e	5,395	6,175	(780)
Total Property Plant and Equipment		1,378,923	1,627,215	(248,292)
<b>TOTAL ASSETS</b>		<b>18,521,763</b>	<b>19,538,710</b>	<b>(1,016,947)</b>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Payables				
Payable to Suppliers	7a	3,214,307	1,382,344	1,831,963
Payable to Non - Consolidated Entities	7b	-	85,400	(85,400)
Payable to staff members	7c	894	385	509
Other payables	7d	21,580	-	21,580
Total Payables		3,236,781	1,468,129	1,768,652
Unearned Revenue & Advance Contributions				
Unearned Revenue and Advance Contributions	8a	12,826,107	14,481,009	(1,654,902)
Liabilities Lapses Budget Authorizations	8b	903,202	1,388,707	(485,505)
Liabilities from Operational Results	8c	81,756	31,376	50,379
Liabilities from Financial Results	8d	94,993	142,273	(47,280)
Liabilities from Budget Decreases	8e	-	400,000	(400,000)
Total Unearned Revenue & Advances Contributions		13,906,059	16,443,366	(2,537,307)
Non-current Liabilities				
Provisions for PP&E	9	1,378,923	1,627,215	(248,292)
Total Provision for PP&E		1,378,923	1,627,215	(248,292)
<b>TOTAL LIABILITIES</b>		<b>18,521,763</b>	<b>19,538,710</b>	<b>(1,016,947)</b>

NATO UNCLASSIFIED

IMS

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 DECEMBER 2013

(in euro)

		2013	2012	Difference
Notes				
<b>Revenue</b>				
Revenue from Contributions	10a	24,917,026	22,442,194	2,474,832
Financial Revenue	10b	10,604	15,484	(4,880)
Revenue for Depreciation	10c	248,291	247,393	898
<b>Total Revenue</b>		<b>25,175,921</b>	<b>22,705,070</b>	<b>2,470,850</b>
<b>Expenses</b>				
Personnel	11a	(19,729,518)	(18,005,119)	1,724,399
Contractual Supplies and Services	11b	(4,618,639)	(4,393,966)	224,673
Capital and Investments Budgeting	11c	(568,870)	(43,110)	525,760
Depreciation	11d	(248,291)	(247,393)	898
Finance Costs	11e	(10,604)	(15,484)	(4,880)
<b>Total Expenses</b>		<b>(25,175,921)</b>	<b>(22,705,070)</b>	<b>2,470,850</b>
<b>SURPLUS/DEFICIT FOR THE PERIOD</b>	12	-	-	-



NATO UNCLASSIFIED  
IMS

**CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2013**

	31/12/2013 Euro	31/12/2012 Euro
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<i>Surplus/Deficit</i>	-	-
<b>Non-cash movements</b>		
Depreciation	248,291	247,393
Increase /(decrease) in payables	1,768,652	(971,852)
Increase/ (decrease) in other current liabilities	(2,537,307)	4,400,366
Decrease/ (Increase) in receivables	(69,769)	2,718,048
(Gains)/losses on sale of property, plant and equipment	-	(6,377)
Increase/ (decrease) in other current assets	133,362	(165,806)
Increase/ (decrease) in Long-Term Provisions	(248,292)	(186,145)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>(705,063)</b>	<b>6,035,627</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property plant and equipment		(61,248)
Proceeds from sale of property plant and equipment		6,377
Cash Advances	-	-
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>-</b>	<b>(54,871)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from borrowings	-	-
Repayment of borrowings	-	-
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>-</b>	<b>-</b>

**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:

	2013	2012
Cash on hand and balances with banks	15,961,420	16,666,483
Short term investments	-	-

There has been a decrease in cash and cash equivalents of 705,063 EUR.

NATO UNCLASSIFIED

**IMS**

**STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 31 DECEMBER 2013**

	All Cost Shares Euro	28 Nations (2011) Euro	28 Nations (2012) Euro	28 Nations (2013) Euro
<b>BALANCE AT 31 DECEMBER 2012</b>	-	-	-	-
CHANGE OF THE PERIOD	-	-	-	-
<b>BALANCE AT 31 DECEMBER 2013</b>	-	-	-	-

NATO UNCLASSIFIED

IMS

STATEMENT OF BUDGET EXECUTION AS AT 31 DECEMBER 2013 (Note 13)

EURO	Initial Budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Commitments	Expenses	Total Spent	Carry Forward	Lapsed
<b>BUDGET 301 (IMS)2013</b>												
Chapter 1	16,562,652	-	16,562,652	-	16,562,652	534,783	17,097,435	3,401,792	13,447,663	16,849,455	3,401,792	247,980
Chapter 2	3,684,928	-	3,684,928	-	3,684,928	(534,783)	3,150,145	185,044	2,646,310	2,831,354	185,044	318,791
Chapter 3	47,500	-	47,500	-	47,500	-	47,500	33,213	8,870	42,083	33,213	5,417
<b>TOTAL</b>	<b>20,295,080</b>	<b>-</b>	<b>20,295,080</b>	<b>-</b>	<b>20,295,080</b>	<b>0</b>	<b>20,295,080</b>	<b>3,620,048</b>	<b>16,102,843</b>	<b>19,722,891</b>	<b>3,620,048</b>	<b>572,189</b>
<b>BUDGET 302 (NSA)2013</b>												
Chapter 1	2,335,520	-	2,335,520	-	2,335,520	-	2,335,520	-	2,316,162	2,316,162	-	19,358
Chapter 2	308,714	-	308,714	-	308,714	-	308,714	1,693	230,796	232,490	1,693	76,224
Chapter 3	-	-	-	-	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>2,644,234</b>	<b>-</b>	<b>2,644,234</b>	<b>-</b>	<b>2,644,234</b>	<b>-</b>	<b>2,644,234</b>	<b>1,693</b>	<b>2,546,958</b>	<b>2,548,652</b>	<b>1,693</b>	<b>95,582</b>
<b>BUDGET 504 (PFP)2013</b>												
Chapter 1	107,235	(20,335)	86,900	(6,000)	80,900	(29,059)	51,841	1,666	45,980	47,646	1,666	4,194
Chapter 2	580,373	20,335	600,708	40,000	640,708	29,059	669,767	20,510	645,094	665,605	20,510	4,163
<b>TOTAL</b>	<b>687,608</b>	<b>-</b>	<b>687,608</b>	<b>34,000</b>	<b>721,608</b>	<b>-</b>	<b>721,608</b>	<b>22,176</b>	<b>691,074</b>	<b>713,251</b>	<b>22,176</b>	<b>8,357</b>
<b>BUDGET 508 (MD)2013</b>												
Chapter 1	66,324	(15,324)	51,000	-	51,000	(7,739)	43,261	1,510	34,919	36,429	1,510	6,832
Chapter 2	371,963	15,324	387,287	22,000	409,287	7,739	417,026	28,341	384,774	413,115	28,341	3,911
<b>TOTAL</b>	<b>438,287</b>	<b>-</b>	<b>438,287</b>	<b>22,000</b>	<b>460,287</b>	<b>-</b>	<b>460,287</b>	<b>29,851</b>	<b>419,693</b>	<b>449,544</b>	<b>29,851</b>	<b>10,743</b>
<b>BUDGET 514 (ICI)2013</b>												
Chapter 1	30,637	(10,637)	20,000	-	20,000	-	20,000	-	19,708	19,708	-	292
Chapter 2	157,359	10,637	167,996	-	167,996	-	167,996	1,250	128,317	129,567	1,250	38,429
<b>TOTAL</b>	<b>187,996</b>	<b>-</b>	<b>187,996</b>	<b>-</b>	<b>187,996</b>	<b>-</b>	<b>187,996</b>	<b>1,250</b>	<b>148,025</b>	<b>149,275</b>	<b>1,250</b>	<b>38,721</b>
<b>BUDGET 524 (OMC)2013</b>												
Chapter 1	59,035	(24,775)	34,260	(3,000)	31,260	-	31,260	6,015	12,401	18,416	6,015	12,844
Chapter 2	318,664	24,775	343,439	(53,000)	290,439	-	290,439	8,876	178,766	187,642	8,876	102,797
<b>TOTAL</b>	<b>377,699</b>	<b>-</b>	<b>377,699</b>	<b>(56,000)</b>	<b>321,699</b>	<b>-</b>	<b>321,699</b>	<b>14,891</b>	<b>191,167</b>	<b>206,058</b>	<b>14,891</b>	<b>115,641</b>
<b>TOTAL FY2013</b>	<b>24,630,904</b>	<b>-</b>	<b>24,630,904</b>	<b>-</b>	<b>24,630,904</b>	<b>0</b>	<b>24,630,904</b>	<b>3,689,910</b>	<b>20,099,761</b>	<b>23,789,671</b>	<b>3,689,910</b>	<b>841,233</b>

NATO UNCLASSIFIED

EURO	Initial Budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Commitments	Expenses	Total Spent	Carry Forward	Lapsed
<b>BUDGET 301 (IMS)2012</b>												
Chapter 1	3,556,274	-	3,556,274	-	3,556,274	-	3,556,274	891,689	2,660,560	3,552,249	891,689	4,025
Chapter 2	276,270	-	276,270	-	276,270	-	276,270	-	273,179	273,179	-	3,091
Chapter 3	38,000	-	38,000	-	38,000	-	38,000	-	38,000	38,000	-	-
<b>TOTAL</b>	<b>3,870,545</b>	<b>-</b>	<b>3,870,545</b>	<b>-</b>	<b>3,870,545</b>	<b>-</b>	<b>3,870,545</b>	<b>891,689</b>	<b>2,971,739</b>	<b>3,863,428</b>	<b>891,689</b>	<b>7,117</b>
<b>BUDGET 302 (NSA)2012</b>												
Chapter 1	52,657	-	52,657	-	52,657	-	52,657	23,848	28,808	52,656	23,848	0
Chapter 2	774	-	774	-	774	-	774	-	771	771	-	3
Chapter 3	-	-	-	-	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>53,431</b>	<b>-</b>	<b>53,431</b>	<b>-</b>	<b>53,431</b>	<b>-</b>	<b>53,431</b>	<b>23,848</b>	<b>29,579</b>	<b>53,427</b>	<b>23,848</b>	<b>3</b>
<b>BUDGET 504 (PFP)2012</b>												
Chapter 1	-	-	-	-	-	-	-	-	-	-	-	-
Chapter 2	28,932	-	28,932	-	28,932	-	28,932	-	28,500	28,500	-	432
<b>TOTAL</b>	<b>28,932</b>	<b>-</b>	<b>28,932</b>	<b>-</b>	<b>28,932</b>	<b>-</b>	<b>28,932</b>	<b>-</b>	<b>28,500</b>	<b>28,500</b>	<b>-</b>	<b>432</b>
<b>BUDGET 508 (MD)2012</b>												
Chapter 1	-	-	-	-	-	-	-	-	-	-	-	-
Chapter 2	8,748	-	8,748	-	8,748	-	8,748	-	8,748	8,748	-	-
<b>TOTAL</b>	<b>8,748</b>	<b>-</b>	<b>8,748</b>	<b>-</b>	<b>8,748</b>	<b>-</b>	<b>8,748</b>	<b>-</b>	<b>8,748</b>	<b>8,748</b>	<b>-</b>	<b>-</b>
<b>BUDGET 514 (ICI)2012</b>												
Chapter 1	-	-	-	-	-	-	-	-	-	-	-	-
Chapter 2	-	-	-	-	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>BUDGET 524 (OMC)2012</b>												
Chapter 1	6,096	-	6,096	-	6,096	-	6,096	-	3,602	3,602	-	2,494
Chapter 2	152,806	-	152,806	-	152,806	-	152,806	7,500	93,382	100,882	7,500	51,923
<b>TOTAL</b>	<b>158,901</b>	<b>-</b>	<b>158,901</b>	<b>-</b>	<b>158,901</b>	<b>-</b>	<b>158,901</b>	<b>7,500</b>	<b>96,984</b>	<b>104,484</b>	<b>7,500</b>	<b>54,417</b>
<b>TOTAL FY2012</b>	<b>4,120,557</b>	<b>-</b>	<b>4,120,557</b>	<b>-</b>	<b>4,120,557</b>	<b>-</b>	<b>4,120,557</b>	<b>923,037</b>	<b>3,135,551</b>	<b>4,058,588</b>	<b>923,037</b>	<b>61,969</b>
<b>BUDGET 301 (IMS)2011</b>												
Chapter 1	1,159,714	-	1,159,714	-	1,159,714	-	1,159,714	-	1,159,714	1,159,714	-	-
Chapter 2	-	-	-	-	-	-	-	-	-	-	-	-
Chapter 3	522,000	-	522,000	-	522,000	-	522,000	-	522,000	522,000	-	-
<b>TOTAL</b>	<b>1,681,714</b>	<b>-</b>	<b>1,681,714</b>	<b>-</b>	<b>1,681,714</b>	<b>-</b>	<b>1,681,714</b>	<b>-</b>	<b>1,681,714</b>	<b>1,681,714</b>	<b>-</b>	<b>-</b>
<b>BUDGET 302 (NSA)2011</b>												
Chapter 1	-	-	-	-	-	-	-	-	-	-	-	-
Chapter 2	-	-	-	-	-	-	-	-	-	-	-	-
Chapter 3	-	-	-	-	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL FY2011</b>	<b>1,681,714</b>	<b>-</b>	<b>1,681,714</b>	<b>-</b>	<b>1,681,714</b>	<b>-</b>	<b>1,681,714</b>	<b>-</b>	<b>1,681,714</b>	<b>1,681,714</b>	<b>-</b>	<b>-</b>
<b>TOTAL ALL BUDGETS</b>	<b>30,433,175</b>	<b>-</b>	<b>30,433,175</b>	<b>-</b>	<b>30,433,175</b>	<b>0</b>	<b>30,433,175</b>	<b>4,612,947</b>	<b>24,917,026</b>	<b>29,529,973</b>	<b>4,612,947</b>	<b>903,202</b>

NATO UNCLASSIFIED

NOTES

**Note 1: Accounting Policies**

*A. Accounting Period*

These Financial Statements are based on the accounting records of the IMS as of 31 December 2013. In accordance with Article 2 of the NFR, the financial year begins on 1 January and ends on 31 December of the year.

*B. Reporting Currency*

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

*C. Basis of preparation*

The financial statements have been prepared on a going concern basis.

There is an ongoing IMS review but this is unlikely to change the core mission of the IMS – support to the Military Committee.

Although NSA is part of Agency Reform Initiative there were no changes in 2013 and the definitive solution proposed for 2014 will not change the core mission of the organization.

As a result of the creation of the NCIO there is an ongoing work with NCIA to transfer related CIS responsibilities.

*D. Financial Reporting Framework*

The IMS financial statements have been prepared on the accrual basis of accounting in accordance with the International Public Sector Accounting Standards (IPSAS) issued by the IPSAS Board (IPSASB) and relevant to the IMS 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 the of the principle of the right balance between the benefits derived from the information and the costs of providing it as summarised 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).

A new standard, IPSAS 32, was issued, however it has not been adopted earlier than the application date. The following IPSAS are not relevant for the IMS 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, IPSAS 18.

The IMS 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.

## NATO UNCLASSIFIED

In instances where there is a conflict between IPSAS, the NATO Accounting Framework, and the NFRs and FRP, this has been noted.

### *E. 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 IMS's accounting policy have been identified in the notes under the appropriate headings.

### *F. Foreign currency transactions*

Foreign currency transactions 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 translated into Euro using the NATO rates of exchange that were applicable at 31 December 2013. Realised and unrealised gains and losses resulting from the settlement of such transactions and from the revaluation at the reporting dates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Financial Position and Performance. An assessment was made of all assets and liabilities in foreign currencies as of 31 December 2013. The amount of unrealised gains in negligible and deemed immaterial.

### *G. 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 IMS does not consolidate its financial statements with the other IMS BG constituent bodies due to operational independence. The bodies are only linked by a common Financial Controller. An IPSAS 6 adaption is applicable according to C-M (2013)0039. Morale and Welfare Activities are not consolidated into the Financial Statements.

### *H. 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.

### *I. Assets – Current Asset*

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 in hand, deposits held with banks, pre-paid credit cards and 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.

NATO UNCLASSIFIED

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 IMS Budget Group 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, all inventories are fully expensed on receipt. This is the same approach as FS2007 onwards but this policy is reviewed each year for changes in materiality.

*d. Prepayments*

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

*J. Non Current Assets*

In this category are included 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:

- All property, plant and equipment is 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; however the depreciable life of an asset is dependent on the particular category it is in.
- Full depreciation / amortization in the month of acquisition, and nil in the month of disposal.
- As an accounting principle, land cannot be depreciated.

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

- Any building improvements eligible for capitalisation are to be recognised where the value exceeds 100,000 EUR.
- Installed equipment (e.g. airco units, PABX, networks), furniture, and machinery not part of another category will have a life of 10 years.
- CIS equipment (i.e. IT and telecoms equipment except PABX) have a life of 4 years.
- Vehicles (and similar) 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

- Control. In addition to the standard assessment of "substance over form", the following criteria are 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:

NATO UNCLASSIFIED

<b>Criteria that may indicate control of an asset</b>
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 capitalise the assets in its Financial Statements (if it is also above the capitalisation threshold).

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

<b>Category</b>	<b>Threshold – per item (no grouping)</b>	<b>Depreciation life</b>	<b>Method</b>
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

c. 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.

d. Intangible Assets.

Prior to 31 December 2012, intangibles were reviewed on a case by case basis against IPSAS 31 requirements. The IMS 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:



NATO UNCLASSIFIED

IPSAS 31 Adapted - Intangibles

Control. In addition to the standard assessment of "substance over form", the following criteria are 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:

<b>Criteria that may indicate control of an asset</b>
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 capitalise the assets in its Financial Statements (if it is also above the capitalisation threshold).

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

<b>Category</b>	<b>Threshold – per item (no grouping)</b>	<b>Depreciation life</b>	<b>Method</b>
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

There are no assets in 2013 that meet the recognition criteria for Intangible Assets.

*K. Current liabilities*

*a. Payables*

Payables are amounts due to third parties based on goods received or services provided unpaid. This includes an estimate of accrued obligation to third parties for goods and services received but not yet invoiced.

*b. Unearned revenue and Advances.*

## NATO UNCLASSIFIED

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 recognised 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. Advances are contributions received related to future year's budgets.

### c. Employee Benefits – Post Employment 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 IMS in funds under the control of independent trustees or an Administrator. The IMS 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 IMS 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.

### *L. Non-Current Liabilities*

#### a. Provisions – 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.

#### b. *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 recognised 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.

### *M. Net Assets*

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

NATO UNCLASSIFIED

*N. 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 IPSAS 4 – Effect of the foreign exchange rate are recognized as financial expenses.

*O. Surplus or Deficit for the Period*

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

*P. Trust Funds*

The IMS manages the NATO-Iraq Trust Fund on behalf of the contributing nations. NATO recognises an asset when it controls access to the asset and gains economic benefit or service potential but matches this to an equal liability. The IMS does not recognise any expenditure or revenue in relation to the Trust Funds which it does not control in its Statements of Financial Performance.

*Q. Other Issues – Related Party Disclosures*

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.

NATO UNCLASSIFIED

**Note 2: Accounting Judgements 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.

NATO UNCLASSIFIED

**Notes to the Statement of Financial Position**

**Note 3 : Cash and Cash Equivalents**

	31-Dec-13	31-Dec-12
Petty Cash and Advances		
Petty Cash	1,200	1,000
Advances	25,000	25,000
<b>Total Petty Cash and Advances</b>	<b>26,200</b>	<b>26,000</b>
Current Bank Account IMS	9,906,223	11,398,033
Current Bank Account NATO Iraq Trust Fund	2,002,379	2,176,175
Cash Equivalents	4,026,618	3,066,275
<b>Total Cash and Cash Equivalents</b>	<b>15,961,420</b>	<b>16,666,483</b>

a. Petty Cash holdings are small amounts of cash kept in the International Military Staff (IMS) - € 700 and the NATO Standardization Agency (NSA) - € 500 to pay for small expenses. The IMS has delegated some expenses to the office in Moscow (MLM) - € 25,000. Regularly the advance account holders report on their use of funds.

b. Current Bank Accounts are held in euros. Deposits are partly held in interest-bearing current bank accounts in immediately available funds. The accounts reflect the situation on the bank statements. The decrease is explained by the placement of funds on a short term deposit accounts.

c. Cash Equivalents are held in euros and is the money invested on a short term deposit or business account. For cash and cash equivalents, there are restrictions on their use. The increase is explained by routine allocation of funds between current bank accounts and interest bearing accounts based on the forecasted cash needs of the IMS.

**Note 4 : Receivables**

	31-Dec-13	31-Dec-12
Receivables from Staff Members	875	38
<b>Total Receivables from Staff members</b>	<b>875</b>	<b>38</b>
Other Receivables/Recoverables		
VAT Receivable	10,348	2,456
Accrued Revenue	73,426	81,466
Receivables from Third Parties	81,091	12,010
<b>Total Other Receivables/Recoverables</b>	<b>164,865</b>	<b>95,932</b>
<b>Total Receivables</b>	<b>165,739</b>	<b>95,970</b>

a. Receivables from Staff Members are minor amounts, such as short term loans (in accordance with the CPRs), salaries to be reimbursed, allowances to be reimbursed by staff members and receivables not belonging to these categories such as travel advances and private telecommunication usage. Collections are assured through payroll withholdings and deductions from staff separation payments. The amount relates to private use of telephones.

b. Other Receivables

VAT receivable relates to VAT refunds due from national tax offices.

Accrued revenue consists of bank interest that is earned in 2013, but the cash is received in 2014. The decrease is explained by the slightly lower interest rates.

Receivables from third parties include mostly the 2013 NHQC3S Civil Budget Contribution (EUR 64,972). The remainder covers several small invoices for procurement and services on behalf of third parties.

## NATO UNCLASSIFIED

### Note 5 : Prepayments and Miscellaneous Assets

	31-Dec-13	31-Dec-12
Non-Assigned Expenditures	86,427	69,832
Advances and Prepayments to suppliers	929,253	1,079,209

### Total Prepayments and Miscellaneous Assets

<b>1,015,680</b>	<b>1,149,042</b>
------------------	------------------

a. The account "Non-Assigned Expenditures" is used for temporary posting of expenditures, which cannot be assigned yet to the appropriate expenditure account because they belong to the next fiscal year. The largest element is for instalments on education allowances that staff members have asked to cover the entire school year 2013-2014 (€ 82,603) under the Civilian Personnel Regulations (CPR). The remainder covers airplane tickets for missions starting in 2014.

b. Advances and Prepayments are mainly in respect of advance payments made to suppliers and other entities. Since 2011, It includes the Advance Funds Request from NAMSA/NSPA Software licenses support and maintenance (€ 230,110) and the contractually agreed Working capital deposit at the NC3A/NCIA for the IMS POW (€ 663,000). These advances are yearly reviewed and adjusted according to the expected requirements for the year. The remainder is mainly advances to MLM Moscow for procurement of a vehicle (€ 30,383).

### Note 6: Property, Plant And Equipment

As of 1<sup>st</sup> of January 2013 an IPSAS 17 adaption is applicable according to C-M (2013)0039. However there were no new assets recognized in 2013 and the policy that was in place up to and including 31 December 2012 applies.

Opening balances have been calculated as of 1 January 2013 and all subsequent changes to arrive at the closing balance are disclosed below:

	Ais	Communication Systems	Furniture	Transport Equipment	Installed Equipment	Totals
Opening Balance	30,061	1,439,042	1,075	150,862	6,175	1,627,214
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Depreciation	16,688	192,422	919	37,482	780	248,291
<b>Closing Balance</b>	<b>13,373</b>	<b>1,246,620</b>	<b>156</b>	<b>113,380</b>	<b>5,395</b>	<b>1,378,923</b>
Gross Carrying Amount	137,323	1,931,229	9,193	276,827	7,800	2,362,372
Accumulated Depreciation	123,950	684,609	9,037	163,447	2,405	983,448
<b>Net Carrying Amount</b>	<b>13,373</b>	<b>1,246,620</b>	<b>156</b>	<b>113,380</b>	<b>5,395</b>	<b>1,378,923</b>

a. In the AIS category are included servers and appliances necessary for the NATO Secret Networks (Minerva and Cronos) and for the HQ NU LAN and two LANS in the NSA and the C3S.

b. The most significant part of communication systems is the IMS share of the HQ ICT Revitalisation. The IMS part is clearly identifiable (in servers farms and WLANS) and under the control of the IMS. Its cost was reliably measured and the IMS bears all the benefits and risks associated with the assets. The other assets included here are two small WLANS and a teleconferencing system.

c. The assets included under the furniture category are used for storing servers and other similar items.

d. Transport equipment includes the staff motor vehicles of the IMS and the NSA.

e. Installed equipment includes a machine that is used for binding in the IMS Registry Services. More details are included in Annex 1.

NATO UNCLASSIFIED

**Note 7: Payables**

	31-Dec-13	31-Dec-12
Payables to Suppliers	984,525	69,911
Accruals	2,229,783	1,312,433
<b>Total Payable to Suppliers</b>	<b>3,214,307</b>	<b>1,382,344</b>
Payables to Non Consolidated Entities	-	85,400
Payables to Staff Members	894	385
Other Payables	21,580	-
<b>Total Payables</b>	<b>3,236,781</b>	<b>1,468,129</b>

a. Payables to Suppliers include invoices received from suppliers but not yet settled in an amount of € 984,525. During 2012 the upgrade to FINS11i necessitated a freezing of transaction processing, thus resulting in low payables. In 2013 payables are back to their historical levels. The accruals have been split over two accounts. Account 231900 (€ 2,068,072) is the default AP accrual account used in the accounting system. The assessed accruals have been charged to account 231950 (€161,711) in order to make the distinction at month end reconciliation between the sub ledger and general ledger.

b. In 2012 the payables non consolidated entities included an invoice payable to NDC with the year end accruals for reimbursable expenses on the PFP, MD, ICI and OMC budgets. In 2013 the outreach accruals were entered manually and hence the difference.

c. Payables to Staff Members include insurance for interns and temporary staff approved but not paid out due to close of the year.

d. One staff member of the NSA is reimbursed by the US according to national rules. The NSA reimburses to the US the amounts that would have been paid if the employee was hired directly by the organization. This is based on an Agreement signed between NATO and the US (30-04-2008), according which US nationals may choose to be reimbursed according national rules. The payable covers November and December 2013.

**Note 8: Unearned Revenue and Advance Contributions**

	31-Dec-13	31-Dec-12
Unearned Revenue (See Note 10)		
Unearned Revenue	4,612,947	5,802,271
Unearned Revenue Trust Funds	2,013,160	2,178,738
Advanced Contributions for next FY	6,200,000	6,500,000
<b>Total Unearned Revenue</b>	<b>12,826,107</b>	<b>14,481,009</b>
Liabilities from Lapses	903,202	1,388,707
Liabilities from Operational Results	81,756	31,376
Liabilities from Financial Results	94,993	142,273
Liabilities from Budget Decreases		
Transfers IMS to NDC Budget	-	400,000
<b>Total Liabilities from Budget Decreases</b>	<b>-</b>	<b>400,000</b>
<b>Total Unearned Revenue and Advance Contributions</b>	<b>13,906,059</b>	<b>16,443,366</b>

a. Unearned Revenue consists of contributions received or receivable, but for which corresponding expenses 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. The following table gives a more detailed overview and reflects the amounts carried forward.

NATO UNCLASSIFIED

	FY 2012	FY 2013
IMS Budget 301	891,689	3,620,048
NSA Budget 302	23,848	1,693
PFP Budget 504	-	22,176
MD Budget 508	-	29,851
ICI Budget 514	-	1,250
OMC Budget 524	7,500	14,891
Total	4,612,947	

The unearned revenue for trust funds is the corresponding liability for the cash received by nations to fund the NATO-Iraq Trust Fund. It also includes the accrued bank interest. See also Annex 2.

The Advanced Contributions are called for FY 2014 and represent 25% of the provisional BA1 for 2014.

b. The Liabilities from Lapses are the unspent balances at year end. The detailed information can be found on the budget execution statement. The majority is on 2013 credits and mainly explained by the postponement of O&M expenditures due to the move to the new NATO HQ, a higher than expected lapse rate on personnel expenses due to the ongoing IMS PE Review and the variability of expense patterns on outreach activities.

c. The Liabilities from Operational Results include the miscellaneous income (€ 33,614), which is composed of cash receipts relating to previous Budget Years. The main components are the final calculation of education advance for 2011 and 2012 (€ 18,229), reimbursements by the IS (€ 11,164) for procured furniture and the NCIA (€ 11,455) for the conclusion of the FINS at STO Project. This was partially offset by the reimbursement of expenses for 2 staff members following Appeals Board decisions (€ 9,000).

Additionally the accrual write-off (€ 48,141) i.e. where the invoice turned out to be lower than the estimated accrual amount, has been posted here. In accordance with IMS Budget Group policy the amount is shown separately for reason of clarity. It is accounted for by type, cost share, budget and year. All listed accrual write-off are related to FY 2013.

d. The Liabilities from Financial Results are, after offsetting the expenses such as bank charges/realised losses, the net amount of bank interest received and realized gains generated during 2013. In accordance with IMS Budget Group policy the amount is shown separately for reason of clarity. The decrease in interest reflects lower market interest rates than in 2012. Details are provided in the following table.

Gross Bank Interest	103,812
Realized Exchange Rate Gains	1,785
Gross Amount due to Nations (1)	105,597
Bank Charges/Revenue Recognised	5,652
Realised Exchange Rate Losses/Revenue Recognised	4,951
Total Financial Expenses/Revenue (2)	10,603
<b>Total to be returned to Nations (1) – (2)</b>	<b>94,994</b>

e. The Liabilities from Budget Decreases are the transfers out of the budget authorizations and not taken into account in the 2<sup>nd</sup> Contribution 2013, i.e. after BA2. There were no Budget Decreases.

**Note 9: Non – Current Liabilities**

Represents the Net Carrying amount of PP&E as of 31st December 2013. Similarly to the Current Unearned revenue it is owed to Nations, because the corresponding expenses have not been incurred yet. The liability is decreased with the annual depreciation and increased with any new acquisitions. A summary is provided below.



**NATO UNCLASSIFIED**

	Ais	Communication Systems	Furniture	Transport Equipment	Installed Equipment	Totals
Gross Carrying Amount	137,323	1,931,229	9,193	276,827	7,800	2,362,372
Accumulated Depreciation	123,950	684,609	9,037	163,447	2,405	983,448
<b>Net Carrying Amount</b>	<b>13,373</b>	<b>1,246,620</b>	<b>156</b>	<b>113,380</b>	<b>5,395</b>	<b>1,378,924</b>

**Notes to the Statement of Financial Performance**

**Note 10: Revenue**

	31-Dec-13	31-Dec-12
Revenue from Contributions	24,917,026	22,442,194
Bank Interest Revenue Recognized	8,819	15,484
Exchange Rate Gains Revenue Recognized	1,785	-
Revenue for Depreciation	248,291	247,393
<b>Total Revenue (See also Note 10)</b>	<b>25,175,921</b>	<b>22,705,070</b>

a. 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. Contributions when called are booked as an advance under unearned revenue and subsequently recognised as revenue when it is earned. All revenue is recognised as revenue from exchange transactions and is matched with the incurred expenses against the International Military Staff Budget (301), NATO Standardisation Agency Budget (302), Partnership for Peace Budget (504), Mediterranean Dialogue Budget (508), the Istanbul Cooperation Initiative Budget (514) and the Other Military Cooperation Budget (524).

b. Out of the EUR 103,812 gross bank interest only EUR 8,819 is recognized as revenue, because the bank interest earned and realized exchange rate gains are matched to the amount of financial expenses incurred. (See also Note 8d.)

c. Revenue for depreciation is matched with the depreciation expense for the year and accounted for as a reduction in Net Assets.

**Reconciliation between Budget Revenue and Unearned Revenue.**

The table below explains to what extent the unearned revenue from previous years and the net calls made in 2013 for the annual budgets are recognized as budget operating revenue in the fiscal year. The remaining balance is unearned revenue for the funds that are carried forward to future years, payables for the annual budgets credits that are lapsed, payables for budget decreases and receivables for budget increases.

	31/12/2013 Euro	31/12/2012 Euro
<b>Unearned Revenue opening balance</b>		<b>5,802,271</b>
Contributions called for 2013		
Call 1 FC(CC)(2013)0007 (MB-01) - CANADA	18,473,178	
Call 2 FC(CC)(2013)0012 (MB-02) - GERMANY	6,157,727	
Total Contributions Called	24,630,904	
Budget Revenue earned in 2013	(24,917,026)	
Lapses	(903,202)	
Budget increases	-	
Budget decreases	-	
<b>Unearned revenue Closing Balance</b>	<b>4,612,947</b>	

## NATO UNCLASSIFIED

### Note 11: Expenses

	31-Dec-13	31-Dec-12
Personnel (Chapter 1)	19,729,518	18,005,119
Contractual Supplies and Services (Chapter 2)	4,618,639	4,393,966
Capital and Investments (Chapter 3)	568,870	43,110
Finance Costs	10,604	15,484
Depreciation Expense	248,291	247,393
<b>Total Expenses</b>	<b>25,175,921</b>	<b>22,705,070</b>

a. All civilian and military Personnel expenses as well as other non-salary related expenses, in support of common funded activities. The expenses are further broken down in the following table:

	31-Dec-13	31-Dec-12
Employee Benefits	9,237,830	9,326,293
IMS POW	4,692,264	3,449,116
Admin Bill	3,692,406	3,533,884
EUDAC and COMMs	794,818	819,560
Outreach	254,094	273,091
Training	119,185	101,915
Recruitment and Separation	50,686	67,833
Consultants and Contractors	850,999	380,952
Other Costs	37,236	52,476
<b>Total Chapter 1 Expenses</b>	<b>19,729,518</b>	<b>18,005,119</b>

The increase of expenses in Chapter 1 is mainly due to the IMS POW. There has been improved performance by contractors in completing work with a resulting higher rate of invoicing. Another factor for the increase is the contractors' costs, which reflect the technical upgrade to FinS Release 12.

b. Contractual Supplies and Services expenses required for administrative support to the Military Committee. 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. The expenses are further broken down in the following table:

	31-Dec-13	31-Dec-12
Services	43,196	81,992
Office Supplies and Reference Materials	104,727	96,445
Utilities, Maintenance and Furniture	1,093,978	1,041,207
Rent/Lease	111,360	128,988
CIS	1,016,028	985,077
Travel and Hospitality	590,485	605,385
Outreach	1,658,865	1,454,871
<b>Total Chapter 2 Expenses</b>	<b>4,618,639</b>	<b>4,393,966</b>

The increase of expenses in Chapter 2 is mainly due to the higher participation rate in Partnership Programmes.

c. Items that are above the capitalization threshold of EUR 5,000 but do not meet the recognition criteria in C-M (2013)0039 are charged here. It includes the final contribution by the IMS to the MS/ICTM Revitalization Programme (EUR 522,000). The Programme had 2 distinct components - the NR2 Network for which the IMS fully contributed and the Enterprise Information Management Project (EIMP), which was not delivered. As a consequence in 2011 the IMS paid only EUR 478,000 (the final payment for the NR 2

**NATO UNCLASSIFIED**

network) rather than the full amount of EUR 1,000,000. The remaining EUR 522,000 was deferred and paid in 2013 for the completion and approval of a new Programme of Work and Low Level Design.

d. The depreciation for 2013 calculated on a straight line basis and summarized below:

	Ais	Communication Systems	Furniture	Transport Equipment	Installed Equipment	Totals
Depreciation for 2013	16,688	192,422	919	37,482	780	248,291
Depreciation for 2012	17,746	192,654	919	35,294	780	<b>247,393</b>

e. Finance costs include bank charges of (€5,652) and realized exchange rate losses of (€4,951). They are matched to financial revenue. (See also note 8d.)

**Note 12: 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.

**Notes to the Statement of Budget Execution**

**Note 13: Budget Execution Statement**

The budget covers the financial year from 1 January 2013 to 31 December 2013 and includes the following budgets: 301 (IMS), 302 (NSA), 504 (PFP), 508 (MD), 514 (ICI), 524 (OMC).

In accordance with the NFRs, all the changes between the initial and the final budget which were due to reallocations, were either authorised by the Budget Committee or were within the authority of the IMS Financial Controller. These changes are presented in the Budget Execution Statement.

As required by the NATO Financial Regulations (NFR part II, Art 11Bis), the credits carried forward are presented in the Budget Execution Statement. They represent the unexpended balances at year end for which there is a legal liability or a Budget Committee decision and are equal to the closing Unearned Revenue (see also Note 7).

The initial 2013 budget was reviewed by the Budget Committee and issued in BC-BA(2013)0001 on the 14<sup>th</sup> of January 2013. Similarly the 2013 revised authorizations BA 2 and BA3 were issued in BC-BA(2013)0002, BC-BA(2013)0002-CORR1, BC-BA(2013)0003 and BC-BA(2013)0003-CORR1 on the 26<sup>th</sup> of June, 1<sup>st</sup> of July, 7<sup>th</sup> of November and 13<sup>th</sup> of November respectively.

The Budget and the Financial Statements are not prepared on the same basis. In the financial statements only current year depreciation is recognized as an expense, while in the budget all noncurrent assets are fully expensed during the year. The following table summarizes the differences.

	Financial Position	Budget	Difference
Personnel	19,729,518	19,729,518	-
Contractual Supplies and Services	4,618,639	4,618,639	-
Capital and Investments	568,870	568,870	-
Finance Cost	10,604	-	10,604
Depreciation Expense	248,291	-	248,291
<b>Total Expenses</b>	<b>25,175,921</b>	<b>24,917,026</b>	<b>258,895</b>

NATO UNCLASSIFIED

**Note 14: Related Parties**

The key management personnel includes: the DG IMS, Directors and Heads of Independent Offices. They are all rotated, typically every three years, and with the exception of the Financial Controller, have only management oversight of routine operating and maintenance activities. 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.

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

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 eg. requirements definition is separate from the procurement and contracting function, and also a number internal actors are involved in staffing an issue for key personnel decision(s);
- maximum use is made of competition including advertising via the NATO website;
- documentation trails are maintained for all decisions and there are compliance checks against the relevant NATO regulations;
- the Internal Audit Service undertakes periodic independent reviews.

**Note 15: Employee disclosure**

**Peacetime Establishment (PE)**

	Total Approved PE - IMS	Filled Positions - IMS	Total Approved PE - NSA	Filled Positions - NSA
Civilians (MBC)	87	82	18	17
Military	328	304	27	24
Voluntary National Contribution (VNC)	20	19	-	-
National Manpower Overage (NMO)	35	32	-	-
Host Nation	67	57	-	-
PFP	7	3	2	-
Local Wage Rate (LWR)	1	1	-	-
Civilians (CBC)	13	12	-	-

The Total Approved PE figures are based on document MC 0500/2 Final. Filled Positions are extracted from the relevant IMS and NSA HR records.

**Employee Benefits**

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

The compensation consists of basic salary, various allowances, health insurance, pension plan and other benefits as agreed with each Host Nation and the Protocols of NATO. Cash compensations are exempt from income tax in accordance with NATO Nations agreement.

Certain employees participate in the Provident Fund or the Defined Contribution Pension Scheme (DCPS) administered by NATO. Contributions to these Plans are limited to matching the employees' contributions for current service. Other employees participate in NATO's Defined Pension Scheme; a portion of their salaries is deducted and contributed to the annual financing of this Plan. These contributions are expensed during the year in which the services are rendered and represent the total pension obligation of

## NATO UNCLASSIFIED

the entity. The assets and liabilities for the NATO's Defined Benefit Pension Scheme and the RMCF are accounted for centrally at NATO Headquarters by the International Staff and therefore are not recognised in these financial statements. Employee Benefits are summarised in the following table.

	31-Dec-13	31-Dec-12
Employee Benefits	8,951,478	9,065,398
Providend Fund	8,803	15,309
DCPS	277,549	245,586
<b>Total Expenses</b>	<b>9,237,830</b>	<b>9,326,293</b>

### Untaken Leave

The methodology for the calculation of untaken leave has been improved to allow the IMS better control over the data provided by the IS. The Balance of untaken leave at 31.12.2013 is 26 days for NSA and 491 days for IMS. There are management procedures in place in the IMS and NSA, ensuring that all leave is taken before 30<sup>th</sup> April the following year. Only in exceptional circumstances the outstanding balance is allowed to be carried forward; however it is forfeited if not taken by 31<sup>st</sup> of December. Normally at final departure there is no compensation for leave not taken, unless it has not been possible to take the leave entitlement due to supporting a Council approved operation/mission, or an extended period of sick leave. Measures are also taken to ensure that all staff takes their leave before their date of departure. The efficiency of these measures was proven in 2013, when no leave was paid at final departure.

Untaken leave is not recognized as a liability or expense for several reasons. The amount is immaterial. The probability that employees may leave before they use an accumulated leave entitlement is considered to be very low. Because of that the normal expectation is that untaken leave will not be paid and therefore it is not possible to reliably measure the expected cost.

### Note 16: Financial Instruments

The IMS 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, the IMS incurs credit risk from trade receivables and transactions with banking institutions. The IMS manages its exposure to credit risk by:

- Holding current account bank balances and short-term deposits with registered banking institutions with a high credit rating;
- 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. If receivables are considered uncollectible, they are adequately provided for. There is a very limited credit risk associated with the realization of these instruments.

**Currency risk:** The IMS'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.

## NATO UNCLASSIFIED

### Note 17: Write-offs

In accordance with the NATO Financial Regulations (NFR Part II Art. 19), a statement of write-offs recorded in 2013 is presented in the following table.

Quantity	Description	Identity	Year of purchase	Original cost, EUR	Reason for write-off	Disposition
65	Workstations, monitors, servers, printers and notebooks	Mostly HP and Toshiba	2004-2010	41,854	Normal wear and tear	Scrapped
2	Laptop	DELL XPS	2009-2012	2,392	Stolen	N.A
1	Scanner	KODAK 500D	1997	37,000	Normal wear and tear	Scrapped
165	Office Equipment and furniture	Miscellaneous	1990-2008	8,053	Normal wear and tear	Scrapped

All property write-off transactions were within the authority of the IMS Financial Controller.

### Note 18: Operating Leases

Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term and are included in Contractual Supplies and Services expenses.

The IMS has 3 rental/lease contracts in 2013 that have been classified as operating leases as they do 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 majority of the item's estimated economic life and the leases do not contain a bargain purchase option. This approach is reviewed every year.

The following rental/lease contracts are included in Chapter 2 expenses:

- Contract IMS 2008-003 for copiers signed July 2008 for a period of 5 years with a yearly cost of 25,004 EUR. This contract was replaced by three 3 year period contracts - IMS 2013-003/004/005 with a yearly cost of 24,733 EUR.

- Contract IMS 2005-005 for portacabins signed December 2005 for a period of 10 years with a yearly cost of 47,962 EUR

- Contract IMS 2012-004 for an armored vehicle signed January 2013 for a period of 3 years, with a yearly cost of 54,000. EUR.

### Note 19: MWA Activities

The regulation of morale and welfare activities in international military headquarters and agencies was reinforced in 1997 (PO(97)98). An IPSAS 6 adaption is applicable according to C-M (2013)0039. Morale and Welfare Activities are not consolidated into the Financial Statements and are separately submitted to the BC under IMSTAM(FC)-0027-2014.

NATO UNCLASSIFIED  
IMS Non Current Asset Register

	Date Service	Date Retire	Cost				Depreciation Details					Net Book Value
			Cost Beginning	Cost Additions	Cost Retired	Net Cost	Accum	Current	Total Depreciation	Retired Depreciation	Net Depreciation	Net Book Value
<b>ALS</b>			137,323	-	-	137,323	107,264	16,633	123,952	-	123,952	13,372
1 - DELL POWEREDGE R710	12/11/2010		5,941	-	-	5,941	3,217	1,485	4,702	-	4,702	1,239
3 - DELL POWEREDGE R710	12/11/2010		5,941	-	-	5,941	3,217	1,485	4,702	-	4,702	1,239
5 - DELL POWEREDGE R710	12/11/2010		5,941	-	-	5,941	3,217	1,485	4,702	-	4,702	1,239
20 - DELL Power Edge 2850	18/11/2005		6,599	-	-	6,599	6,599	-	6,599	-	6,599	-
21 - DELL Power Edge Xeon 2850	6/5/2006		16,500	-	-	16,500	16,500	-	16,500	-	16,500	-
22 - DELL PE 2950 Xeon	11/9/2006		12,120	-	-	12,120	12,120	-	12,120	-	12,120	-
23 - DELL PE 2950 Xeon 5160	6/11/2006		6,087	-	-	6,087	6,087	-	6,087	-	6,087	0
24 - DELL PE 2950 Xeon 5160	7/12/2006		15,980	-	-	15,980	15,980	-	15,980	-	15,980	-
25 - Nokia Firewall	24/4/2007		9,051	-	-	9,051	9,051	-	9,051	-	9,051	0
26 - Dell Server PV12-4T LT04-120 S	16/4/2009		5,640	-	-	5,640	5,288	352	5,640	-	5,640	-
27 - Dell Power Edge R710	1/10/2010		29,703	-	-	29,703	16,708	7,426	24,134	-	24,134	5,569
28 - Dell PowerEdge R710	21/12/2010		17,822	-	-	17,822	9,281	4,455	13,736	-	13,736	4,086
<b>COMMUNICATION SYSTEMS</b>			1,931,229	-	-	1,931,229	492,188	192,422	684,610	-	684,610	1,246,619
6 - NSA LAN	23/8/2005		39,564	-	-	39,564	29,340	3,956	33,296	-	33,296	6,268
8 - TELECONFERENCING SYSTEM	11/11/2005		21,512	-	-	21,512	21,512	-	21,512	-	21,512	0
36 - VTC NHQC3S	7/12/2011		13,395	-	-	13,395	3,628	3,349	6,977	-	6,977	6,418
29 - Bices Network	19/5/2006		27,133	-	-	27,133	18,087	2,713	20,800	-	20,800	6,333
30 - C3S Network	6/7/2006		12,656	-	-	12,656	8,229	1,266	9,495	-	9,495	3,161
31 - Crypto Network	18/4/2007		27,174	-	-	27,174	15,623	2,717	18,340	-	18,340	8,834
32 - CISCO Switch Layer	3/3/2008		5,583	-	-	5,583	5,583	-	5,583	-	5,583	0
33 - C3S Network	16/12/2008		193,212	-	-	193,212	78,894	19,321	98,215	-	98,215	94,997
34 - Cabling	18/12/2007		135,000	-	-	135,000	68,625	13,500	82,125	-	82,125	52,875
35 - ICT REC NR2	7/5/2011		1,456,000	-	-	1,456,000	242,667	145,600	388,267	-	388,267	1,067,733
<b>FURNITURE</b>			9,193	-	-	9,193	8,118	919	9,037	-	9,037	156
9 - RAYONNAGE	4/3/2004		9,193	-	-	9,193	8,118	919	9,037	-	9,037	156
<b>TRANSPORT EQUIPMENT</b>			276,827	-	-	276,827	125,065	37,482	163,447	-	163,447	113,380
40 - Mercedes 200 CDI	24/4/2012		30,624	-	-	30,624	3,281	4,375	7,656	-	7,656	22,968
11 - OPEL VIVARO COMBI	16/12/2003		14,441	-	-	14,441	14,441	-	14,441	-	14,441	0
13 - AUDI A6	20/4/2007		22,876	-	-	22,876	18,791	3,268	22,059	-	22,059	817
14 - VW PASSAT COMFORTLINE	30/12/2007		19,639	-	-	19,639	14,259	2,805	17,064	-	17,064	2,575
15 - VW PASSAT COMFORTLINE	30/6/2008		20,043	-	-	20,043	13,122	2,863	15,985	-	15,985	4,058
16 - AUDI MLM	4/12/2008		25,061	-	-	25,061	14,618	3,580	18,198	-	18,198	6,863
17 - VOLSWAGEN TRANSPORTER MLM	30/3/2009		17,858	-	-	17,858	9,779	2,551	12,330	-	12,330	5,528
18 - SKODA SUPERB	26/6/2009		22,954	-	-	22,954	11,750	3,279	15,029	-	15,029	7,925
19 - SKODA SUPERB	26/6/2009		22,954	-	-	22,954	11,750	3,279	15,029	-	15,029	7,925
37 - BMW 520D	16/5/2011		29,758	-	-	29,758	7,085	4,251	11,336	-	11,336	18,422
38 - FORD MINIVAN	19/9/2011		19,995	-	-	19,995	3,808	2,856	6,664	-	6,664	13,331
39 - Mercedes 200 CDI	24/4/2012		30,624	-	-	30,624	3,281	4,375	7,656	-	7,656	22,968
<b>INSTALLED EQUIPMENT</b>			7,800	-	-	7,800	1,625	780	2,405	-	2,405	5,395
10 - BINDING MACHINE	31/12/2010		7,800	-	-	7,800	1,625	780	2,405	-	2,405	5,395
			2,362,371	-	-	2,362,371	735,159	243,291	983,450	-	983,450	1,378,921

NATO UNCLASSIFIED  
NATO-Iraq Trust Fund Status as of 31<sup>st</sup> December 2013

FISCAL YEAR	IN COUNTRY COURSES	OUT OF COUNTRY COURSES			TOTAL
	EXPENSES	EXPENSES	SLOTS OFFERED	SLOTS TAKEN	
2005	€133,235	€1,494,235	123	200	€1,627,470
2006	€966,684	€1,553,815	444	253	€2,520,499
2007	€745,024	€1,230,390	223	197	€1,975,414
2008	€2,900,068	€1,105,880	230	208	€4,005,948
2009	€200,557	€1,263,332	220	208	€1,463,889
2010	€218,647	€1,737,842	412	336	€1,956,489
2011	€44,135	€1,733,875	468	420	€1,778,010
2012	€-	€23,366	23	15	€23,366
2013	€-	€176,359 <sup>1</sup>	42	42	€176,359
<b>TOTAL</b>	<b>€5,208,350</b>	<b>€10,319,094</b>			<b>€15,527,445</b>

NATO-IRAQ TRUST FUND STATUS AS OF 31 DEC 2013	
FUNDS DONATED <sup>2</sup>	€17,176,421
INTEREST EARNED <sup>3</sup>	€364,184
FUND USED	€15,527,445
FUND AVAILABLE	€2,013,160

<sup>1</sup> Iraqi Operational Education Course

<sup>2</sup> No funds were donated in 2013

<sup>3</sup> The interest for 2013 was EUR 10,781