

	NATO	NORTH ATLANTIC COUNCIL
	OTAN	CONSEIL DE L'ATLANTIQUE NORD

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18 January 2016

DOCUMENT
C-M(2016)0003-AS1

**IBAN REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS
OF ALLIED COMMAND OPERATIONS (ACO) FOR 2014**

ACTION SHEET

On 15 January 2016, under the silence procedure, the Council noted the IBAN report IBA-AR(2015)19 attached to C-M(2016)0003 and agreed the recommendations contained in the RPPB report.

(Signed) Alexander Vershbow
Deputy Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2016)0003.

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11 January 2016

DOCUMENT

C-M(2016)0003

Silence Procedure ends:

15 Jan 2016 – 16:00

**IBAN REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS
OF ALLIED COMMAND OPERATIONS (ACO) FOR 2014**

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 Allied Command Operations (ACO) for the year ended 31 December 2014.
2. The IBAN issued a qualified opinion on the ACO financial statements for the year 2014 as well as a qualified opinion on compliance for the financial year 2014. The IBAN report, although showing improvements by ACO in many areas, also illustrates that many of the weaknesses identified in previous audit reports have not yet been fully corrected. While some progress has been made, particularly in clearing outstanding observations from previous years, the positive impact expected with the adoption of the NATO Accounting Framework has not yet materialised.
3. The IBAN report has been reviewed by the Resource Policy and Planning Board (RPPB), which has provided its own report with conclusions and recommendations to Council.
4. I consider that no further discussion regarding this report is required. Consequently, **unless I hear to the contrary by 16:00 hours on Friday, 15 January 2016**, I shall assume that the Council has noted the IBAN report IBA-AR(2015)19 and agreed the recommendations contained in the RPPB report.

(Signed) Alexander Vershbow

4 Annexes
1 Enclosure

Original: English

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**IBAN REPORT ON THE AUDIT OF THE 2014 CONSOLIDATED FINANCIAL
STATEMENTS OF ALLIED COMMAND OPERATIONS (ACO)**

Report by the Resource Policy and Planning Board (RPPB)

References:

- (a) IBA-A(2015)134 & IBA-AR(2015)19
- (b) BC-D(2015)0211-FINAL

Background

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

RPPB Conclusions

3. The Board notes with concern that IBAN has issued a qualification on the 2014 ACO Financial statements and also on compliance. ACO's continued inability to receive an unqualified opinion and the expectation for improvements was set out as part of the RPPB report on the audit of the ACO 2013 financial statements.¹ While some progress has been made this has not been materially sufficient particularly in regard to Property, Plant & Equipment (PP&E – IPSAS 17²). The current IBAN report contains 4 observations and recommendations on the financial statements³, many dealing with aspects of PP&E where greater progress was expected based on the 2013 ACO responses and plan of action.
4. The Board continues to consider that ACO needs to provide evidence that comprehensive accounting records for all property have been established and maintained. The continued weakness in setting up and maintaining such records is impacting its financial statements. To do this ACO will need to continue its work with third parties (particularly

¹ C-M(2015)0048

² International Public Sector Accounting Standards

³ a) Property, Plant and Equipment (PP&E) materially misstated; b) Inaccurate disclosure of assets acquired prior to 2013; c) Consolidated long-term receivables and unearned revenue overstated by 15.3 M€; d) Weaknesses in the assets management and accounting in the International Security Assistance Force (ISAF) (now Resolute Support Mission (RSM)).

NCIA and NSPA) and to extend best practises to theatres of operation. There is an ongoing problem in NATO to account for third party procurement and inventory management involving multiple commands, multiple agencies and multiple inventory systems. Difficulties in consolidation and centralisation, including those for financial accounting, inventory and reporting, point to the need to better align the various different processes, systems and standards that have been adopted over many years. While Logistics Functional Services will provide for a common platform in 2018, it is considered unacceptable to wait until then to mitigate and resolve the problems.

5. The Board continues to consider that there is clearly further scope for additional work by ACO in conjunction with the NATO Agencies assisted by the Head of Financial Reporting Policy and the IBAN to ensure the maximum benefits of the new Accounting Framework are realised. This may need to involve the Board at some point if additional clarifications are required.

6. With regard to previous years' audits, the Board notes that ACO has made some progress in settling the observations, however 7 observations remain to be satisfactorily resolved (2 are partially settled, while 5 remain outstanding). The Board notes and agrees with the comments that the BC have provided to these outstanding observations where it was considered that value could be added, particularly where they deal with structural or cross organisational issues.⁴ Additionally, the BC has requested ACO to provide a comprehensive update on the status of all outstanding observations at the end of the first quarter of 2016.⁵ The Board invites the BC to keep it informed as deemed necessary. This should allow for corrective actions to be in place, except as regards the reconciliation of United States System Programme Office and Foreign Military Sales and reflected in the 2015 financial statements. The Board will continue, with the assistance of the BC, to monitor outstanding audit observations.

7. The ACO Financial Controller has reviewed the financial statements in accordance with agreed policies and does not have any issues which he wishes to highlight for consideration by the Board before it concludes its recommendations to Council.⁶

8. The RPPB concludes that the subject audit report does not contain information which, according to the NATO Policy on Public Disclosure of NATO Information, shall be withheld from public disclosure, and in line with the agreed policy in PO(2015)0052, recommends that Council agree to the public disclosure of the 2014 ACO Financial Statements and of the associated IBAN report.

⁴ BC-D(2015)0035-FINAL - a) Confirmation of Year-end Assets and Liabilities Outstanding Between NATO Entities Should be Performed; b) Representation Allowance; c) ACO interactions with NSPA (ACO is relying on work that is outsourced to NSPA, but it does not review NSPA's performance); d) Legal Agreement with NCIA for provision of services at ISAF is missing; e) weaknesses in validation regarding procurement from other NATO entities and from nations; f) United States Programme Office and Foreign Military Sales.

⁵ BC-DS(2015)0067 (Item VII)

⁶ SHJ8/CAC/FC271/15-310657, dated 11 September 2015

RPPB recommendations

9. The Resource Policy and Planning Board (RPPB) recommends that Council:
- (a) note the IBAN report IBA-AR(2015)19 along with the present report;
 - (b) endorse the conclusions outlined in paragraphs 3 through 8;
 - (c) invite ACO to implement the IBAN recommendations;
 - (d) note that the Board intends to follow work by the Head of Financial Reporting Policies on the observation related to the United States System Programme Office and Foreign Military Sales and any adaptation of NATO Financial Regulations and accounting procedures that is required;
 - (e) note that the Resource Committees will continue to monitor the status of outstanding audit observations;
 - (f) in line with the agreed policy in PO(2015)0052, agree to the public disclosure of the ACO 2014 financial statements and the associated IBAN report (IBA-AR(2015)19).

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**Summary Note for Council
by the International Board of Auditors for NATO (Board)
on the audit of the Consolidated Financial Statements of the
Allied Command Operations (ACO)
for the year ended 31 December 2014**

The Board audited the Allied Command Operations (ACO) Consolidated Financial Statements for the year ended 31 December 2014. The total budgetary spend (commitments plus actuals) for ACO against Budget Committee (BC) funded budgets in 2014 amounted to EUR 1,238.1 million, compared with EUR 1,201.8 million in 2013. In addition to the execution of the MBC budgets, ACO also incurred EUR 7.5 million (2013, EUR 7.7 million) of other expenditure (reimbursable, trust funds, etc.) and EUR 0.5 million (2013, EUR 1.16 million) of NATO Security Investment Programme (NSIP) project expenditure.

The Board issued a qualified opinion on the 2014 Financial Statements and on compliance for the year ended 31 December 2014.

During the audit, the Board made 4 observations and provided recommendations. These findings are in the Letter of Observations and Recommendations (Annex 3).

The main findings are listed below. Observation 1 impacts the audit opinion.

1. Property, Plant and Equipment (PP&E) are materially misstated.
2. Inaccurate disclosure of assets acquired prior to 2013.
3. Consolidated long-term receivables and unearned revenue overstated by EUR 15.3 Million.
4. Weaknesses in the assets management and accounting in the International Security Assistance Force (ISAF) (now Resolute Support Mission (RSM)).

The Board also followed up on the status of observations from its previous years' audit. These findings and status are summarised in the follow-up section of the Letter of Observations and Recommendations (Annex 4).

For ACO's Formal Comments and the Board's positions, see the Appendix (Annex 4). ACO generally agrees with the Board's observations. The detailed formal comments provide further information to the reader, but do not change the Board's observations or recommendations. Where appropriate, the Board has provided positions to some of the formal comments.

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ANNEX 3
C-M(2016)0003
IBA-AR(2015)19

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS OF THE

ALLIED COMMAND OPERATIONS

(ACO)

FOR THE YEAR ENDED 31 DECEMBER 2014

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

Report on the Consolidated Financial Statements

The International Board of Auditors for NATO (Board) audited the accompanying Consolidated Financial Statements of Allied Command Operations (ACO), which comprised the ACO Consolidated Statement of Financial Position as at 31 December 2014, and the Consolidated Statement of Financial Performance, the Consolidated Statement of Changes in Net Equity and the Consolidated Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The Board has also audited the Statement of Budget Execution for the year ended 31 December 2014.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these Consolidated Financial Statements in accordance with the NATO Accounting Framework and the requirements of the NATO Financial Regulations as authorised by the North Atlantic Council (NAC). This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the Consolidated 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 Consolidated 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 Consolidated Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Consolidated Financial Statements, due to error or fraud. In making those risk assessments, internal control relevant to the entity's preparation and presentation of the Consolidated 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 the entity's 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 Consolidated Financial Statements.

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

Basis for Qualified Opinion on the Consolidated Financial Statements

The Board did not obtain sufficient evidence that all Property, Plant and Equipment (PP&E) and Intangible assets acquired by ACO during 2014 were properly recorded in the ACO Consolidated Financial Statements.

In particular, ACO does not have enough evidence to support that all PP&E delivered to the International Security Assistance Force (ISAF) mission in Afghanistan, mainly through the NATO Security Investment Programme (NSIP), are recorded in the Consolidated Financial Statements.

The Board therefore did not obtain sufficient evidence that the balances of PP&E and Intangible assets in the Statement of Financial Position present fairly the carrying value of ACO assets. This also affects the depreciation expenses in the Statement of Financial Performance as any possible misstatement will also be reflected here. As an additional consequence, the balances of revenue in the Statement of Financial Performance and unearned revenue in the Statement of Financial Position are also affected.

The Board is also not able to provide audit assurance on the 2014 Financial Statements in respect to the 2013 comparative PP&E and Intangible asset information presented in those statements. This limitation occurs because the matters leading the Board to qualify its opinion on the 2013 ACO Financial Statements were not resolved. As a result, our opinion on the current period's financial statements is also modified because of the potential effect of this matter on the comparability of the current period PP&E and Intangible asset figures and the corresponding 2013 figures.

The Board was also unable to assess whether the disclosures in Tables 6B in the notes to the Consolidated Financial Statements, which relates to PP&E acquired prior to 2013, and are required by the NATO Accounting Framework, include true and fair information.

Qualified Opinion on the Consolidated Financial Statements

In our opinion, except for the possible effects of the matters described in the section *Basis for Qualified Opinion on the Consolidated Financial Statements*, the Consolidated Financial Statements present fairly, in all material respects, the financial position of ACO as of 31 December 2014, 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 Consolidated Financial Statements described above, management is also responsible for ensuring that the financial transactions and information reflected in the Consolidated Financial Statements are in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations as authorised by the North Atlantic Council.

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 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.

Basis for Qualified Opinion on Compliance

The Board did not obtain enough evidence that comprehensive accounting records of all property acquired by ACO have been established and maintained as required by Article 18 of the NATO Financial Regulations. In particular, due to weaknesses in the asset management in ISAF and lack of process for delivery of NSIP projects in ISAF, ACO cannot ensure accurate property records.

Qualified Opinion on Compliance

In our opinion, except for the possible effects of the matters described in the section *Basis for Qualified Opinion on Compliance*, 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, 25 September 2015

Lyn Sachs
Chairman

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ANNEX 4
C-M(2015)0003
IBA-AR(2015)19

INTERNATIONAL BOARD OF AUDITORS FOR NATO

LETTER OF OBSERVATIONS AND RECOMMENDATIONS

FOR THE ALLIED COMMAND OPERATIONS

(ACO)

FOR THE YEAR ENDED 31 DECEMBER 2014

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Introduction

The International Board of Auditors for NATO (Board) audited the Allied Command Operation (ACO) Consolidated Financial Statements for the year ended 31 December 2014, and issued a qualified opinion on those financial statements and on compliance.

Observations and Recommendations

During the audit, the Board made 4 observations and provided recommendations. Observations 1 and 2 impact the audit opinion. The observations are summarised below:

1. Property, Plant and Equipment (PP&E) are materially misstated.
2. Inaccurate disclosure of assets acquired prior to 2013.
3. Consolidated long-term receivables and unearned revenue overstated by EUR 15.3 Million.
4. Weaknesses in the assets management and accounting in the International Security Assistance Force (ISAF) (now Resolute Support Mission (RSM)).

The Board also followed up on the status of observations from the previous years' audit and noticed that 2 were settled, 2 were partially settled, 2 superseded by current year observations and 5 remain outstanding.

The Board issued a Management Letter (reference IBA-AML(2015)07) to the ACO Chief of Staff.

For ACO's Formal Comments and the Board's positions, see the Appendix (Annex 3). ACO generally agrees with the Board's observations. The detailed formal comments provide further information to the reader, but do not change the Board's observations or recommendations. Where appropriate, the Board has provided positions to some of the formal comments.

OBSERVATIONS AND RECOMMENDATIONS**1. PROPERTY, PLANT AND EQUIPMENT (PP&E) AND INTANGIBLE ASSETS ARE MATERIALLY MISSTATED****Reasoning**

1.1 As per the NATO Accounting Framework, Property, Plant and Equipment (PP&E) and Intangible Assets acquired after 1 January 2013 should be recorded as an asset if the NATO entity has control of the equipment. In that respect, all equipment delivered to ACO, its warehouses, and warehouses managed by third parties on ACO's behalf, as well as to the theatre, after January 2013, should be reported as an asset in the ACO Financial Statements if criteria that indicate control of the asset are met.

Observations

1.2 The Board issued a qualified audit opinion on the 2013 ACO Financial Statements due to material misstatements of Property, Plant & Equipment (PP&E) and Intangible Assets. In 2014, the Board found that ACO made significant progress and put great effort into identifying assets delivered by the NATO agencies in-theatre, especially through NATO Security Investment Programme (NSIP) projects. The cooperation with the NATO Support Agency (NSPA), in its role as a Host Nation of NSIP projects has improved, and at year-end NSPA provided ACO with a list of assets delivered in-theatre in 2013 and 2014. This was based on a written request from ACO with specific details to be provided per project delivered.

1.3 In relation to the NATO Communications & Information Agency (NCIA), when acting as Host Nation for NSIP projects, ACO requested NCIA to inform them if any non-Communication and Information Systems (CIS) assets had been delivered to ACO in 2014. ACO informed the Board that no information about assets delivered was received from NCIA.

1.4 ACO, in the 2014 financial statements, restated the 2013 figures to include assets delivered in-theatre but not previously recorded. In total, a gross EUR 32.9 million was recorded as PP&E in 2013 and another EUR 10.7 million as PP&E in 2014 based on NSPA input and ACO's own records.

1.5 The Board found, though, that the recorded PP&E was incomplete. The Board found a number of assets delivered to ACO, as a user in the International Security Assistance Force (ISAF) in 2013 and 2014 by the NATO agencies were not recorded by ACO in the financial statements. For example, there were NSIP projects delivered by NSPA in-theatre, and used by ACO, but not reported properly by NSPA to ACO. In two cases, projects were reported as complete by NSPA, but ACO did not capitalize the projects as PP&E. Also, the Board, during its field audit in-theatre, found two luggage scanners that were delivered in 2014 in-theatre but were not recorded as PP&E by ACO.

1.6 The Board estimates that PP&E is understated by a material amount.

1.7 Furthermore, although NCIA mainly delivers CIS-equipment which is under its own control and recorded by NCIA, NCIA also, in some cases, delivers non-CIS to ACO in-theatre. As NCIA did not report to ACO the assets delivered in 2014, ACO did not record any PP&E delivered by NCIA. Finally, ACO did not verify internally if NCIA had delivered non-CIS to ACO in-theatre. Also, the Board recognises that there is no clear definition of CIS equipment agreed to between NCIA and the users. This makes it difficult to determine who should record the asset. Finally, the Hand-Over/Take-Over of CIS equipment in ISAF has not yet been completed. The Hand-Over/Take-Over in Theatre is currently ongoing and it is expected to be finalised by the end of September 2015. Since the Hand-Over/Take-Over of CIS assets have not yet been completed, the Board cannot obtain assurance that the ACO asset register is correct and complete in relation to non-CIS assets.

1.8 The Board acknowledges the improvement made by ACO in identifying assets delivered in-theatre and improving coordination with the agencies but believes that improvement is still needed in this area.

1.9 All of these factors materially affect ACO's Consolidated Financial Statements. In particular, PP&E, unearned revenue (liability), and revenue and depreciation expenses are all impacted by items that should have been capitalized. The Board believes that this materially affects the financial statements as well as compliance, and therefore qualifies the audit opinion in these areas.

Recommendations

1.10 The Board recommends that ACO complies with the NATO Accounting Framework and the NATO Financial Regulations in accounting for and reporting PP&E.

1.11 ACO should ensure that it receives relevant information about all assets received in the financial year, regardless of the source of funding (e.g. NSIP, Military Budget). For this purpose, ACO should establish a clear process for delivery and acceptance of NSIP funded assets whereby officers in-theatre receive the assets and construction projects and report them to the finance community. Key information on status of projects being implemented is held by the engineers' in-theatre and ACO should ensure all available information internally in ACO is used in assessing and identifying PP&E.

1.12 Furthermore, ACO should require and insist on receiving more detailed reporting from the NATO agencies on the status of all completed and on-going projects, including those where partial delivery has taken place.

1.13 Finally, as part of the Hand-Over/Take-Over of CIS assets in-theatre, ACO should ensure that a clear definition of CIS equipment is established and that the Hand-Over/Take-Over is completed as scheduled by the end of September 2015.

2. INACCURATE DISCLOSURE OF ASSETS ACQUIRED PRIOR TO 2013

Reasoning

2.1 As required by the NATO Accounting Framework, NATO bodies shall, in the notes to the financial statements, disclose information on legacy assets acquired prior to 1 January 2013, but not previously recognized as an asset. This should include the type of PPE, the location, and the approximate number of items per asset category. This list should include all assets controlled by the entity.

2.2 Furthermore, according to Article 18 of the NATO Financial Regulations, NATO bodies shall establish and maintain comprehensive accounting records of all property acquired.

Observations

2.3 Table 6.B of the 2014 ACO Consolidated Financial Statements discloses the assets controlled by ACO per each headquarter that were acquired prior to 2013. The Board found a number of inaccuracies and inconsistencies in the table:

- The 802 buildings disclosed in the table included one building and related installed equipment exclusively controlled by a nation not by ACO. Also, the buildings disclosed included at least 16 buildings and related installed equipment used by the Morale & Welfare (MWA) community in each of the headquarters. The Board found that neither the buildings nor the installed equipment should have been included, since one building was not under the control of ACO, and the MWA buildings, even if ultimately controlled by ACO, were explicitly to be excluded from the financial statements per the NATO Accounting Framework.
- The number of items disclosed in Table 6.B for each of the headquarters is not the actual number of items (assets), but rather, the number of line items on the asset registers, even when many lines show several units of the same type of asset. For example, in the NATO Airborne Early Warning & Control Force (E-3A), the number of items disclosed was 10,082 but the actual number of items in the asset register was more than 60,600. As a result, the table does not provide accurate and reliable information on assets held prior to 2013.
- Some headquarters disclose land whereas other headquarters do not. The rationale for the different disclosure between the headquarters was not clear to the Board. Also, the Board found a different treatment of installed equipment across the headquarters.
- The Board found that the presentation of the table, in some cases, provided confusing information to the reader. For example, the disclosure of 1,057 airplanes in E-3A and 5 airplanes in ISAF, whereas, in fact, E-3A has a fleet of 17 airplanes and ISAF has no airplanes. The number disclosed includes spare parts and aircraft equipment and is therefore inaccurate.
- Comparing the information in Table 6.B with the same disclosure in Table 7A for the 2013 ACO Consolidated Financial Statements showed that the number of

items had significantly increased in several headquarters. This was among other things due to the inclusion of installed equipment in the Allied Joint Force Command Naples (JFCNP) headquarter building and ISAF and other assets in ISAF which in the prior year had not been recorded correctly. Therefore, Table 6.B is in reality a restatement of the 2013 disclosure. This is not clearly disclosed by ACO in the notes to the financial statements.

- In one entity, write-offs in 2014 had not been taken into account and deducted from the asset register.

Recommendations

2.4 The Board recommends ACO reconsider how they prepare the table for the 2015 financial statements by taking into consideration the overall purpose of disclosure of information on legacy assets and to ensure a clear and accurate disclosure of information in the financial statements.

2.5 Further, the Board recommends ACO to ensure consistency across the ACO Headquarters in the treatment and categorization of PP&E acquired prior to 2013. Finally, ACO should ensure that only assets controlled by ACO are disclosed.

3. CONSOLIDATED LONG-TERM RECEIVABLES AND UNEARNED REVENUE OVERSTATED BY EUR 15.3 MILLION

Reasoning

3.1 Receivables should only be recorded as an asset in the Statement of Financial Position when an entity is expecting future economical benefits or service potential to flow to the entity as a result of a past event.

Observations

3.2 The Board found that ACO recorded almost EUR 15.4 million of legal provisions related to ISAF and the Balkan Operations as of 31 December 2014. A matching long-term receivable was recorded along with the provision, and this was in accordance with the ACO End of Year Guidance on provisions.

3.3 However, the funding of the provisions (mainly Theatre Capability Statement of Requirements) was already included in the 2014 ISAF and Balkan Operations budget and had been agreed by the Budget Committee to be carried forward into 2015 as a special carry forward. Since the funds to pay for the provisions were already being held by ACO at 31 December 2014, no recording of a receivable should have taken place. Rather, the recording of the provision should have been accompanied by a corresponding reduction to unearned revenue, also a liability.

3.4 As a result, long-term receivables and unearned revenue are both overstated by nearly EUR 15.4 million in the 2014 ACO Consolidated Financial Statements.

Recommendation

3.5 The Board recommends ACO to ensure before recording long-term receivables against provisions that funds have not already been received for this purpose.

4. WEAKNESSES IN THE ASSET MANAGEMENT AND ACCOUNTING IN ISAF (NOW RESOLUTE SUPPORT MISSION (RSM))

Reasoning

4.1 An efficient asset management in complex and long-lasting operations such as the ISAF and current Resolute Support Mission (RSM) is part of the success of its daily operations as well as its redeployment and closure procedures. Key staff must have a thorough knowledge of NATO logistics and accounting systems and there must be a consistent and global approach to managing NATO assets in the field.

Observations

4.2 The Board, during its field audit in-theatre, found a poor asset management and reporting system. This is mainly due to the absence of qualified and stable staff responsible for asset management. Currently, all key asset managers such as the Theatre Asset Manager, Property Accounting Officer (PAO) and Property Disposal Officer (PDO) rotate every 6 months. In addition, the PAO position in ISAF Headquarters was unfilled in 2014. The Board found that these staff are not being properly trained in the use of the NATO Depot & Support System (NDSS) which covers a wide range of logistics support areas such as item management, supply, maintenance, motor pool and fleet management and property accounting.

4.3 The consequences of the above were:

- Incompleteness of the asset registers for ISAF Headquarters (now RSM Headquarters) and the Kabul Afghanistan International Airport (KAIA) base.
- Delays and confusion in implementing Supreme Headquarters Allied Powers Europe (SHAPE) Standard Operating Procedure (SOP) for the redeployment, write-off and disposal of NATO funded equipment.
- Non-compliance with write off procedures in KAIA as an outdated SOP was being used. This means that write offs were not in all cases properly approved by the Theater Financial Controller.
- Some decisions taken by the Board of Inquiry (BOI) to destroy and scrap vehicles had been cancelled by the PAO without delegated authority. The vehicles were declared unserviceable by the BOI but were still in use and incurring costs of repair and maintenance.

- Increasing quantity of equipment not fully serviceable after years of utilization but still recorded as serviceable despite great need of repair. The equipment is often sensitive and life-saving equipment but after years of utilization in harsh conditions, the general condition of the equipment is dramatically deteriorating. It is the responsibility of the account holder and the PAO to ensure that all equipment meet their operational requirements.
- Poor exchange of information between the supporting NATO agencies (NSPA and NCIA) and ACO when assets are delivered in-theatre and a lack of proper coordination with the PAO.
- Lack of understanding of the risks involved in managing NATO assets in operations.

Recommendation

4.4 The Board recommends ACO to consider creating longer term positions for key asset management functions in-theatre to ensure stability and a better management of assets in operations. Furthermore, ACO should ensure that asset managers comply with the updated ACO Directives and SOPs on asset management.

4.5 Finally, the Board recommends ACO to ensure that key asset managers in the field are properly trained in the use of NDSS in order to efficiently manage mission assets.

FOLLOW-UP OF THE PREVIOUS YEARS' OBSERVATIONS

The Board followed up on the status of observations from the previous years' audit and noticed that 2 were settled, 2 were partially settled, 2 superseded by current year observations and 5 remain outstanding. The observations and their status are summarised in the table below.

(1) STATUS OF PREVIOUS YEARS' OBSERVATIONS

OBSERVATION/RECOMMENDATION	ACTION	STATUS
<p>(1) ACO FY 2013 IBA-AR(2014)20, paragraph 1 PROPERTY, PLANT AND EQUIPMENT (PP&E) AND INVENTORY ARE MATERIALLY MISSTATED</p> <p>Board's Recommendation The Board recommends that ACO complies with the International Public Sector Accounting Standards (IPSAS) 17, <i>Property, Plant and Equipment</i>, IPSAS 12, <i>Inventories</i>, the NATO Accounting Framework and the NATO Financial Regulations in accounting for and reporting PP&E and inventory.</p> <p>ACO should ensure that it receives relevant information about all assets acquired in 2013, regardless of the source of funding (e.g. NSIP, Military Budget). For that purpose, ACO should seek information from relevant sources (e.g. ACO divisions J5 and J6, NATO Agencies and the NATO Office of Resources).</p>	<p>The Board found evidence that PP&E and Intangible Assets were not complete, especially in ISAF. See current year observation 1.</p>	<p>Observation Superseded by current year observation.</p>
<p>(2) ACO FY 2013 IBA-AR(2014)20, paragraph 2 INCORRECT APPLICATION OF INVENTORY VALUATION METHODS</p> <p>Board's Recommendation The Board recommends that ACO should adjust the policy and use approved methods (WAC and FIFO). In addition, ACO should consider the revaluation and capitalization of all inventory items above threshold levels. The Board believes that this is achievable.</p>	<p>ACO adjusted the accounting policy for valuation of inventory and is now using the weighted average cost methodology. ACO restated the 2013 comparative figures.</p>	<p>Observation Settled.</p>
<p>(3) ACO FY 2013 IBA-AR(2014)20, paragraph 3 ACO IS RELYING ON WORK THAT IS OUTSOURCED TO NATO SUPPORT AND PROCUREMENT AGENCY (NSPA), BUT IT DOES NOT REVIEW NSPA'S PERFORMANCE</p> <p>Board's Recommendation ACO and NSPA should prioritize and continue implementing mechanisms to allow ACO to assess the design and operating effectiveness of controls in place in the field. For example, Key Quality</p>	<p>On the 10 June 2015, ACO signed a new Memorandum of Agreement (MOA) with NSPA on Logistics Cooperation. The</p>	<p>Observation Outstanding in 2014.</p>

OBSERVATION/RECOMMENDATION	ACTION	STATUS
<p>Indicators and Key Performance Indicators should be further developed to assess the quality of NSPA's project management.</p> <p>This recommendation is in line with the above mentioned Board's special report to Council. In that report the Board concluded that ACO's logistics and financial communities, among others, have the collective responsibility to determine the right balance among various risks. As the Board recommends, this needs to occur through more active definition of the full range of requirements, clearer direction to NSPA, and better monitoring of the results.</p> <p>ACO should be able to satisfy itself that all NSPA processes related to ACO are robust and consistent. Considering that depot levels are handling more than 1.6 million spare parts for ACO, it should ensure that control systems are in place and effective. It should be considered to entitle Internal Audit of ACO to review processes which have been outsourced to NSPA.</p> <p>The Board recommends that all proposed control mechanisms should be specified in the Memorandum of Agreement (MOA) and logistics support agreements (LSA) between NSPA and ACO.</p>	<p>MOA is a comprehensive and detailed agreement that includes many improvements compared to previous MOAs. The Board finds that the MOA well defines the roles and responsibilities of ACO and NSPA. Further the Board is pleased to note that an audit clause has been included. The Board further notes that the new Logistics Support Agreement (LSA) on Support of the Resolute Support Mission includes KPIs which should improve NSPA reporting to ACO and should fulfill ACO needs on obtaining relevant information from NSPA. This was recommended by the Board in previous audits.</p> <p>In relation to the AWACS programme, the Board understands that ACO is currently working on revising the Basic Text Agreement 182 in place for the AWACS programme between NSPA and ACO. The Board recommends ACO to ensure that a new service level agreement clearly specifies the services to be delivered, roles and responsibilities, terms and conditions, access to contract information, key performance and quality indicators and reporting requirements. Also, the Board recommends ACO and E-3A to understand the extent of NSPA Internal Audit activity at the Depot Level contractors and the results of those activities.</p> <p>Further, the Board is aware that ACO intends to sign a number of other important LSAs with NSPA, for example, for ACO-owned assets and inventory in Taranto and for NSIP projects managed by NSPA.</p>	<p>With the new MOA signed, the Board will consider the observation settled in 2015.</p>
<p>(4) ACO FY 2013 IBA-AR(2014)20, paragraph 4</p>		

OBSERVATION/RECOMMENDATION	ACTION	STATUS
<p>LEGAL AGREEMENT WITH NATO COMMUNICATIONS AND INFORMATION AGENCY (NCIA) FOR PROVISION OF SERVICES AT INTERNATIONAL SECURITY ASSISTANCE FORCE (ISAF) IS MISSING</p> <p>Board's Recommendation The Board recommends that HQ JFC Brunssum formalize a detailed arrangement for the Communications Information Systems (CIS) support for ISAF prior to issuing an annual purchase order to cover operation & maintenance costs. The Board has been recommending this for several years now.</p>	<p>ACO is currently drafting an agreement for the provision of CIS services in-theatre. The draft agreement is being reviewed internally in ACO before it will be negotiated with NCIA. ACO expects to have an agreement in place in the autumn of 2015.</p>	<p>Observation Outstanding.</p>
<p>(5) ACO FY 2013 IBA-AR(2014)20, paragraph 5 CONFIRMATION OF YEAR-END ASSETS AND LIABILITIES OUTSTANDING BETWEEN NATO ENTITIES SHOULD BE PERFORMED</p> <p>Board's Recommendation The Board recommends that ACO, as from 2014, confirms the outstanding asset and liability balances it has with other NATO bodies as part of the preparation of the financial statements.</p>	<p>As part of the end of year procedures, ACO send out letters to other NATO entities requesting confirmation of assets and liability balances outstanding between the NATO entities.</p> <p>Further, each ACO command was in contact with the other NATO entities during the closure of the accounts to confirm the detailed balances.</p> <p>Some balances were confirmed but ACO did not in all cases receive an official response to their request for confirmation.</p> <p>The Board recommends ACO to continue the process established of confirming outstanding balances with other NATO entities. ACO should ensure a clear confirmation is received by all commands before the issuance of the financial statements and that confirmations are received and documented in a structured way.</p>	<p>Observation Partially settled.</p>

OBSERVATION/RECOMMENDATION	ACTION	STATUS
<p>(6) ACO FY 2013 IBA-AR(2014)20, paragraph 6 SOME MATERIALS DELIVERED TO AFGHANISTAN WERE NOT USED AND BECAME OBSOLETE</p> <p>Board's Recommendation The Board found evidence that inventories delivered to Afghanistan, both for CIS and non-CIS equipment, were not properly recorded and handled. The Board acknowledges that it is not possible to retrospectively identify all inventory items and that CIS equipment is a NCIA's responsibility; however, the Board recommends a thorough review of the existing inventory as a part of the redeployment process.</p>	See current year observation 1.	Observation Superseded by current year observation.
<p>(7) ACO FY 2013 IBA-AR(2014)20, paragraph 7 THE PROCESS OF WRITING-OFF EQUIPMENT IN-THEATRE NEEDS TO BE ENHANCED</p> <p>Board's Recommendation The Board recommends that write-off decisions should be taken much more quickly. The execution of those decisions should also be prompt.</p>	The Board noted less delays in the approval of write offs in 2014.	Observation Settled.
<p>(8) ACO FY 2013 IBA-AR(2014)20, paragraph 8 NON-COMPLIANCE WITH THE NEW REPRESENTATION ALLOWANCE RULES</p> <p>Board's Recommendation ACO should continue its work on implementing procedures in coordination with the subcommands in order to properly follow the newly issued rules and procedures on the receipt and use of the Representation Allowances.</p> <p>Furthermore, the Board recommends that ACO discloses information on the Representation Allowances in the financial statements, as required by the Council approved procedures.</p>	<p>ACO issued a new directive on the representation allowances on 19 September 2013 and a further detailed guidance on 06 January 2015.</p> <p>Also, ACO disclosed information on the Representation Allowances in the 2014 ACO Financial Statements.</p> <p>The Board found that in ISAF, no quarterly reports were sent to the ISAF Financial Controller on the use of the representation funds. In the absence of any reports, it was not possible to verify the beneficiary of some gifts. Also, some expenditure was not eligible.</p> <p>Further, the Board found instances in JFCBS where</p>	Observation Partially settled.

OBSERVATION/RECOMMENDATION	ACTION	STATUS
	conference fees for military staff were paid using representation funds. The use of the representation allowances to pay for conference fees for military staff that are not entitled to the representation allowance is not in compliance with the purpose of the representation allowances.	
<p>(9) ACO FY 2013 IBA-AR(2014)20, paragraph 9 INCORRECT CONTRACT TECHNICAL SPECIFICATIONS AND NON COMPLIANCE WITH INTERNATIONAL COMPETITIVE BIDDING REQUIREMENTS AT HEADQUARTERS JOINT FORCE COMMAND (HQ JFC) NAPLES</p> <p>Board's Recommendation The Board recommends that, in the future, HQ JFC Naples should fully comply with the procurement regulations. The Board also recommends that HQ JFC Naples ensure that the contracts' technical specifications and cost estimates are accurately reflected and calculated before the contract is awarded. The Board acknowledges that the contracts were exceptionally complex (maintenance services at the new HQ JFC Naples), however, HQ JFC Naples should seek professional advice if resources are unavailable or expertise is not sufficient.</p>	<p>The Board in its sample did not find any cases where the contracts' technical specifications and cost estimates were not accurately reflected and calculated.</p> <p>However, the Board found 2 cases in JFCNP the where justification for the deviation requests was not based on valid reasons in accordance with the Bi-SC 60/70 Directive. In one case, the Board believes that the deviation was due to lack of timely action which is specifically not a reason for deviating from minimum sourcing requirements according to BI-SC 60/70. In another case, the deviation from International Competitive Bidding (ICB) was based on that "International companies would have fixed and mobilization costs that would represent an initial unequal burden, not allowing them to compete with Italian companies", and thus the deviation is based on that no foreign companies will be interested in participating in the bidding. The Board does not</p>	<p>Observation Outstanding.</p>

OBSERVATION/RECOMMENDATION	ACTION	STATUS
	consider this to be a valid reason for deviation as contemplated by the Bi-SC Directive 60-70 and NFRs. The Board recommends JFC Naples to review its contracting strategy in order to limit deviation of normal method of procurements to cases when justification of deviation is based on the reasons stated in Bi-SC Directive 60/70.	
<p>(10) ACO FY 2011 IBA-AR(2012)30, paragraph 5.1.4 WEAKNESSES IN VALIDATION REGARDING PROCUREMENT FROM OTHER NATO ENTITIES AND FROM NATIONS</p> <p>Board's Recommendation While the Board noted ACO is working with agencies to improve processes in this area, it recommends that ACO and the agencies put in place a timeline for the finalisation of processes that mitigate the risks involved. Processes should be appropriate for the operating environment, and procedures in-theatre should be robust enough to withstand frequent staff rotation.</p>	<p>On the 10 June 2015, ACO signed a new Memorandum of Agreement (MOA) with NSPA on Logistics Cooperation. The MOA is a comprehensive and detailed agreement that includes many improvements compared to previous MOAs. The Board is pleased to note that an audit clause has been included which provides ACO access to conduct audits of SHAPE use of services in NSPA.</p> <p>In relation to NCIA, ACO is currently drafting an agreement for the provision of CIS services in-theatre. The draft agreement is being reviewed internally in ACO before it will be negotiated with NCIA. ACO expects to have an agreement in place in the autumn of 2015.</p>	<p>Observation Outstanding.</p> <p>With the new MOA signed, the Board will consider the observation settled in 2015.</p>
<p>(11) ACO FY 2011 IBA-AR(2012)30, paragraph 5.5 INCONSISTENT DATA FOR FOREIGN MILITARY SALES (FMS)</p>		

OBSERVATION/RECOMMENDATION	ACTION	STATUS
Board's Recommendation The Board recognises the logistical challenges of validating delivery information, and that not all elements are within ACO's control. However, to ensure the preparation of accruals based expenditure information in relation to the FMS Program, the Board recommends that ACO work with NAMSA to ensure that more accurate accruals data be supplied to support the preparation of accruals financial statements.	The issue has been brought to the attention of the Head of Financial Reporting at NATO HQ in order to try to develop a NATO common approach to this. This has not yet been finalized.	Observation Outstanding.

**ALLIED COMMAND OPERATIONS (ACO) FORMAL COMMENTS ON THE
LETTER OF OBSERVATIONS AND RECOMMENDATIONS AND THE
INTERNATIONAL BOARD OF AUDITORS (BOARD) POSITIONS****OBSERVATION 1:
PROPERTY, PLANT AND EQUIPMENT (PP&E) AND INTANGIBLE ASSETS ARE
MATERIALLY MISSTATED****ACO's Formal Comments**

ACO generally concurs with this observation. ACO further appreciates the Board comments on the significant progress made on identifying assets delivered by NATO agencies in-theatre, especially through NATO Security Investment Programme (NSIP) projects. This is the result of noteworthy efforts made over the past years to strengthen the cooperation with external agencies to guarantee improvements on the reliability of assets' financial data managed by NATO agencies on ACO's behalf. The Board may agree that there is currently a sound level of control on ACO internally managed assets and that significant improvements have been made in relation to third party assets. However, ACO recognises the need for continued focus on this matter especially in relation to data managed by NSPA at various ACO sites.

As the Board pointed out in its report, ACO requested NCIA to inform them if any non-Communication and Information Systems (CIS) assets had been delivered to ACO in 2014. ACO's standing letter to the Agencies for end-of-year financial reporting requirements for the preparation of the Financial Statements (FS) includes the request to be notified about any dispute or unclear case on whether an asset qualifies as CIS or not. ACO agrees with the Board that there is currently no clear definition of CIS equipment pending development of a common NATO-wide definition of the criteria to be used to distinguish between CIS and non-CIS assets. Barring a clear CIS/non-CIS definition, the approach used by ACO in this regard is that assets acquired by NCIA should qualify as CIS (as this is the basis for NCIA's designation as Host Nation) and as such they are owned by NCIA in accordance with Section V Paragraph 14 of the NCIO charter. Likewise, the assets reported as transferred to HQ RS and remaining in Theatre after 31 December 2014 were to be taken-over by NCIA. The Board is aware that the HOTO process in HQ RS is ongoing and is scheduled to be completed in September 2015.

ACO would like to further highlight the ACO-NCIA agreed upon concept of CIS HOTO, which entails continuous improvement of the inventory accuracy through stock counts and reconciliation of records with actual holdings. This process was requested by NCIA in order to have more reliable asset data when migrating from the NDSS database to the new Oracle based Order and Inventory Management

tool. Therefore, no physical asset HOTO will occur as NCIA currently has official custody of the assets as of 2012 when transitioned from the former NCSA.

It is in this regard that ACO does not fully concur with the Board observation that since the HOTO of CIS assets have not yet been completed, the Board cannot obtain assurance that the ACO asset register is correct and complete in relation to non-CIS assets. This approach creates inter-dependency between the reporting on non-CIS asset versus those of CIS whose responsibilities are vested effective from 2012 FS in two different NATO reporting entities, i.e. ACO and NCIA respectively. The completeness of non-CIS data reported by ACO shall not therefore be subject to the completion of the HOTO as well as to the lack of asset data recording by NCIA. Had NCIA recognised a case where the nature of the assets was unclear, the procedure requested by ACO to be notified of any dispute or unclear type of asset should have been activated and further reported to the NATO Office of Resources (NOR) and the Working Group of National Technical Experts (WGNTEx) for advice.

Board's position

The Board believes that due to the combination of the lack of a clear definition of CIS equipment, the fact that NCIA did not inform ACO about non-CIS equipment delivered in Theatre in 2014 and that the Hand-Over/Take-Over in Theatre did not yet take place, there is a risk that non-CIS equipment is not recorded properly in ACO asset registers.

OBSERVATION 2: INACCURATE DISCLOSURE OF ASSETS ACQUIRED PRIOR TO 2013

ACO's Formal Comments

ACO concurs with this observation. It is correct that Table 6.B of the 2014 ACO Consolidated FS includes Property, Plant and Equipment (PP&E) not under ACO control which therefore should not be reflected in the PP&E valuations prior to 2013 FY. It is also correct that for certain Headquarters (HQ), such as JFCNP, there were cases where some data related to installed equipment was unavailable in 2013 and could only be provided at the end of 2014. ACO will revise the format of the table and provide additional comments in the 2015 FS in order to ensure a clear and accurate disclosure of information.

ACO also agrees with the Board's comments regarding the need to improve consistency across ACO on legacy asset reporting. It should, however, be noted that the need for consistency pertains more to implementation than the development of ACO-wide accounting policies. ACO has been investing significant efforts

towards the development of a set of standard accounting policies which have been largely embedded within the NATO Accounting Framework, to include creation of the asset register for the reporting of legacy assets. ACO intends to devote more efforts towards implementation measures across the ACO Commands in the preparation of the 2015 FS, in order to ensure a consistent application of asset accounting policies taking into account the peculiarities of each organisation. As such, ACO will perform a preliminary period end closure in September 2015 followed by ad-hoc site visits and analysis with an emphasis on certain critical topics such as Asset Management and Accounting. ACO will put forth parallel efforts towards strengthening the interaction of internal stakeholders within each ACO Command such as J4, JENG, J6 and the Command Group in order to enhance financial information sharing with regards to PP&E and inventories. The complexities of reporting implementation were highlighted to the Resource Policy and Planning Board (RPPB) in the ACO PP&E Action Plan (SH/J8/CAC/FC166/15-31 0231, ACO Property Plant and Equipment Action Plan - Report to the RPPB, dated 23 July 2015) in that the financial reporting issues are inherently linked to the diversity of the internal and external stakeholders who have a role in the collection and management of asset data reported in the consolidated ACO FS. Improvements in this area are contingent upon the willing and full cooperation of all parties involved.

It should also be noted that the variety of tools used across reporting entities and service providers are not currently designed to record the data as required for proper and consistent financial reporting. This issue is being specifically addressed in the Logistics Functional Services (LOGFS) project, but the final program enhancements are not scheduled for release until after 2018 and therefore, will not resolve any of the current reporting challenges. ACO will therefore continue to implement the mitigation measures already detailed above until the LOGFS project is completed.

ACO would also like the Board to note that it will remain an active participant in the development of a consistent NATO-wide asset accounting policy together with the office of the Head of Financial Reporting and Policy (HFRP) via the Working Group of Financial Controllers (WGFC).

**OBSERVATION 3:
CONSOLIDATED LONG-TERM RECEIVABLES AND UNEARNED REVENUE
OVERSTATED BY EUR 15.3 MILLION**

ACO's Formal Comments

ACO concurs with this observation. The recording of this Account Receivable was an oversight and the team in charge of the consolidation took immediate action. The ACO End of Year Guidance for 2015 was immediately updated to reflect the peculiarity of Provisions where special carry forwards were approved by the

Committee. Furthermore, the final checklist used for the validation of the consolidation process was reviewed to have an additional control in this area prior to the release of the General Ledger data to be reported in the official ACO Consolidated FS.

**OBSERVATION 4:
WEAKNESSES IN THE ASSET MANAGEMENT AND ACCOUNTING IN ISAF (NOW
RESOLUTE SUPPORT MISSION (RSM))**

ACO's Formal Comment

ACO concurs with this observation and has already implemented actions to address the Board's findings. It should be noted that Crisis Establishment (CE) manpower policies dictate that Military personnel are to fill previously validated and approved CE positions. In instances where the posts are vacant for longer than 6 months, the billets may then be reassessed for potential resourcing consideration by civilian personnel. The ISAF/RSM Theatre Property Accounting Officer (PAO) positions were converted to civilian positions in 2015, with one remaining position vacant pending final medical certification of the selected candidate. The Property Disposal Officer (PDO) CE position remains a military billet and is projected to remain filled through the remainder of RSM.

Personnel currently in these posts receive regular training on the applicable directives and Standard Operating Procedures (SOP), with frequent monitoring by J4 personnel in accordance with ACO Directive 80-100, ACO Directive for the Support Planning and Coordination of ISAF Redeployment (Revision 3). JFCBS also provides annual funding to NSPA to provide NATO Depot & Support System (NDSS) training. In 2014 JFCBS funded the deployment of NSPA personnel to address inventory management and system management shortfalls, however the training effectiveness was impacted by vacant posts. As presented above JFCBS J4 has regularly provided training and assistance to Theatre asset managers since March 2014, with the next training scheduled for August-September 2015.

Board's position

During the Board's field visit to Afghanistan, the Board was not able to obtain lists from the NDSS as the staff in Theatre were not properly trained in the use of NDSS.

The Board reiterates its recommendation that ACO should ensure that all key asset managers in Theatre are properly trained in the use of NDSS.

FOLLOW-UP OF THE PREVIOUS YEARS' OBSERVATIONS

(3) ACO FY 2013

IBA-AR(2014)20, paragraph 3

ACO IS RELYING ON WORK THAT IS OUTSOURCED TO NATO SUPPORT AND PROCUREMENT AGENCY (NSPA), BUT IT DOES NOT REVIEW NSPA'S PERFORMANCE

ACO's Formal Comments

The Official MOA between NSPA and ACO was signed on 24 July 2015 and therefore ACO considers this observation settled as per IBAN's status notation.

(4) ACO FY 2013

IBA-AR(2014)20, paragraph 4

LEGAL AGREEMENT WITH NATO COMMUNICATIONS AND INFORMATION AGENCY (NCIA) FOR PROVISION OF SERVICES AT INTERNATIONAL SECURITY ASSISTANCE FORCE (ISAF) IS MISSING

ACO's Formal Comments

In line with the repeated concerns raised by IBAN regarding the lack of an agreement covering NCIA services provided in support of Alliance Operations and Missions (AOM), the ACO FC directed the development of a Mission Support Plan - Services Agreement between NCIA and JFCBS for the provision of CIS Services for RSM. It has been agreed that a comprehensive Service Level Agreement (SLA) similar to those used for static locations is not an appropriate mechanism for AOM due to the frequent requirement changes necessary to support dynamic operations. However, an overarching agreement which covers the required services in broad terms and articulates the current support processes is deemed appropriate. Accordingly, a framework document was initially developed within SHAPE and provided to JFCBS to assist in their development of a final agreement. Due to the respective budget holder being ultimately responsible for the content and final approval of the agreement, particular attention was given to ensure a consistent approach was taken in with existing agreements while also respecting the provisions of the Council-approved Operational Plans (OPLANS) and Command and Control (C2) arrangements. It is envisioned that the final agreement will not only satisfy the IBAN observations but should also be considered as sound financial management of the resources entrusted to the NATO Command Structure. ACO anticipates final approval of the agreement no later than September 2015.

(5) ACO FY 2013

IBA-AR(2014)20, paragraph 5

CONFIRMATION OF YEAR-END ASSETS

AND LIABILITIES OUTSTANDING BETWEEN NATO ENTITIES SHOULD BE PERFORMED

ACO's Formal Comments

As recognized by the Board ACO has already implemented a procedure with regards to the financial reporting related to non-consolidated entities. Additionally, ACO has implemented a new SOP (SHAPE/J8/CAC/AAM/1454/15, dated 31 July 2015) to better manage the interactions/confirmation between ACO subordinate commands and NATO non-consolidated entities. Furthermore, due to the condensed timeline for the preparation of the 2015 and all future FS, the SOP is establishing an iterative process of analysis/monitoring and control of outstanding items between various NATO entities. This SOP also designates specific responsibilities for all involved entities along with agree upon reporting timelines. However, it should be noted that the successful implementation of the SOP is dependent upon the prompt and willing cooperation of respective NATO non-consolidated entities. The ACO revised approach was already discussed with NSPA in July 2015 with a proposal for inclusion in NSPA's Annual Letter for the financial requirements related to their 2015 FS.

(8) ACO FY 2013

IBA-AR(2014)20, paragraph 8

NON-COMPLIANCE WITH THE NEW REPRESENTATION ALLOWANCE RULES

ACO's Formal Comments

ACO concurs with this observation. However, it should be noted that there is no evidence of non-eligibility for the expenses reported for ISAF. In addition, the total amount erroneously charged by JFCBS to Representation Allowance is immaterial compared to the entire ACO budget approved for that purpose by the Committee. Nevertheless, ACO has reiterated the standing Representation Allowance guidance which will be further reviewed by SHAPE during the site visits prior to the release of the data for the consolidation.

Board's position

In the audit of representation allowance in theater, the Board found non-eligible expenditures, such as office coffee and kitchen improvements.

(9) ACO FY 2013**IBA-AR(2014)20, paragraph 9****INCORRECT CONTRACT TECHNICAL SPECIFICATIONS AND NON COMPLIANCE WITH INTERNATIONAL COMPETITIVE BIDDING REQUIREMENTS AT HEADQUARTERS JOINT FORCE COMMAND (HQ JFC) NAPLES****ACO's Formal Comments**

ACO welcomes IBAN's 2014 comments regarding the lack of repeat findings related to the 2013 observation on incorrect cost estimates or contract technical specifications. The 2013 observation was addressed through follow-on efforts to ensure contract technical specifications and cost estimates were accurately calculated and reported. Corrective actions included the outsourcing of technical expertise not resident within the JFCNP Peacetime Establishment (PE), and performing additional internal site surveys to ensure the accuracy of work required.

ACO offers the following comments regarding the 2 cases highlighted by IBAN in 2014 related to insufficient justification for contract deviations:

- 1. ACO does not concur with IBAN's reporting of a lack of planning for immediate health and safety project deviation for smoke evacuator installation. The deviation in question identified an urgent need to provide smoke evacuator capability to the JFCNP Community Center building. The use of the word "urgent" was based on the timeline provided to JFCNP from the Fire Marshall after the Fire Marshall was given an engineering option to overcome the as-built design for said building that was not to fire code standards (note: the engineering option was developed by the JFCNP Base Support Group). The work was required prior to a safety re-inspection, which are unannounced, and if not accomplished, may have resulted in the closing of the Community Center. Should the building have been closed for health and safety reasons, official (and personal) mail delivery services (Italian, US, and Britain), Banking services, and Morale and Welfare Activity (MWA) services would have been impacted. In the interest of public safety and to ensure said building was not closed, a deviation for sole source to the company who originally installed four evacuators was given to install the required additional smoke evacuators of the same style and size. This deviation was not based on a lack of planning, but a directed technical effort from external Italian authorities. ACO remains of the opinion that this is a valid sole source deviation, however, acknowledges that the sole source circumstances could have been better explained.*
- 2. ACO concurs with IBAN's observation on the Deviation regarding International Bidding versus Italian-only bidding for the Pavilion. ACO acknowledges the IBAN challenge to the assumption made by JFCNP related to International Competitive Bidding (ICB) rationale, and further acknowledges that the underlying premise*

invoked by JFCNP is not listed in the Bi-SC Directive 60-70 but is rather based on JFCNP experience with host nation law. The subject project was for non-technical and manpower intensive construction, and therefore JFCNP reasonably assumed that International competitors would be required to subcontract for the appropriate skilled manpower. This action would be violating Italian law that prohibits NATO from hiring subcontracting for this type of work.

It should be noted that the ACO Head of Contracts conducted a Staff Assistant Visit (SAV) to JFCNP during the period 20-24 July 2015, in which one of the focus areas was the review of all 2015 contract deviations. Both the JFCNP FC and Procurement and Contracting Chief agree with the SHAPE recommendation that the requestor needs to submit a strong justification which should be further validated by the deviation authority prescribed with Bi-SC Procurement Directive 60-70, Chapter 1, par 2-4. The SAV results will be submitted in a formal ACO FC report to the JFCNP FC, to include recommended corrective actions. The ACO Head of Contracts will continue to monitor the issues identified by IBAN and the SAV until fully resolved.

Board's position

Based on the audit evidence, the Board remains of the opinion that for both cases identified, the justification for the deviation requests was not based on valid reasons for deviation. The Board welcomes the actions taken by both JFCNP and ACO head of Contracts to ensure stronger justifications and validation of deviation requests. The Board will follow and review the measures put in place during next the year's audit.

(11) ACO FY 2011

IBA-AR(2012)30, paragraph 5.5

INCONSISTENT DATA FOR FOREIGN MILITARY SALES (FMS)

ACO's Formal Comments

This is an issue for all NATO entities that are using FMS cases provided by a NATO member nation. Although ACO FMS cases are managed by NSPA, and the total amount for ACO FMS cases is immaterial.

ACO has already performed an analysis, assessment and suggested approach for improved FMS financial reporting as part of the NATO Accounting Working Group (AWG) and the WGFC, which was further provided to the NOR for submission to the HFRP.

There is no further action and/or approach that can be developed or implemented by ACO at this time.



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Enclosure to
C-M(2016)0003

ALLIED COMMAND OPERATIONS CONSOLIDATED FINANCIAL STATEMENTS 2014



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ACO Consolidated Financial Statements 2014

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Acronyms

ACO Consolidated Financial Statements 2014

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Allied Command Operations (ACO)

Executive Summary

Introduction

The mission of ACO is to fulfil NATO's core tasks by providing early crisis identification; planning, preparing and conducting military operations; and cooperating with partners in order to contribute to the overall security and territorial integrity of NATO member states.

The ultimate controlling and decision-making entity for the Alliance and its components are the 28 Alliance Member Nations, which provide military forces along with physical and fiscal resources for the daily operations of ACO and its subordinate Commands.

ACO's principal headquarters, the Supreme Headquarters Allied Powers Europe (SHAPE), is located in Casteau, Belgium. The command organization of ACO includes two Allied Joint Force Commands (JFCs) located in Brunssum, the Netherlands and in Naples, Italy. The JFCs currently provide theatre oversight and assistance in the Balkans (Sarajevo, Bosnia Herzegovina; Pristina, Kosovo) and Afghanistan. ACO single service commands include Allied Land Command, Allied Maritime Command and Allied Air Command which are located in Izmir, Turkey; Northwood, United Kingdom; and Ramstein, Germany, respectively. The NATO Communications and Information Systems Group (NCISG) is also located in Casteau, Belgium and includes three subordinate NATO Signal Battalions located in Wesel, Germany; Grazzanise, Italy; and Bydgoszcz, Poland.

Furthermore, the fleet of NATO Airborne Early Warning and Control Force (NAEW & CF) E-3A aircraft forms a central element of the Alliance's early warning capability, providing airborne surveillance, warning and control capability over large distances and at low altitude. The largest element of the programme is managed at Geilenkirchen, Germany.

Role of ACO

The mission of ACO is underpinned by the ACO Strategic Management Plan which, coupled with reporting and risk management systems, seeks to enable a unity of effort across ACO in delivering the required outputs by synchronising the prioritisation and resource management processes with developing operational requirements.

In order to accomplish the Mission, ACO is responsible for a number of explicit and implicit tasks and activities that are essential to support a visible deterrence posture, to maintain situational awareness, to detect emerging crises, and to contribute to Alliance security. These tasks are prioritised and executed in a comprehensive and synergistic way:

- Core tasks: Collective Defence, Crisis Management and Cooperative Security
- Permanent tasks: Deterrence, Strategic Awareness, Visible Assurance, Air and Missile Defence, Cyber Defence, Chemical, Biological, Radiological and Nuclear (CBRN) Defence and Advanced Planning
- Transition to Full Operational Capability (FOC): The implementation of the new NATO Command Structure (NCS) will continue until achievement of FOC. This transition process also takes into consideration the outcomes of the Wales Summit, particularly the decisions by nations on the Readiness Action Plan (RAP), the ACO Deployability Action Plan and the internal ACO Optimisation Study.

Highlights in 2014

2014 saw significant progress in ACO towards fully implementing the new NCS in order to achieve FOC. ACO also witnessed events that underlined the changing and unpredictable nature of the global security environment. These events shaped the agenda of the Wales Summit and resulted in agreement on the development of the RAP.

ACO Consolidated Financial Statements 2014

In order to successfully achieve its tasks in 2014 ACO managed over 1.3 Billion EUR provided by nations through the annual Military Budget and NSIP as well as significant funding from other sources such as Nation Borne Costs (NBC), Trust Funding and MWA Funds.

ACO Military Budget

The annual initial funding through the Military Budget amounted to 1.1 Billion EUR reflecting an increase of 17.3 Million EUR or 1.02% over 2013. The budgets in the ACO budget group (NCSEP, AOM, NAEW&C, ACO reorganisation and AGS) were on average committed at a rate of 98.70% (including expenditures, regular and special carry forwards). Despite corrective actions to improve budget planning and budget execution phases, the lapses in 2014 were significant within the AOM budgets. The special carry forward of 2014 credits authorised by the NAC amounted to 678 KEUR in the ACO portion of the NCSEP and 66.9 Million EUR in the AOM budget group.

NSIP

SHAPE acts as Host Nation (HN) for the implementation of NSIP projects under the auspices of the Investment Committee (IC). As of 31 Dec 2014 a certain number of active projects had been assigned to SHAPE as HN in a cumulative amount of 185.4 Million EUR.

Policies

For the NATO financial management community, the year 2014 was characterised by a number of initiatives designed to modernise processes and enhance transparency and accountability. Foremost amongst these was the review of the NATO Financial Regulations (NFR) prepared by a Working Group chaired by the NATO Office of Resources under the auspices of the Budget Committee (BC) and composed of key financial practitioners from the Strategic Commands, the International Military Staff, the International Staff and Agencies. There were several drivers which triggered the need for reviewing the NFR such as the new NCS, Agency Reform, the adoption of the International Public Sector Accounting Standards (IPSAS), and the introduction of the NATO Accounting Framework¹ as well as a demand by the Nations for strengthened accountability for sound financial management. The final revised NFRs will strengthen the role and responsibilities of Financial Controllers and open the recruitment of such positions which were historically reserved to the Host Nation concerned. The revised draft NFRs have been recently approved by the BC² and once endorsed by the Resource Policy and Planning Board (RPPB) will be submitted to the NAC for final approval. In parallel, detailed Financial Rules and Procedures (FRPs) will have to be developed and agreed by the respective finance committees of the various NATO entities as a matter of urgency in order to provide additional guidance and ensure the effective implementation of the NFR by the end of 2015.

Organisation

During 2014 the report on the ACO-wide J8 Optimisation Study initiated in February 2013 with the aim of seeking improvements in the efficiency and effectiveness of the financial administration across ACO was finalised and forwarded in December 2014 to the ACO Optimisation Programme (AOP) Office to be considered in the context of the overall ACO optimisation process. The J8 Optimisation Study has identified a total of 19 recommendations mainly focusing on business process re-engineering with a view to streamlining financial management practices and maximising the use of the centralised Financial System (FinS); to seeking efficiencies and synergies amongst existing staff as part of a working structure pending a formal PE; and to ensuring dedicated staff in support of current operations and missions over and above the existing PE which would be related specifically to static HQ functions and deployability. The scope and range of the recommendations made will entail a substantial amount of additional staff work over the next few years in order to ensure that all approved recommendations are implemented in an efficient and timely manner.

¹ C-M(2013)0039 dated 26 July 2013 (approved under silence procedure on 2 August 2013)

² BC-D(2015)0010-REV3-AS1 dated 10 March 2015

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ISAF/RSM Transition

The end of 2014 marked completion of the International Security Assistance Force (ISAF) mission in Afghanistan and with effect from 1 January 2015 NATO's engagement in Afghanistan transitioned into the NATO-led Resolute Support Mission (RSM) to train, advise and assist the Afghan security forces. For 2015 the nations approved a budget of 250.2 Million EUR. In addition, NATO Allies and partner nations continue to play their part in supporting the long-term financial sustainment of the Afghan National Army (ANA). This effort is carried out through the adapted NATO-ANA Trust Fund pledges for which are due to amount to some 567.6 Million USD per year and are financially administered by SHAPE.

ISAF was one of the largest coalitions in history and is NATO's most challenging mission to date. In particular the ISAF redeployment process required common efforts from different stakeholders to coordinate the redeployment activities, especially with regard to the redeployment, disposal and write-off of NATO funded equipment (NFE). It should be noted that there is a large amount of NATO common funded assets which required redeployment, write-off or disposal of as a result of the ISAF mission ending on 31 December 2014. SHAPE, therefore, took the initiative to propose to both the BC and IC the implementation of a single pragmatic and expeditious procedure for the redeployment, disposal and/or write-off of NFE in ISAF. Following approval by the Committees this process came into effect in March 2014. The proper and correct handling of NFE and NATO Funded Infrastructure (NFI) in Afghanistan is still facing major challenges in 2015 due to the disposal of surpluses arising from the transition of ISAF to RSM. The timetable to achieve a timely redeployment/disposal of the ISAF NFE was greatly foreshortened by delayed political decisions and the resultant dissemination of the SHAPE Guidance on the adapted disposal solutions. Issues with regard to stock and equipment management have further highlighted the critical role of the posts of Property Accounting and Disposal Officers (PAO and PDO). In many cases nations have failed to fill such posts and this problem has been compounded by the rapid rotation or gapping of such posts, which has significantly affected ACO's ability to obtain an accurate and precise status of the NFE and stocks in Theatre. Given the delays experienced under ISAF it is important to begin planning now for the final redeployment and disposal efforts for the ultimate closure of RSM.

Relations with Agencies

During 2014 SHAPE has continued to work with the NATO Support and Procurement Agency (NSPA) and NATO Communications and Information Agency (NCIA) to implement measures to improve the relationship with those Agencies and to develop contractual instruments allowing SHAPE to act as an Intelligent Customer. SHAPE has recently finalised a formal Memorandum of Agreement (MOA) with NSPA³ where the responsibilities of the Agency as the service provider are clearly laid down to include the financial data reporting requirements to be reported in the ACO Financial Statements. This MOA will be supplemented and further specified in Logistics Support Arrangements (LSAs) for each major programme and is designed to resolve a systemic problem in obtaining relevant and reliable financial data from NSPA. An area that will require further improvement relates to the development of key quality indicators and key performance indicators as part of its customer funded relationship with the Agencies.

Improvements were also achieved in assessing control criteria and reliability of financial data for the services provided by NSPA. 2014 was the first year when the two entities successfully agreed upon an official financial certification stating in a reliable manner the financial status of the data and control executed by the service provider. This is considered an on-going process where ACO will continue to invest efforts to guarantee improvement on the services and level of control requested. The considerable increase of the Plant, Property & Equipment (PP&E) reported in the financial data for 2014 (approx. 43%) is also due to improved quality and reliability of the data provided by NSPA.

³ The MOA proposal - negotiated between SHAPE and NSPA - has been submitted to the Agency Supervisory Board (ASB) of NSPA on January 2015.

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Significant improvements were also made during 2014 in finalising the 2014 Service Level Agreements (SLAs) with NCIA which for the first time included a clear and agreed to mechanism to fund the CIS services provided by NCIA consistently across all the ACO Commands. Future adaptations of the Centralised SLA will be required to cater for NCIA's intent to re-organise its structure and to develop its Service catalogue. Moreover, in line with the approach agreed with NSPA, SHAPE still envisages developing a similar MOA with NCIA which will define the overarching relationship between ACO and NCIA and will eventually be supplemented by SLAs thus ensuring a consistent approach towards both agencies.

Substantial progress had been made in the relationships with NCIA as evinced by the Hand-Over/Take-Over (HO/TO) of CIS assets for all ACO static Headquarters which was finalised by 31 December 2014. This was achieved as a result of strong cooperation between the ACO Commands and NCIA in execution of the North Atlantic Council (NAC) decision to transfer ownership of all CIS assets to NCIA. The HO/TO of CIS assets deployed in ISAF/RSM on the other hand is under way as part of the overall NFE redeployment process.

IBAN Observations on ACO Financial Statements

ACO J8 has made further progress in resolving the observations made by the IBAN during the audits of the ACO consolidated Financial Statements and has managed to settle the majority of outstanding observations related to previous years.

Despite the significant difficulties encountered by ACO over the past years in meeting the IPSAS requirements for inventories and PP&E, they have been largely resolved by implementation of the NATO Accounting Framework. The issue of insufficient property accounting records, however, continues to be the greatest obstacle to achieving an unqualified opinion from the IBAN on the ACO annual financial statements. This area will require further progress especially with regard to the completeness and accuracy of the financial data directly managed by external NATO agencies on behalf of ACO, mainly with NSPA since responsibility for the management and reporting on CIS assets is now vested with NCIA.

Internal Control, Enterprise Risk Management and Financial Risk Management*Internal Control*

The NFRs and FRPs assign to the ACO Financial Controller a fiduciary responsibility for the effective administration of the financial and budgetary control system as well as for maintaining a sound system of internal control that supports the achievement of ACO policies, aims and objectives as set out by NATO. This fiduciary responsibility includes the responsibility for the safeguarding of funds and assets that have been entrusted to ACO by the Nations and for ensuring that detailed rules and procedures are established to attain effective and efficient financial administration within applicable laws and regulations.

Internal control activities are policies and procedures implemented and executed by the entity's management and staff in order to reduce risks to a level accepted by the management and to provide reasonable assurance that the objectives of the organisation are achieved including effectiveness and efficiency of operations, accuracy and reliability of financial reporting and compliance with laws and regulations. At the transaction level, internal control aims at identifying, assessing and mitigating possible risks (especially fraud and material misstatements) and conveying reasonable assurance that the accounts present a true and fair view of the financial position of the entity in all material aspects.

The revised NFRs place additional emphasis on internal control and risk management which will require sufficient staff resources to ensure a cost effective segregation of power at organisational levels and a clear strategy for risk assessment and directive guidance for risk management procedures to minimise the financial risks incurred by managing the funds placed by the nations at the disposal of Commanders.

One of the objectives of internal control is to guarantee the reliability of the financial reporting. Reliable financial reporting implies that the financial information is obtained from a reliable

ACO Consolidated Financial Statements 2014

accounting system. The implementation of the ACO centralised FinS provides a technical platform that has proven to have beneficial impacts on ACO business processes and the accuracy and reliability of the financial data reporting. The FinS implementation of the last site is currently in progress and will be completed in 2015. Consequently, after several years SHAPE will soon have implemented FinS ACO-wide which will further improve the accuracy and reliability of financial data and will lead to a more effective and efficient ACO financial management. However, an area that still requires further developments relates to asset management and reporting for which the Finance staff still relies to other logistic systems which are operated and maintained by other stakeholders internally to the organisation such as PAOs and Logistics personnel. I see as a risk the lack of staff responsible for the daily maintenance and control of Enterprise Resource Planning logistic systems which may have major impact on the quality of data production for inventory and asset management and reporting. Efforts have been invested in order to mitigate this risk.

In addition to implementation of FinS, ACO continues to work on the implementation of best practices and revision of business processes achieving a successful corporate structure especially in the areas of cash management, accounting and financial reporting. The re-engineering of some of the ACO business processes and procedures will continue during 2015.

Financial Risk Management

Some specific details are provided in the Notes to the Financial Statement on the entity's exposure to credit risk, liquidity risk, currency risk, interest rate risk and other price risk and on the way such risks are managed. ACO's financial reporting of this data is in accordance with the NFRs and IPSAS standards.

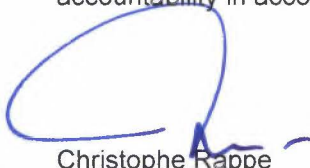
Sustainability

As in 2013, 2014 saw many Nations continuing to be confronted with increasing constraints on their military budgets which negatively affected the amount of resources Nations could entrust to the military commands to execute their tasks and responsibilities. As a result ACO has continued to focus on the economic management of the available resources by defining clear priorities in the requirements that can be funded.

Responsibility

The attached, unaudited consolidated financial statements for ACO cover the fiscal year 2014 starting 1 January 2014 and ending 31 December 2014 and have been prepared in accordance with the NFRs, IPSAS and the NATO Accounting Framework. They are submitted for audit by the IBAN. This procedure is in accordance with Articles 26 and 27 of the NFRs. The financial statements are also distributed to the national delegations of the 28 NATO Nations for their information

I hereby certify that to the best of my knowledge, I have a reasonable assurance that the attached financial statements and notes present a true and fair view of the financial activities of ACO as at 31 December 2014. I am confident that the revised layout adopted for the 2014 financial statements will facilitate the readability of the financial data reported and enhance financial transparency and accountability in accordance with the requests of the nations during the Wales Summit⁴.



Christophe Rappe
ACO Financial Controller
ACOS J8

⁴ AC/335-N(2014)0064, dated 7 Nov. 2014

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ACO Consolidated Financial Statements 2014

STATEMENT 1: ACO CONSOLIDATED STATEMENT OF FINANCIAL POSITION*For the year ended 31 December 2014**Amounts in EUR**Notes**2014**Restated**2013 (**)**2013***ASSETS****Current Assets**

Cash and Cash Equivalents	C.1	940,977,108	916,021,068	916,021,068
Receivables	C.2	132,975,170	86,373,021	87,675,255
Prepayments and Misc. Assets	C.3	25,888,099	64,868,988	64,868,989
Inventories	C.4	26,069,445	23,977,843	21,283,377

Total Current Assets		1,125,909,822	1,091,240,920	1,089,848,689
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Non-current Assets

Financial Assets	C.5	26,167,605	9,924,819	9,988,961
Property, Plant & Equipment	C.6	72,619,400	31,929,673	26,333,865

Total Non-current Assets		98,787,005	41,854,492	36,322,826
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Total ASSETS		1,224,696,827	1,133,095,412	1,126,171,515
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LIABILITIES**Current Liabilities**

Payables	C.7	(236,751,574)	(235,629,216)	(241,113,575)
Unearned Revenue & Advance Contributio	C.8	(887,705,265)	(854,361,093)	(847,484,503)
Provisions	C.9	(27,620,588)	(11,175,430)	(11,239,572)

Total Current Liabilities		(1,152,077,427)	(1,101,165,739)	(1,099,837,650)
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Non-current Liabilities

Unearned Revenue	C.10	(72,619,400)	(31,929,673)	(26,333,865)
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Total Non-current Liabilities		(72,619,400)	(31,929,673)	(26,333,865)
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Total LIABILITIES		(1,224,696,827)	(1,133,095,412)	(1,126,171,515)
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NET ASSETS

Surpluses/Deficits	D.13	-	-	-
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Total NET ASSETS		-	-	-
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(*) In all tables, credit amounts/balances such as liabilities and revenue are presented with negative signs. Debit amounts such as assets and expenses carry a positive sign.

(**) This column reports the restatement as described in the notes

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STATEMENT 2: ACO CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE*For the year ended 31 December 2014*

<i>Amounts in EUR</i>	<i>Notes</i>	<i>2014</i>	<i>Restated 2013 (**)</i>	<i>2013</i>
Revenue				
ACO BC		(1,068,542,133)	(1,004,279,892)	(982,718,802)
ACO NSIP		(534,463)	(1,164,262)	(1,164,262)
Non-Consolidated BC		(6,734,920)	(6,903,418)	(11,229,493)
Reimbursable		-	-	(53,749,113)
Other entities		-	-	(8,393,589)
Miscellaneous ACO Income		(3,180,516)	(4,412,124)	(4,412,124)
Financial Revenue		(7,397,069)	(3,753,040)	(3,125,282)
Total to be returned to the Nations		9,772,761	7,377,503	7,377,503
Total Revenue	D.11	(1,076,616,340)	(1,013,135,233)	(1,057,415,162)
Expenses				
ACO BC		1,043,705,040	975,980,822	980,279,304
Personnel		212,597,020	208,685,018	208,749,158
Contractual Supplies and Services		827,883,911	761,433,632	765,286,960
Capital and Investment		3,224,109	5,862,173	6,243,186
ACO NSIP		534,463	1,164,262	1,164,262
Capital and Investment		534,463	1,164,262	1,164,262
Non-Consolidated BC		6,734,920	6,903,418	11,229,493
Personnel		94,466	256,540	2,359,883
Contractual Supplies and Services		6,640,454	6,646,878	8,869,610
Reimbursable		-	-	53,749,113
Personnel		-	-	6,228,510
Contractual Supplies and Services		-	-	47,517,792
Capital and Investment		-	-	2,811
Other entities		-	-	8,393,589
Personnel		-	-	915,355
Contractual Supplies and Services		-	-	7,260,858
Capital and Investment		-	-	217,376
Depreciation		24,837,094	28,299,070	2,504,549
Financial Expenses		794,796	787,072	94,263
Financial Write-Off		10,027	589	589
Total Expenses	D.12	1,076,616,340	1,013,135,233	1,057,415,162

(*) In all tables, credit amounts/balances such as liabilities and revenue are presented with negative signs. Debit amounts such as assets and expenses carry a positive sign.

(**) This column reports the restatement as described in the notes

**STATEMENT 3: ACO CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014**

<i>Amounts in Euro</i>	<i>2014</i>	<i>Restated 2013(**)</i>	<i>2013</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus/(deficit) from operating activities	-	-	-
Non-cash movements			
Depreciation	24,837,094	28,299,070	2,504,549
Increase (Decrease) in payables	1,095,878	485,632	5,969,991
Increase (Decrease) in other liabilities	49,815,810	169,776,478	162,964,029
Increase (Decrease) in unearned revenue for PPE	40,689,727	31,929,673	26,333,865
(Increase) Decrease in other assets	(62,844,935)	14,809,087	13,442,711
(Increase) Decrease in receivables	38,980,889	5,837,514	5,837,513
(Increase) Decrease in Inventories	(2,091,602)	(23,977,843)	(21,283,376)
Net cash flows from operating activities	90,482,861	227,159,611	195,769,282
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment and WIP	(10,320,036)	(16,035,943)	(14,700,121)
1) Property, plant and equipment, other funding	(55,206,785)	(44,192,800)	(14,138,293)
Proceeds from sale of plant and equipment	-	-	-
Proceeds from sale of investments	-	-	-
Purchase of foreign currency securities	-	-	-
Net cash flows from investing activities	(65,526,821)	(60,228,743)	(28,838,414)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	-	-	-
Repayment of borrowings	-	-	-
Distribution/dividend to government	-	-	-
Net cash flows from financing activities	-	-	-
Change in cash flow	24,956,040	166,930,868	166,930,868
Cash and cash equivalents at beginning of period	916,021,068	749,090,200	749,090,200
Cash and cash equivalents at end of period	940,977,108	916,021,068	916,021,068
Net increase/(decrease) in cash and cash equivalents	24,956,040	166,930,868	166,930,868

1) Other funding refers to assets funded through NSIP, both from other entities as well as where SHAPE is Host Nation

(*) In all tables, credit amounts/balances such as liabilities and revenue are presented with negative signs. Debit amounts and balances such as assets and expenses carry a positive sign.

(**) This column reports the restatement as described in the notes

ACO Consolidated Financial Statements 2014

STATEMENT 4: ACO CONSOLIDATED STATEMENT OF CHANGES IN NET EQUITY*For the year ended 31 December 2014*

<i><u>Amounts in EUR</u></i>	<i><u>Notes</u></i>	<i><u>2014</u></i>	<i><u>Restated 2013</u></i>	<i><u>2013</u></i>
Equity at beginning of year		0	0	0
Net surplus for the year		0	0	0
Net recognized revenue and expenses for the year		0	0	0
Equity at End of year		0	0	0

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**STATEMENT 5/1: ACO MB BUDGET EXECUTION REPORT
(Note K)**

All amounts are expressed in the reporting currency mentioned at the top left of the tables and rounded to the whole unit. Budgets authorized in GBP were converted and executed using a parity rate for the fiscal year. The rate was fixed using the rate as of 1st January.

BA1: represents the amounts authorised by the Financial Committees as BA1 in December of the year preceding the financial year.

BA2: the amount authorised by the Financial Committees and published as BA2.

BA3: the amount authorised by the Financial Committees and published as BA3.

Transfers: the difference between the Budget as it is reported at the end of the fiscal year and the Year End Review.

End of Year Budget: the budget as reported upon at the end of the year, including all transfers made between the authorisation of BA3 and the end of the fiscal year.

Net Commitments: are the net liabilities recorded for which goods or services have not been received yet. When they relate to fiscal year-2, they are lapsed at the end of the year except if a special carry-forward has been requested from the committees.

Expenses: expenses are reported under accrual basis: they have been posted when goods have been delivered or the invoice has been received but not necessarily paid yet. As explained in note K.c., the actuals of this report differ from the expenses shown in the Statement 2.

Total spend: equals the sum of net commitments and expenses.

Carry-forward: equals the net commitments for the reporting year and one preceding year.

Lapses: lapsed credits cannot be used in future years. They equal:

- the final budgets - the total spend for the reporting year and the previous year;
- the final budgets - the total expenses for the reporting year-2.

EUR

	BA1	BA2	BA3	Transfers	End of Year Budget	Net Commitment	Actual Expenses	Total Spend	Carry-Forward	Lapsed
2014 NCSEP at 28										
	363,107,868	363,107,869	356,990,197	-	356,990,197	26,162,365	324,226,242	350,388,607	26,162,365	6,601,590
101 2014 SHAPE	61,524,455	61,524,455	61,524,455	784,000	62,308,455	6,746,452	55,526,622	62,273,073	6,746,452	35,382
103 2014 JFC HQ BRUNSSUM	23,718,489	23,718,489	23,718,489	-	23,718,489	1,765,597	21,772,462	23,538,060	1,765,597	180,429
104 2014 JFC HQ NAPLES	28,030,240	28,030,240	28,030,240	-	28,030,240	503,685	27,394,258	27,897,943	503,685	132,297
105 2014 HQ AC RAMSTEIN	18,858,785	18,858,785	18,801,171	(1,505,460)	17,295,711	815,238	16,141,326	16,956,564	815,238	339,147
111 2014 HQ LC IZMIR	12,112,688	12,112,688	12,112,688	38,000	12,150,688	481,053	11,587,525	12,068,579	481,053	82,109
118 2014 HQ MC NORTHWOOD	8,260,097	8,260,097	8,260,097	-	8,260,097	549,987	7,659,959	8,209,946	549,987	50,152
122 2014 ACO TRANSITION BUDGET	15,046,416	15,046,416	9,675,906	-	9,675,906	352,065	8,895,498	9,247,563	352,065	428,343
131 2014 DEPLOYABLE ASSETS	9,431,469	9,431,469	9,431,469	306,916	9,738,385	440,581	8,501,994	8,942,575	440,581	795,810
164 2014 AIR DEFENCE (GROUND)	29,571,969	29,571,969	29,571,969	92,544	29,664,513	9,504,517	19,950,746	29,455,263	9,504,517	209,250
166 2014 ACCS Support	18,362,911	18,362,911	17,673,363	284,000	17,957,363	3,499,895	14,275,157	17,775,052	3,499,895	182,311
177 2014 NCCB	121,839,976	121,659,709	121,659,709	-	121,659,709	678,000	117,099,914	117,777,914	678,000	3,881,795
178 2014 NATO CIS GROUP (NCISG)	12,720,373	12,900,640	12,900,640	-	12,900,640	457,880	12,392,388	12,850,268	457,880	50,372
502 2014 PFP ACO	3,016,000	3,016,000	3,016,000	(150,000)	2,866,000	255,727	2,419,884	2,675,611	255,727	190,389
506 2014 MEDITERRANEAN DIALOGUE (ACO)	598,000	598,000	598,000	150,000	748,000	111,690	601,268	712,958	111,690	35,042
512 2014 ICI Activity (ACO)	16,000	16,000	16,000	-	16,000	-	7,239	7,239	-	8,761
2014 AGS at 26										
	2,266,500	2,266,500	626,500	-	626,500	18,646	355,290	373,936	18,646	252,564
167 2014 AGS	2,266,500	2,266,500	626,500	-	626,500	18,646	355,290	373,936	18,646	252,564
2014 NAEW at 17										
	248,551,356	248,551,357	248,551,356	-	248,551,356	43,322,917	205,228,439	248,551,356	43,322,917	-
162 2014 E3A Component	248,551,356	248,551,357	248,551,356	-	248,551,356	43,322,917	205,228,439	248,551,356	43,322,917	-
2014 NAEW at 18										
	1,448,644	1,448,644	1,448,644	-	1,448,644	39,647	1,272,316	1,311,964	39,647	136,680
112 2014 NAEW&C FC	1,448,644	1,448,644	1,448,644	-	1,448,644	39,647	1,272,316	1,311,964	39,647	136,680
2014 NAEW at 26										
	-	-	7,970,000	-	7,970,000	-	4,496,029	4,496,029	-	3,473,971
161 2014 NAEW&C Reassurance Measures	-	-	7,970,000	-	7,970,000	-	4,496,029	4,496,029	-	3,473,971
2014 AOM at 28										
	493,576,279	493,381,279	492,737,160	-	492,737,159	71,393,700	417,371,075	488,764,775	71,393,700	3,972,384
183 2014 Balkans Operations	24,699,910	24,699,910	24,699,910	-	24,699,910	2,960,896	18,911,727	21,872,623	2,960,896	2,827,287
185 2014 ISAF	467,244,556	467,244,556	467,244,556	-	467,244,556	68,305,734	397,921,342	466,227,077	68,305,734	1,017,479
187 2014 NATO Support to the African Union	270,805	270,805	270,805	-	270,805	8,354	201,224	209,579	8,354	61,226
189 2014 Operation Active Endeavour	413,737	358,737	300,240	-	300,240	106,830	142,975	249,805	106,830	50,434
191 2014 Operation Ocean Shield	947,271	807,271	221,649	-	221,649	11,886	193,806	205,691	11,886	15,958
Total	1,108,950,647	1,108,755,648	1,108,323,856	-	1,108,323,855	140,937,276	952,949,390	1,093,886,667	140,937,276	14,437,189

EUR

	BA1	BA2	BA3	Transfers	End of Year Budget	Net Commitment	Actual Expenses	Total Spend	Carry-Forward	Lapsed
2013 NCSEP at 28										
	65,285,555	65,285,555	65,285,555	754,000	66,039,555	21,278,183	33,250,132	54,528,315	21,278,183	11,511,240
101 2013 SHAPE	7,891,661	7,891,661	7,891,661	-	7,891,661	2,686,370	5,116,449	7,802,820	2,686,370	88,841
103 2013 JFC HQ BRUNSSUM	2,136,657	2,136,657	2,136,657	-	2,136,657	790,943	1,215,505	2,006,448	790,943	130,210
104 2013 JFC HQ NAPLES	962,539	962,539	962,539	-	962,539	300,931	624,891	925,822	300,931	36,718
105 2013 HQ AC RAMSTEIN	861,492	861,492	861,492	-	861,492	18,660	788,031	806,691	18,660	54,801
111 2013 HQ LC IZMIR	1,257,950	1,257,950	1,257,950	-	1,257,950	-	1,102,525	1,102,525	-	155,425
118 2013 HQ MC NORTHWOOD	1,298,353	1,298,353	1,298,353	-	1,298,353	87,346	1,133,678	1,221,025	87,346	77,329
122 2013 ACO TRANSITION BUDGET	21,555,922	21,555,922	21,555,922	-	21,555,922	10,184,883	1,159,554	11,344,437	10,184,883	10,211,485
131 2013 DEPLOYABLE ASSETS	635,557	635,557	635,557	-	635,557	110,960	519,137	630,098	110,960	5,459
164 2013 AIR DEFENCE (GROUND)	10,316,363	10,316,363	10,316,363	-	10,316,363	1,540,134	8,409,704	9,949,838	1,540,134	366,526
166 2013 ACCS Support	1,624,956	1,624,956	1,624,956	-	1,624,956	27,552	1,573,298	1,600,850	27,552	24,106
177 2013 NCCB	15,943,066	15,943,066	15,943,066	-	15,943,066	5,370,283	10,572,783	15,943,066	5,370,283	-
178 2013 NATO CIS GROUP (NCISG)	756,403	756,403	756,403	-	756,403	87,608	605,290	692,898	87,608	63,505
502 2013 PFP ACO	31,453	31,453	31,453	623,500	654,953	47,776	313,981	361,757	47,776	293,197
506 2013 MEDITERRANEAN DIALOGUE (ACO)	13,183	13,183	13,183	130,500	143,683	24,737	115,306	140,043	24,737	3,640
2013 AGS at 26										
	350,000	350,000	350,000	-	350,000	-	350,000	350,000	-	-
167 2013 AGS	350,000	350,000	350,000	-	350,000	-	350,000	350,000	-	-
2013 NAEW at 17										
	51,572,825	51,572,825	51,572,825	-	51,572,825	13,656,679	35,719,892	49,376,570	13,656,679	2,196,255
162 2013 E3A Component	51,572,825	51,572,825	51,572,825	-	51,572,825	13,656,679	35,719,892	49,376,570	13,656,679	2,196,255
2013 NAEW at 18										
	90,842	90,842	90,842	-	90,842	-	65,949	65,949	-	24,893
112 2013 NAEW&C FC	90,842	90,842	90,842	-	90,842	-	65,949	65,949	-	24,893
2013 AOM at 28										
	10,899,062	10,899,062	10,899,062	-	10,899,062	277,235	7,954,275	8,231,510	277,235	2,667,553
183 2013 Balkans Operations	3,179,735	3,179,735	3,179,735	-	3,179,735	192,486	2,288,314	2,480,800	192,486	698,935
185 2013 ISAF	7,620,168	7,620,168	7,620,168	-	7,620,168	77,344	5,613,287	5,690,631	77,344	1,929,537
187 2013 NATO Support to the African Union	24,385	24,385	24,385	-	24,385	4,684	17,012	21,697	4,684	2,688
189 2013 Operation Active Endeavour	32,189	32,189	32,189	-	32,189	2,721	14,209	16,929	2,721	15,260
191 2013 Operation Ocean Shield	42,586	42,586	42,586	-	42,586	-	21,453	21,453	-	21,133
Total	128,198,284	128,198,284	128,198,284	754,000	128,952,284	35,212,096	77,340,247	112,552,343	35,212,096	16,399,941

EUR

	BA1	BA2	BA3	Transfers	End of Year Budget	Net Commitment	Actual Expenses	Total Spend	Carry-Forward	Lapsed
2012 NCSEP at 28										
	11,874,570	11,874,570	11,874,570	-	11,874,570	-	8,083,123	8,083,123	-	3,791,447
101 2012 SHAPE	2,083,742	2,083,742	2,083,742	-	2,083,742	-	1,803,856	1,803,856	-	279,886
103 2012 JFC HQ BRUNSSUM	1,729,640	1,729,640	1,729,640	-	1,729,640	-	1,596,792	1,596,792	-	132,848
104 2012 JFC HQ NAPLES	740,917	740,917	740,917	-	740,917	-	63,907	63,907	-	677,010
105 2012 HQ AC RAMSTEIN	154,228	154,228	154,228	-	154,228	-	116,222	116,222	-	38,006
118 2012 HQ MC NORTHWOOD	130,813	130,813	130,813	-	130,813	-	57,451	57,451	-	73,361
122 2012 ACO TRANSITION BUDGET	64,055	64,055	64,055	-	64,055	-	56,879	56,879	-	7,176
131 2012 DEPLOYABLE ASSETS	44,494	44,494	44,494	-	44,494	-	20,042	20,042	-	24,452
151 2012 NATO JEWCS	9,729	9,729	9,729	-	9,729	-	2,400	2,400	-	7,329
157 2012 ACO Exercises and Training	99,498	99,498	99,498	-	99,498	-	38,218	38,218	-	61,280
164 2012 AIR DEFENCE (GROUND)	3,170,122	3,170,122	3,170,122	-	3,170,122	-	2,836,564	2,836,564	-	333,558
177 2012 NCCB	3,152,824	3,152,824	3,152,824	-	3,152,824	-	1,479,131	1,479,131	-	1,673,693
178 2012 NATO CIS GROUP (NCISG)	17,200	17,200	17,200	-	17,200	-	-	-	-	17,200
502 2012 PFP ACO	434,288	434,288	434,288	-	434,288	-	10,040	10,040	-	424,248
506 2012 MEDITERRANEAN DIALOGUE (ACO)	43,021	43,021	43,021	-	43,021	-	1,621	1,621	-	41,400
2012 NAEW at 17										
	24,827,794	24,827,794	24,827,794	-	24,827,794	-	23,298,993	23,298,993	-	1,528,801
162 2012 E3A Component	24,827,794	24,827,794	24,827,794	-	24,827,794	-	23,298,993	23,298,993	-	1,528,801
2012 AOM at 28										
	2,242,571	2,242,571	2,242,571	-	2,242,571	-	274,571	274,571	-	1,968,000
183 2012 Balkans Operations	342,703	342,703	342,703	-	342,703	-	146,919	146,919	-	195,783
184 2012 NATO HQ Sa	770	770	770	-	770	-	-	-	-	770
185 2012 ISAF	1,889,174	1,889,174	1,889,174	-	1,889,174	-	127,652	127,652	-	1,761,523
189 2012 Operation Active Endeavour	1,889	1,889	1,889	-	1,889	-	-	-	-	1,889
191 2012 Operation Ocean Shield	8,035	8,035	8,035	-	8,035	-	-	-	-	8,035
Total	38,944,934	38,944,934	38,944,934	-	38,944,934	-	31,656,687	31,656,686	-	7,288,248
Total for all MB Cost Shares, Years and Budgets	1,276,093,865	1,275,898,866	1,275,467,074	754,000	1,276,221,073	176,149,372	1,061,946,325	1,238,095,696	176,149,372	38,125,377

ACO Consolidated Financial Statements 2014

ACO MB CONTRACT AUTHORITIES

All amounts are expressed in the reporting currency mentioned at the top left of the tables and rounded to the whole unit. Budgets authorized in GBP were converted and executed using a parity rate for the fiscal year. The rate was fixed using the rate as of 1st January.

BA1: represents the amounts authorised by the Financial Committees as BA1 in December of the year preceding the financial year.

BA2: the amount authorised by the Financial Committees and published as BA2.

BA3: the amount authorised by the Financial Committees and published as BA3.

Transfers: the difference between the Budget as it is reported at the end of the fiscal year and the Year End Review.

End of Year Budget: the budget as reported upon at the end of the year, including all transfers made between the authorisation of BA3 and the end of the fiscal year.

Net Commitments: are the net liabilities recorded for which goods or services have not been received yet. When they relate to fiscal year-2, they are lapsed at the end of the year except if a special carry-forward has been requested from the committees.

EUR

	BA1	BA2	BA3	Transfers	End of Year Budget	Net Commitment
NCSEP at 28						
	95,416,970	95,629,470	95,968,433	662,750	96,631,183	43,973,713
101 SHAPE	15,573,981	15,573,981	15,573,981	269,372	15,843,353	318,372
103 JFC HQ BRUNSSUM	4,297,162	4,509,662	4,509,662	259,834	4,769,496	259,834
104 JFC HQ NAPLES	13,997,900	13,997,900	13,997,900	133,544	14,131,444	2,013,833
105 HQ AC RAMSTEIN	260,000	260,000	260,000	-	260,000	137,873
164 AIR DEFENCE (GROUND)	10,557,000	10,557,000	10,557,000	-	10,557,000	-
166 ACCS Support	9,826,090	9,826,090	9,826,090	-	9,826,090	-
177 NCCB	40,904,837	40,904,837	41,243,800	-	41,243,800	41,243,800
NAEW at 18						
	64,050	64,050	64,050	-	64,050	9,030
112 NAEW&C FC	64,050	64,050	64,050	-	64,050	9,030
NAEW at 17						
	95,261,013	114,154,937	114,151,937	-	114,151,937	74,283,918
162 E3A Component	95,261,013	114,154,937	114,151,937	-	114,151,937	74,283,918
AOM at 28						
	208,982,463	6,285,502	6,285,502	-	6,285,502	817,508
183 Balkans Operations	6,285,502	6,285,502	6,285,502	-	6,285,502	817,508
Total for all MB Cost Shares, Years and Budget	399,724,496	216,133,959	216,469,922	662,750	217,132,673	119,084,169

ACO Consolidated Financial Statements 2014

STATEMENT 5/2: SUMMARY BUDGET EXECUTION REPORT FOR NON ACO MB BUDGETS

All amounts are expressed in the reporting currency mentioned at the top left of the tables and rounded to the whole unit.

Expenditure Ceiling: this column represents the funding ceiling.

Net Commitments: are the net liabilities recorded for which goods or services have not been received yet. When they relate to fiscal year-2, they are lapsed at the end of the year except if a special carry-forward has been requested from the committees.

Expenses: expenses are reported under accrual basis: they have been posted when goods have been delivered or the invoice has been received but not necessarily paid yet.

Total spend: equals the sum of net commitments and expenses.

<i>EUR</i>	<i>Expenditure Ceiling</i>	<i>Net Commitment</i>	<i>Actual Expenses</i>	<i>Total Spend</i>
	Non-Consolidated MB			
	8,096,088	676,354	6,734,920	7,411,274
2014	7,378,661	645,796	6,251,337	6,897,133
259 ACT EXERCISES & TRAINING	7,378,661	645,796	6,251,337	6,897,133
2013	717,427	30,558	483,583	514,142
259 ACT EXERCISES & TRAINING	717,427	30,558	483,583	514,142

STATEMENT 5/3: ACO PROJECT EXECUTION REPORT

All amounts are expressed in the reporting currency of the entity - EUR

This report includes a summary of ongoing or completed projects per location, active projects, as well as a summary of projects approved for COFFA, closed projects.

Authorised Budget: is the Authorisation in Scope as approved by the Investment Committee (IC).

Commitments: are the net liabilities recorded against projects and for which the goods or services have not been received yet.

Actuals YTD: are expenses for the reporting year reported under accrual basis. They have been posted when goods or services have been delivered or the invoice has been received, but not necessarily paid yet.

Actuals PJTD: are accumulated expenses for the projects.

Funds Available: are authorisation not yet spent, or not yet de-authorised by the IC for completed projects.

OVERALL - NSIP PROJECT EXECUTION STATUS

Active projects					
Status	Authorized Budget	Commitments	Actuals YTD	Actuals PJTD	Funds Available
BRUNSSUM	40,068,889	9,819	541,231	34,516,953	5,542,117
NAPLES	44,982,424	-	-	43,368,574	1,613,850
KFOR	13,563,814	17,962	131,989	12,407,782	1,138,070
NHQSa	8,490,764	-	-	8,490,764	-
SHAPE	78,303,698	1,273,180	457,657	76,610,775	419,743
Grand Total	185,409,589	1,300,961	1,130,877	175,394,848	8,713,779
Semi-Annual	185,401,282			175,386,541	
Difference	8,307	1,300,961	1,130,877	8,307	8,713,779

A2002_5_VA_30184	A34	NHQSa	(8,313)	(8,313)
Rounding			6	6
			<u>(8,307)</u>	<u>(8,307)</u>

Actuals YTD reported in Statement of Financial Performance	534,463
Actuals YTD reported in Statement of Financial Position WIP	596,414
	<u>1,130,877</u>

See note F. Segment Reporting

Closed projects					
Status	Authorized Budget	Commitments	Actuals YTD	Actuals PJTD	Funds Available
BRUNSSUM	43,648,569	-	-	43,648,569	-
NAPLES	3,644,378	-	-	3,644,378	-
KFOR	83,982,299	-	-	83,982,299	-
NHQSa	114,279,103	-	-	114,279,103	-
SHAPE	557,634,613	-	-	557,634,608	5
Grand Total	803,188,962	-	-	803,188,957	5
Total	988,598,551	1,300,961	1,130,877	978,583,805	8,713,785

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ACO Consolidated Financial Statements 2014

Notes to the ACO Consolidated Financial Statements 2014

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NOTES TO THE ACO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2014

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A. Accounting Policies

Accounting Period

These ACO Financial Statements are based on the accounting records of ACO as of 31 December 2014. In accordance with Article 2 of the NFR, the financial year at ACO begins on 1 January and ends on 31 December of the year.

Functional and Reporting Currency

These financial statements are presented in Euro (€), the Euro being the ACO's functional and reporting currency. Data from ACO budgets approved in different currency is converted and executed into Euro using a fixed rate.

The functional currency for the NSIP is Euro (€), as it is for the MB.

Basis of preparation

The ACO consolidated financial statements have been prepared on a going-concern basis. The assumption that ACO is a going concern and will continue in operation and meet its strategic objectives and its obligations for the foreseeable future is based on all available information about the future, which is not limited to, twelve months from the approval of these financial statements. The assumption on the going-concern basis is not affected by the closure of some of the ACO consolidated entities as it refers to ACO as a whole.

Financial Reporting Framework

The ACO 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 ACO and with the NATO Accounting framework approved by the NAC on 2 August 2013¹. A list of standards issued by the IPSAS Board can be found on the following website www.ifac.org.

The accounting principles recognised 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 principles of the Qualitative Characteristics of Financial Reporting as listed in the Appendix A of IPSAS 1². Preparation of the financial statements in accordance with the above mentioned rules and principles requires management to make estimates that affect the reported amounts of certain items in the statement of financial position and statement of financial performance as well as the disclosures of contingent assets and liabilities.

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

No accounting standard has been adopted earlier than the application date as stated in the IPSAS standards.

ACO financial statements have also been prepared in accordance with the accounting requirements of the NATO Financial Regulations (NFR), the Financial Rules and Procedures (FRP) and the relevant ACO directives and policies.

The NATO Accounting Framework was approved by the North Atlantic Council on 02 August 2013³. This framework sets out the adaptation of some of the IPSAS to produce a common approach NATO-wide to reporting on assets controlled by NATO reporting entities as well as to suit NATO's specific requirements. It covers IPSAS 12 (Inventories), IPSAS 17 (Property, Plant and Equipment), IPSAS 31 (Intangible assets) and IPSAS 6 (Consolidation) for Morale and Welfare concessions.

According to the NATO Accounting Framework, ACO recognises only inventory balances and capital assets acquired from 01 January 2013 (received during 2013) whose value is above the materiality

¹ C-M(2013)0039 dated 26 July 2013

² 2014 IFAC HANDBOOK OF INTERNATIONAL PUBLIC SECTOR ACCOUNTING PRONOUNCEMENTS vol.I, IPSAS 1, Appendix A

³ C-M(2013)0039, dated 26 July 2013

thresholds set by the framework per each asset category. Furthermore, the Allied Operations and Missions assets acquired from 1 January 2013 and physically located in a Theatre of Operation are fully depreciated during the first year (i.e. 12 months) of their useful life effective from the date on which they are brought into Theatre. All the assets acquired before 01 January 2013 are considered as fully expensed. For items acquired prior to the cut-off date of 01 January 2013 a brief description has been provided as a disclosure note in accordance with the prescriptions of the NATO Accounting framework, to include the types of assets, locations where they are held and the approximate number of items held at the reporting date, if available.

Criteria for assessment of control and materiality thresholds have been applied in accordance with the NATO accounting framework and proper guidance was provided to each ACO Command for the preparation of the year-end closure. A materiality threshold of 5,000 EUR has been applied for reporting on ACO legal provisions and a materiality threshold of 50,000 EUR has been applied for lease contract.

The ownership and control of CIS Assets.

Further to the NAC decision to transfer the full ownership of all NATO common funded IT assets and IT infrastructure from the current NATO Commands to the NCIO effective 01 July 2012, the governance of the CIS asset and related IT infrastructure to include ownership, accountability and management is vested in the NCIA effective from the above mentioned date. Therefore, ACO is no longer recognizing in its Financial Statements the CIS inventories starting from the 2012 FS, except in cases where the CIS assets are deemed to be under the control of ACO in accordance with the control criteria set forth by the NATO Accounting Framework, such as for the CIS inventories managed locally by the NSBs which are reported by the NCIS Group and the CIS assets reported by the E3-A Component.

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 in IPSAS 3. For the 2014 Financial Statements the accounting policies have been applied consistently throughout the reporting period.

The ACO Corporate Accounting and Control Branch (ACO CAC) is in charge of preparing and maintaining the ACO Accounting policies and preparing the full consolidation of the ACO Financial Statements.

A deep analysis on control criteria and related assessment was performed producing a change in the accounting policy adopted for the 2014 ACO Financial Statements

For instance, Air Defence Ground assets were assessed as not controlled by ACO because they are the responsibility of a number of interested parties of which the SACEUR is only one; the SACEUR does not have sole operational control over these assets. These assets are not reported in the ACO Financial Statements. The ACO assessment was deeply discussed and agreed with NSPA. To ensure transparency and accountability for the value of these assets, ACO was informed by NSPA that they are reported in a note to the NSPO Financial Statements.

Trust Funds, Nation Borne Costs and other reimbursable budgets

ACO manages a number of Trust Funds (TF), Nation Borne Costs (NBC) activities and other reimbursable budgets on behalf of other entities. They are not considered core ACO's activities, ACO is only performing financial service provision, issuing contracts and paying invoices for other entities either co-located or in another way associated with ACO, but not part of the entity. Based on the principle that 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, ACO consider that financial inflows/outflows are recognised with an equal liability, but ACO does not recognise any expenditure or revenue in relation to the Trust Funds, NBC and other reimbursable budgets in its Statements of Financial Performance. From 2014 ACO is including only the execution of the budget delegated by ACT for exercises, considered part of ACO core activities.

Inventory calculation

With the implementation of the NATO Accounting Framework for reporting of inventory only items acquired after 01 January 2013 should be recorded with a value, and items before this date should be disclosed only as quantities. Some of the inventory systems used by ACO⁴ cannot make this distinction and therefore it is not possible to use data as reported by these systems. ACO has opted to use the data

⁴ PILS used by E3A Component is the only system capable of providing this split, so this new calculation of inventory value is not applied to E3A

related to the recorded quantities for all transactions, and the monetary value for items received. Based on the quantity and value for received items, an overall weighted average cost (WAC) is applied to the remaining transactions. This applies to first year of adoption, FY 2013. For the following year the opening quantity and value is added to the quantity and value of received items when calculating the overall WAC.

Budget/Project Execution Report

The execution of authorised budgets/projects is shown per cost share on a summarised level per budget code and year of authorisation. Details are provided directly to the NATO Committees.

The impacts of any other change to the ACO accounting policy have been identified in the notes under the appropriate headings.

Foreign currency transactions

Transactions in currencies other than the functional currency are translated into Euro at the NATO exchange rates prevailing at the time of the transaction. Monetary assets and liabilities at year-end which were denominated in foreign currencies were translated into Euro using the NATO exchange rates that were applicable on 31 December 2014.

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

All entities included in the consolidated financial statements adopt Euro as functional currency. Data from ACO budgets approved in different currency is converted and executed into Euro using a fixed rate. The fixed rate applied for 2014 for GBP is equal to 0.8199 EUR.

Consolidation

The ACO Consolidated financial statements include the financial results of ACO as the controlling entity exercising control over the controlled entities listed below. These include ACO's various Headquarters and NSIP funds for which SHAPE acts as Host Nations.

ACO HQ NAME	LOCATION
SHAPE	Casteau, Belgium
JFC HQ Brunssum	Brunssum, Netherlands
ISAF HQ	Kabul, Afghanistan
E-3A Component Command	Geilenkirchen, Germany
JFC HQ Naples	Naples, Italy
AIRCOM Ramstein ⁵	Ramstein, Germany
MARCOM Northwood	Northwood, UK
NCIS Group HQ ⁶	Casteau, Belgium
KFOR	Pristina, Kosovo
NHQSa	Sarajevo, Bosnia Herzegovina
LANDCOM Izmir	Izmir, Turkey
ACO Corporate Accounting and Control	Casteau, Belgium

While Morale and Welfare activities are under the control of the SACEUR they have not been consolidated into the primary financial statements in accordance with IPSAS 6 in its adapted version approved by the North Atlantic Council (NAC) on 02 August 2013. ACO Morale Welfare Activities is a separate report that will be submitted to the Budget Committee.

⁵ It includes data related to Deployable Air Command and Control Centre, Poggio Renatico (DACCC), Italy, Combined Air Operations Centre (CAOC), Uedem, Germany, Combined Air Operations Centre (CAOC), Torrejon, Spain

⁶ It includes data related to the NCISG HQ plus the 3 NATO Signal Battalions.

ACO has obtained from the above listed Commands all the information and financial data necessary for the production of the accounts that show ACO's consolidated assets and liabilities as well as revenues and expenses. The Financial Controllers of the above mentioned controlled entities have certified the correctness and reliability of the data reported to ACO CAC for further analysis and consolidation in the ACO FS.

Service 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, recognise 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 service In-Kind.

Assets – Current Assets

ACO holds the following types of current assets:

a. Cash and cash equivalents

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

b. Receivables

Receivables are stated at net realisable 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.

Contribution receivables are recognised 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. Prepayments and Misc. Assets

This reflects prepayments given to suppliers and to other NATO entities, as well as bank interest accrued during the reporting period, but received only the following year.

d. Inventory

In accordance with IPSAS 12 as approved within the NATO Accounting Framework and the ACO Policy on IPSAS 12 items acquired from 01 January 2013 and held on stock at the reporting date are recorded as inventories within the categories recognized in the NATO accounting framework if their useful life is less than one year and they exceed the materiality threshold reported in the table below.

Inventory Categories	Threshold	Basis
Consumable	€50,000	Per location/warehouse
Spare parts	€50,000	Per location/warehouse
Ammunition	€50,000	Per location/warehouse
Strategic stockpiles	€50,000	Per location/warehouse

In ACO inventories are reported using the WAC method where adjustment is made to cater for the reduced value of non-strategic slow moving items. Inventories qualified as non-strategic held on stock at the reporting date and which were identified as 'slow moving' over the last three reporting periods are written down to the net realisable value, it being 35% of the last WAC of the same inventory item, if the total value of slow moving items exceeds the ACO materiality threshold; however the category of 'slow moving' items is not applicable for 2014, since only items acquired starting from 01 January 2013 are reported, which means that nothing has been in stock for more than three years.

Due to the restriction mentioned under changes to accounting policies, ACO is using the data related to the recorded quantities only, for all types of transactions, and the monetary value only for items received for data coming from inventory systems other than PILS. Based on the quantity and value for received

items, an overall WAC is applied to the other transactions. This applies to first year of adoption, FY 2013. For the following years the opening quantity balance and value is added to the quantity and value of received items when calculating the overall WAC.

ACO is reporting also the legacy assets (i.e. those acquired before 01 January 2013) by way of a disclosure note to include the approximate number of items per inventory category for each respective location.

According to the ACO EOY Guidance and the ACO Policy on IPSAS 12, inventories are reported using a dedicated Unearned Revenue account, under Current Liabilities, as counter posting

Assets – Non-Current Assets

In this category, ACO is reporting all assets invested for more than 12 months or receivable beyond 12 months from the closing date of the financial statements.

a. Financial Assets

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

b. Property, Plant and Equipment

ACO is only reporting PP&E against IPSAS 17, as modified by the NAC endorsed Adapted Accounting framework. Furthermore, ACO had already developed its policy on capital assets including materiality thresholds and depreciation methods, criteria to distinguish between PP&E assets and inventories and to implement a common asset register to consistently track and monitor the assets held by ACO throughout its Commands.

ACO has also continued to collect data through the Asset Register related to the legacy assets (i.e. those acquired before 01 January 2013) and has included this information in the FS by way of a disclosure note to include the approximate number of items per asset category for each respective location.

Underneath are the categories of PP&E assets with the related materiality thresholds and useful life applied by ACO in accordance with the adapted IPSAS 17:

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

The last two categories related to CIS PP&E assets are included only in relation to holdings of the E3-A Component which is not supported by the NCI Agency for the provision of CIS services, but under the control of the E3-A Component and are, thereby, reported in the ACO FS.

ACO is reporting expenses for all NSIP projects where SHAPE is Host Nation and not completed at end of year as work in process (WIP) without any depreciation applied. Furthermore, projects funded by annual budget and not completed by reporting date is also reported as WIP. Projects/assets completed and officially transferred for use to ACO entities are included in the FS as PP&E.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

All leases held by the ACO Commands at the reporting date have been qualified as operating leases. Rental payable under lease contracts are recognised as an expense in the statement of financial performance on a straight line basis over the lease term.

c. Intangible Assets

Underneath there are reported the categories of intangible assets with the related materiality and useful life included in the ACO policy in accordance with the adapted IPSAS 31:

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

ACO does not hold intangible assets at the reporting date.

Liabilities - Current liabilities

a. Payable

Payables are amounts due to third parties for goods received or services provided that remain unpaid as of the reporting date.

Accruals are estimates of the cost for goods and services received at year-end but not yet invoiced.

b. Unearned Revenue and Advances

Unearned revenue represents contributions from Nations and/or third parties that have been called for current or prior years' budgets and not yet recognised as revenue.

Contributions called for following year budgets are recorded as advances. 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 also spontaneous national contributions for future years' budgets.

Employee benefits

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

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

Certain employees participate in the Provident Fund or the New Defined Contribution Pension Scheme administered by NATO. Contributions to these Plans are limited to matching the employees' contributions for current service. Other employees participate in NATO's Defined Benefit Plan; a portion of their salaries is deducted and contributed to the annual financing of this Plan.

The assets and liability for NATO's Defined Benefit Plan are accounted for centrally at NATO Headquarters and therefore are not recognised in these financial statements, whilst the employer's contribution made to the Provident Fund or the New Defined Contribution Pension Plan are expensed during the reporting period.

ACO recognises a provision in the Statement of Financial Position for the TFR to be paid to the Italian Local Wage Rate employees by JFC HQ Naples as a termination benefit (further details are disclosed in the note E).

Provisions

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

Liabilities - Non-Current liabilities

Unearned Revenue

The non-current liability represents the counter posting for property, plant and equipment and work in progress managed by ACO.

Net Assets

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

Revenue and expense recognition

a. Revenue

Revenue comprises contributions from Member Nations and other customers to fund ACO's requirements through the Military Budget and the NATO Security Investment Programme. It is recognised as revenue in the statement of financial performance when such contributions are used for their intended purpose as envisioned by operational budgets. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be measured reliably. The balance of unspent contributions and other revenues that relate to future periods are deferred accordingly.

Where a transfer is subject to conditions that, if unfulfilled, require the return of the transferred resources, the entity recognises a liability until the condition is fulfilled.

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 2014, exchange rate revenue due to transactions in foreign currency and realised exchange rate revenue in accordance with the ACO Policy IPSAS 4 – Effect of the foreign exchange rate are recognised as financial revenue.

b. Expenses

Budgetary expenses are recognised 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 transaction in foreign currency and realised exchange rate losses in accordance with the ACO Policy IPSAS 4 – Effect of the foreign exchange rate are recognised as financial expenses.

Net Surplus or Deficit for the Period

In accordance with ACO accounting policies ACO revenue is recognised up to the amount of the matching expenses.

Restatements

Restatement has been made for inventory due to the change in valuation, in PPE due to additional information received, and provisions due to a calculation error in 2013.

Additionally, certain reimbursable activity has been excluded from these 2014 FS where ACO acts as an “Agent” rather than as the “Principle”.

Further details on these restatements are shown in the relevant note.

B. Significant Accounting Judgements and Estimates

In accordance with IPSAS and generally accepted accounting principles, the financial statements necessarily include amounts based on estimates and assumptions made by the management using judgement and historical experience as well as the most reliable information available. A certain degree of caution was used in making the estimates 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 characterised by some uncertainty. The effect of changes to such estimates and assumptions in future periods could be significant to the financial statements. Some of the most significant estimates used in these financial statements are:

Actual results can differ from estimates made. Changes in estimates are reflected in the financial statements at the time when they become known.

C. Notes to Statement of Financial Position

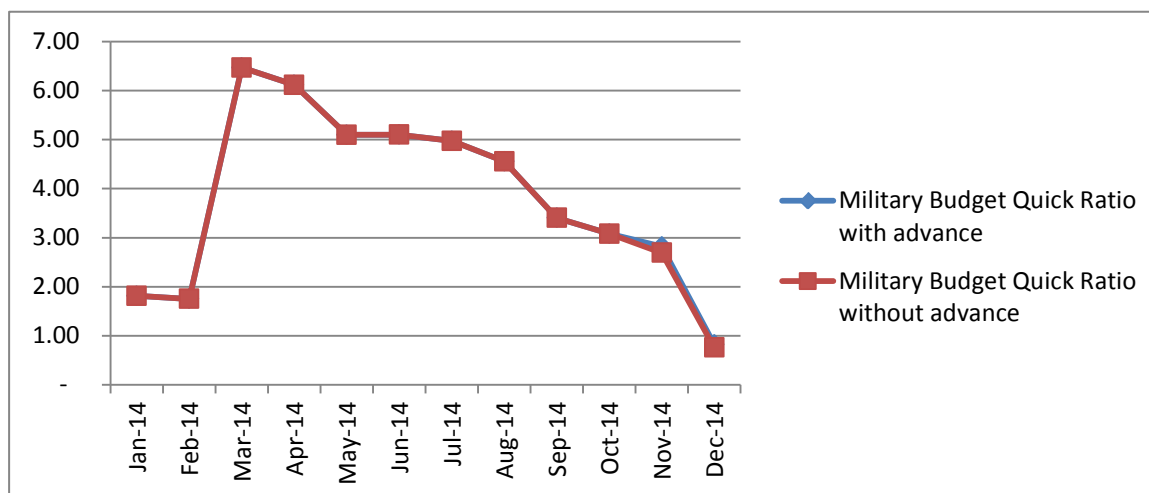
Assets – Current Assets

1. Cash and cash equivalents

Cash and cash equivalents	2014	2013 restated	2013
Cash accounts	167,545	225,531	225,531
Petty Cash and Advances	316,949	345,935	345,935
Current Bank Accounts	860,492,668	501,392,674	501,392,674
Cash equivalents	80,000,000	414,067,206	414,067,206
Clearing-Bank accounts	(54)	(10,278)	(10,278)
Total	940,977,108	916,021,068	916,021,068

Cash and cash equivalents balances tend to increase towards the end of the financial year due to the cash received upon the final cash call and the request of some nations to liquidate uncalled contributions for the following year. Therefore, the year-end balance is not representative of the average cash holdings during the financial year. The trend continues until March of the following financial year. The cash holdings are shown in the Table C1 below through the Quick Ratio. This ratio measures the ability of the entity to meet its short-term obligations at a certain point in time; a value higher than 1 means that the entity can pay off all its short-term liabilities.

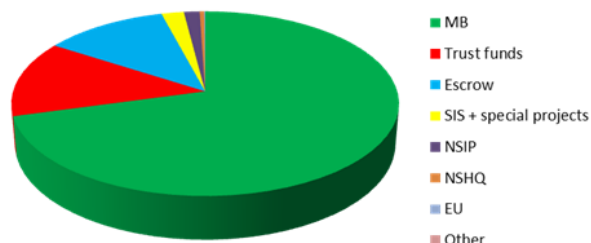
Table 1.A – ACO Quick ratio Fiscal year 2014



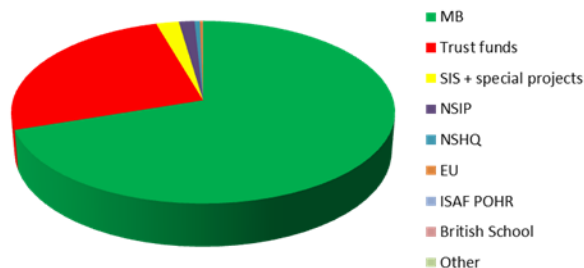
At ACO the cash and cash equivalents of 940,9 MEUR include balances for purposes other than MB budget and NSIP. Since ACO has control of these balances, they are shown as asset of ACO with a matching liability. The breakdown for the main categories is reported below:

Table 1.B - Cash and cash equivalents breakdown

2014



2013



The overall total cash and cash equivalents increased in 2014 about 25 MEUR. For the Military Budget this increase is a consequence of:

- 27 MEUR increase in the advance called for the 2015 NCSEP/AOM/NAEW contribution and voluntary advances,
- 28 MEUR increase in liabilities to suppliers and agencies,
The above are offset against an increase in contribution from Member Nations of 56 MEUR.
- A decrease in lapses of 17 MEUR, and
- a decrease in unearned revenue of 9 MEUR

Furthermore, it should be noted that during 2014, there was a decrease of holding for TF for 110 MEUR and a similar cash holding increase due to the creation of a new bank account, the "Escrow Account". This account was authorised by the BC⁷ to mitigate any potential financial risks and liabilities related to the ISAF Fuel Basic ordering Agreements (BOA). Both cash holdings are kept in USD.

The local cash and cash equivalents balances are kept as low as possible to ensure liquidity for the few payments still executed locally due to national peculiarities. The ACO approach is to keep the liquidity at a central level in order to have better banking conditions and higher interests to be shared amongst the nations at year's end. The use of the local bank accounts has been drastically reduced due to the centralisation of the inflows/outflows transactions ACO-wide, as part of the ACO J8 Optimisation Project.

Funds categorized as cash equivalent are invested in short-term deposit accounts, and are readily convertible to known amounts of cash and subject to no risk of changes in value. Short-term investments include investments if their maturity is within a period of 12 months or less.

The Tables below show the ACO investments in 2013 and 2014:

2013 Investments (MEUR)			
Bank	Amount	Interest	Months
Banca Monte Paschi	75	2.00%	5
BNP Paribas	100	0.60%	3
BNP Paribas	60	0.65%	4
BNP Paribas	100	0.50%	8
BNP Paribas	150	0.50%	4
BNP Paribas	272. 2*	EURIBOR + 0.4%	N/A

3 month in 2013

*average on the account

⁷ BC-DS(2013)0050, dated 23 October 2013

2014 Investments (MEUR)			
Bank	Amount	Interest	Months
BNP Paribas	60	0.65%	4
Banca Monte Paschi	80	1.656%	4
Banca Monte Paschi	80	1.00%	12
BNP Paribas	243.7*	EURIBOR	N/A
BNP Paribas	100	0.25%	N/A

1 month in 2014

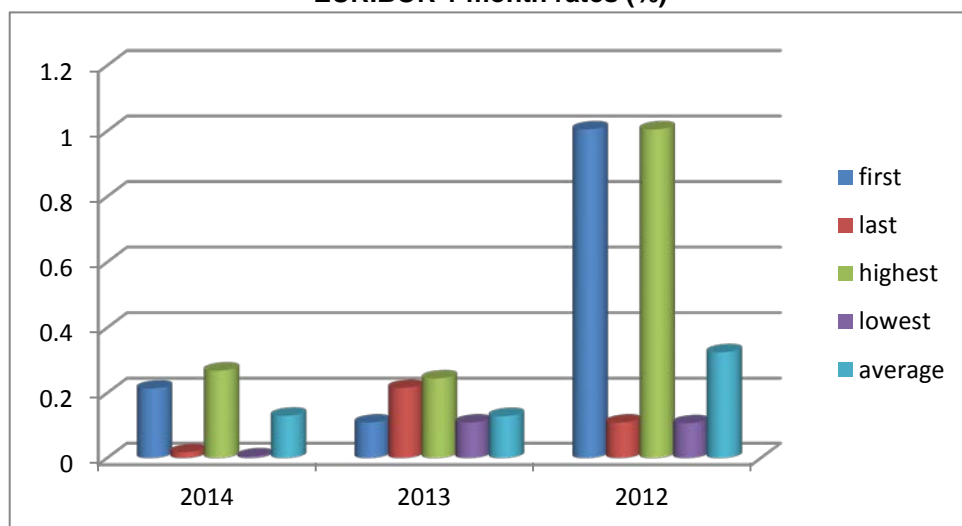
1 month in 2014

*average on the account

All investments are managed centrally by ACO CAC branch. Due to the uncertainties of the financial markets ACO CAC closely monitor where the funds are deposited. Funds are kept on investment accounts that pay fixed rates of interest and money can be withdrawn easily.

The situation of the European financial markets and ACO interest revenue can be shown through the changes of EURIBOR 1 month rate. Since all ACO investments according to the NFRs are short term investments in EUR, EURIBOR rates have a big effect on the investment offers ACO receive from banks. The EURIBOR interest rates dropped significantly during 2012 (from 1.005% at the beginning of January to 0.107% at the end of December). In 2013 the rates stayed low between 0.0109% and 0.216% with slight increase during the year. The trend continued in the first half of 2014 followed by again huge decrease in July (from 0.244% to 0.051%). As a consequence, there was no significant change in the interest revenue in 2014 compared to 2013. Since then the EURIBOR is very close to zero (being below zero quite often).

EURIBOR 1 month rates (%)



It is worth mentioning that interest revenue is only one part of the relationship ACO has with banks, ACO has almost no fees considering the volume of the transactions managed in all currencies and countries (involving corresponding banks and potential extra costs). In addition, ACO regularly analyse and consider the most valuable approach regarding foreign currencies.

2. Accounts Receivable

Accounts Receivable	2014	2013 restated	2013
Contribution from Member Nations	77,710,096	21,161,140	21,161,140
Receivable from Nations	28,203,026	31,369,798	31,369,798
Receivables from NON-Consolidated Entities	7,663,032	13,222,055	13,222,055
Receivables from Staff Members	549,790	580,504	580,504
Receivables from Governments	6,720,169	2,614,582	2,892,743
Other Receivables/Recoverable	12,129,056	17,424,942	18,449,015
Total	132,975,170	86,373,021	87,675,255

The restatement of the 2013 closing balance for accounts receivable is due to the reclassification of EUFOR and NSHQ.

A high percentage of accounts receivable is reported in the ACO CAC accounting book. ACO CAC receives funds mainly from Nations for Calls for Contributions, recovery of the NBC and other calls for contribution.

The accounts in foreign currencies are converted to the reporting currency at the NATO exchange rate prevailing at the end of the reporting period.

Contribution receivables from Member Nations

Contribution from Member Nations	2014	2013 restated	2013
NCSEP Budget	32,096,325	5,435,687	5,435,687
AGS Budget	80,537	286,826	286,826
NAEW Budget	9,409,168	3,922,274	3,922,274
AOM Budget	35,940,323	11,516,353	11,516,353
NSIP	183,744	0	0
Total	77,710,096	21,161,140	21,161,140

The increase in contribution receivables from member nations is due to the fact that the second call for contribution happened one month later in 2014 than in 2013. Therefore the Nations had less time to pay their dues in 2014.

Receivable from Nations

Receivable from Nations	2014	2013 restated	2013
NHQSa NBC	53,796	55,528	55,528
KFOR NBC	1,890,578	1,598,724	1,598,724
ISAF NBC	26,258,652	29,715,546	29,715,546
Total	28,203,026	31,369,798	31,369,798

These credits are for NBC from Nations participating to the AOM activities and for which ACO is providing all services related to their troops.

The outstanding credits are closely monitored; dunning letters are sent quarterly, with additional exceptional reminders for few Nations. Despite ACO efforts to collect the outstanding amounts receivable, some nations changed the way they are paying NBC and delayed their payments. ACO assess at low risk the recovery of these amounts since most of them are related to NATO nations.

Receivable from non-consolidated NATO entities

These are receivables from non-consolidated NATO entities from services provided to these entities.

Receivable from staff members

These are receivables from staff members, such as short term loans, salaries and allowances to be reimbursed by staff members and other receivables. Collections are assured through payroll withholding and staff separation payments.

Receivable from Governments

These are receivables from Government entities, such as local support units.

Other Receivables/Recoverable

This category includes amounts to be invoiced as well as receivables from third parties. SHAPE is still reporting some receivables against the SHAPE International School. The invoice for EU Operation ALTHEA issued at EOY is also recorded under this category.

3. Prepayments and Misc. Assets

Prepayments and Misc. Assets	2014	2013 restated	2013
Advances and Prepayments	18,678,359	59,591,137	59,591,137
Bank Interest Accrued	1,014,514	1,022,245	1,022,245
Receivable > 12 months	6,195,226	4,255,606	4,255,607
Total	25,888,099	64,868,988	64,868,989

Prepayments are net of related accruals previously recorded and associated expenses. Advances entered in foreign currency were accrued in that currency.

The reported advances and prepayments are mainly advances and prepayments to other NATO Agencies, like NSPA and NCIA, and LWR Severance Pay (TFR) for JFC Naples. SHAPE is reporting a decrease related to LWR salaries as well as agencies. In general most sites are reporting a decrease in advance to agencies (e. g. E-3A, who is reporting a decrease of 24 MEUR).

The majority of the Bank Interest Accrued relates to deposits with BNP Paribas, and the Escrow USD bank account managed by ACO CAC.

The Receivable > 12 months has increased from 2013 to 2014 and is mainly related to outstanding amounts for KAIA Nation Borne Costs and outstanding contribution for NCSEP for MEUR 0.5. ACO CAC is doing everything in its power to collect those funds but it might be impossible to avoid a partial write off. Receivable > 12 months is reported net of provision for possible bad debt for an amount of 208.9 KEUR

The accounts in foreign currencies are converted to the reporting currency at the NATO exchange rate prevailing at the end of the reporting period.

4. Inventories

Inventories	2014	2013 restated	2013
Consumable	12,568,800	13,943,333	12,041,409
Spare parts	13,500,645	10,034,510	9,241,968
Ammunition	0	0	0
Strategic stocks	0	0	0
Total for Inventories	26,069,445	23,977,843	21,283,377

ACO is reporting inventory as established in the ACO accounting policy. No inventory is pledged as security for liabilities.

ACO Inventory items are classified by group classes with the exception of E3A for which the Tech Degree codes (ERRC) is considered the first filter for categorizing items as inventory or PP&E prior to the classification by group class. For example, items flagged with XB and XF ERRC codes are always categorized as inventory items regardless the group class. Some other codes are classified in accordance with the assigned group class.

Restatement of the 2013 inventories

The restatement of the 2013 closing balance for inventories is due to the change in calculation of WAC as explained in the accounting policy. ACO CAC centrally performed this analysis and assessment on behalf of the ACO controlled entities.

Inventory acquired after 1 January 2013 (cut-off date)

As the logistic tool used for recording of inventories in most ACO sites (NDSS) is not able to provide reports to identify the OUT transactions in relation to when the items were actually received (i.e. whether prior or after 1 January 2013) for the purpose of recognising items acquired before or after the cut-off date, ACO has applied the approach that all write offs and OUT transactions are first applied to items acquired before the cut-off date before applied to new items. This is done for quantities on a general basis per category and location. Shipping/transportation costs have been added for the recognition of new items as actual cost, if identifiable, or apportioned from the total costs of delivering inventory to the warehouse as

well as if above the materiality threshold of 2% of the overall budget executed by the respective ACO Command.

Inventory acquired before 1 January 2013 (legacy assets)

The Table below shows the summary of ACO inventory items acquired prior to the 1 January 2013 and still in stock as of 31 December 2014, in accordance with the NATO Accounting Framework.

Table 4.A – Summary of inventory acquired before 1 January 2013 (quantities per site/category)

INVENTORY CATEGORY	SHAPE	JFC HQ BRUNS-SUM	AIR-COM RAM-STEIN	ISAF	E3A COMPO-NENT	JFC HQ NAP-LES	NHQ-Sa	LAND-COM IZMIR	NCISG	KFOR	MAR-COM NORTH WOOD	TOTAL
CONSUMABLE & MAINTENANCE	-	-	-	-	2,252,527	-	1,741	88,483	-	-	-	2,342,751
SPARE PARTS	-	-	-	-	890,859	12,554	-	74,482	1,679	-	43	979,617
AMMUNITION	-	-	-	-	32,592	-	-	-	-	-	-	32,592
	-	-	-	-	3,175,978	12,554	1,741	162,965	1,679	-	43	3,354,960

Assets - Non-current Assets

5. Financial Assets

Financial Assets	2014	2013 restated	2013
Non-current Receivables	1,777	1,777	1,777
Long Term Receivable for Provisions	26,165,828	9,923,042	9,987,184
Total	26,167,605	9,924,819	9,988,961

The accounts Long Term Receivable for Provisions cover amounts receivable from contributing nations for more than 12 months. Provisions are reported as liabilities of ACO and matched to asset since they will eventually be borne by member Nations. The difference with the provision reported as liabilities is due to the accounting treatment of the LWR Severance Pay (TFR) in JFC Naples. A partial amount of the TFR is recorded as pre-payment.

6. Property, Plant and Equipment

Property, Plant and Equipment	2014	2013 restated	2013
Land	0	0	0
Buildings	16,758,367	2,747,613	0
Other infrastructure	14,334,117	2,125,985	0
Installed Equipment	3,202,723	2,016,187	3,585,339
Machinery	1,411,176	780,720	776,005
Vehicles	1,587,920	2,390,565	462,202
Airplanes	2,125,741	693,167	693,167
Mission Equipment	27,781,287	14,234,338	14,064,281
Furniture	628,830	228,377	228,377
Communication	1,384,673	1,325,432	1,004,318
Automated Information Systems	1,560,952	684,188	678,074
WIP	1,843,614	4,703,103	4,842,103
Total for Property, Plant and Equipment	72,619,400	31,929,673	26,333,866

According to the NATO Accounting Framework all assets qualified as PP&E which were under the control of ACO at the reporting date, acquired (received) from 1 January 2013 have been capitalized and recognised as non-current assets in the statement of financial position in accordance with the ACO capitalisation thresholds. No PP&E is pledged as security for liabilities.

The CIS assets (Communication and Automated Information System) relate to CIS assets of PP&E at E3A Component.

The category of 'work in progress' (WIP) refers mainly to NSIP projects implemented by SHAPE as HN for ACO requirements; WIP will be reported until the project is completed and the asset has been put in service. Detailed disclosure is reported in the Table 6.A.

Restatement for PPE, other infrastructure, and vehicles is due to information received from NSPA related to ISAF, as well as information provided by ISAF. The main increase in 2014 is due to completion of a new building at E3A as well as completion of a runway, which is categorized as other infrastructure. Increase in mission equipment is mainly due to delivery from NSPA of deployable equipment in Taranto. Some projects managed by SHAPE have been completed and capitalized during 2014, causing a net decrease in work in progress.

It should be mentioned that, as already disclosed for the inventory, PP&E items are classified as such using the group classes identified by ACO. There is one exception for E3A for which the Tech Degree codes (ERRC) is considered the first filter for categorizing items as inventory or PP&E. For example, items flagged with ND ERRC code are always categorized as PP&E. Some other codes are classified in accordance with the assigned group class.

Assets acquired before 1 January 2013 (legacy assets)

The Table 6.B shows the summary of assets of PP&E under the control of ACO at the reporting date, acquired prior to the 1 January 2013. As required by the NATO Accounting Framework the following information is disclosed hereafter for the legacy assets acquired prior to the 01 January 2013:

- the type of PPE (category of the assets);
- the location;
- the approximate number of items per category;

TABLE 6.A – Property, Plant and Equipment – Breakdown of transactions for the year

	Land	Buildings	Other infrastructure	Installed Equipment	Machinery	Vehicles	
Acquisition cost as of 1 January 2013	-	-	-	-	-	-	
+ Additions	-	-	-	3,913,269	811,594	870,770	
Adjustment to additions 2013	-	27,526,788	2,319,256	(1,466,173)	-	2,806,392	
- Disposals/retirements	-	-	-	-	-	-	
+ Revaluations	-	-	-	-	-	-	
- Impairments	-	27,526,788	2,319,256	2,447,096	811,594	3,677,161	
- Accumulated depreciation	-	27,526,788	2,319,256	2,447,096	811,594	3,677,161	
- Depreciation 2013	-	-	-	(327,930)	(35,589)	(408,568)	
Adjustment to depreciation 2013	-	(24,779,175)	(193,271)	(102,978)	4,715	(878,029)	(1,286,597)
Ending balance as of 31 December 2013	-	2,747,613	2,125,985	2,016,187	780,720	2,390,565	
Acquisition cost as of 1 January 2013	-	27,526,788	2,319,256	2,447,096	811,594	3,677,161	
Adjustment to opening balance	-	-	-	-	-	-	
+ Additions	-	21,836,644	15,635,493	1,519,900	1,821,693	1,815,306	
- Disposals/retirements	-	0	-	-	-	-	
+ Revaluations	-	-	-	-	-	-	
- Impairments	-	21,836,644	15,635,493	1,519,900	1,821,693	1,815,306	
Accumulated acquisition cost	-	49,363,432	17,954,749	3,966,995	2,633,287	5,492,468	
- Accumulated depreciation as of 1 January 2014	-	(24,779,175)	(193,271)	(430,908)	(30,874)	(1,286,597)	
Adjustment to opening balance	-	(24,779,175)	(193,271)	(430,908)	(30,874)	(1,286,597)	
+ Disposals/retirements	-	-	-	-	-	-	
- Depreciation 2014	-	(7,825,890)	(3,427,360)	(333,364)	(1,191,237)	(2,617,951)	(3,904,548)
Ending balance as of 31 December 2014	-	16,758,367	14,334,117	3,202,723	1,411,176	1,587,920	
	Airplanes	Mission Equipment	Furniture	Communications	AIS	WIP	Total
Acquisition cost as of 1 January 2013	-	-	-	-	-	-	-
+ Additions	698,514	15,481,465	247,167	1,198,015	775,516	4,842,103	28,838,413
Adjustment to additions 2013	-	204,069	0	139,000	-	(139,000)	31,390,331
- Disposals/retirements	-	-	-	-	-	-	-
+ Revaluations	-	-	-	-	-	-	-
- Impairments	698,514	15,685,533	247,167	1,337,015	775,516	4,703,103	60,228,743
- Accumulated depreciation	698,514	15,685,533	247,167	1,337,015	775,516	4,703,103	60,228,743
- Depreciation 2013	(5,347)	(1,417,184)	(18,790)	(193,698)	(97,442)	-	(2,504,548)
Adjustment to depreciation 2013	(5,347)	(34,012)	0	182,114	6,114	-	(25,794,523)
Ending balance as of 31 December 2013	693,167	14,234,338	228,377	1,325,432	684,188	4,703,103	31,929,673
Acquisition cost as of 1 January 2013	698,514	15,685,533	247,167	1,337,015	775,516	4,703,103	60,228,743
Adjustment to opening balance	-	(63,938)	63,938	-	-	-	-
+ Additions	1,491,397	22,667,428	391,256	105,574	1,101,618	1,794,959	70,181,268
- Disposals/retirements	-	(65,586)	0	-	-	(4,654,447)	(4,720,033)
+ Revaluations	-	-	-	-	-	-	-
- Impairments	1,491,397	22,601,842	391,256	105,574	1,101,618	(2,859,488)	65,461,235
Accumulated acquisition cost	2,189,911	38,223,438	702,361	1,442,589	1,877,134	1,843,614	125,689,978
- Accumulated depreciation as of 1 January 2014	(5,347)	(1,451,196)	(18,790)	(11,583)	(91,328)	-	(28,299,070)
Adjustment to opening balance	-	1,776	(1,776)	-	-	-	-
+ Disposals/retirements	(5,347)	(1,449,420)	(20,566)	(11,583)	(91,328)	-	(28,299,070)
- Depreciation 2014	(58,822)	(9,014,593)	(52,965)	(46,333)	(224,854)	(316,182)	(24,793,370)
Ending balance as of 31 December 2014	2,125,741	27,781,287	628,830	1,384,673	1,560,952	1,843,614	72,619,400

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TABLE 6.B – Summary of asset categories (number of items)

ASSET CATEGORY	SHAPE	JFC HQ BRUNSSUM	AIRCOM RAMSTEIN	ISAF	E3A COMPONENT	JFC HQ NAPLES	NHQSa	LANDCOM IZMIR	NCISG	KFOR	MARCOM NORTHWOOD	TOTAL
LAND	1	2	1	-	-	-	-	3	-	4	-	11
BUILDING	238	63	1	-	354	10	59	60	-	17	-	802
OTHER INFRASTRUCTURES	1	2	1	-	-	-	46	18	-	161	-	229
INSTALLED EQUIPMENT	164	2,571	36	1,000	968	970	-	1	134	152	-	5,996
MACHINERY	700	34	107	473	2,393	-	1	-	334	438	-	4,480
TRANSPORT EQUIPMENT - VEHICLES	140	86	41	356	28	62	90	36	122	204	-	1,165
TRANSPORT EQUIPMENT - AIRPLANES	-	-	-	5	1,057 ⁸	-	-	-	-	-	-	1,062
MISSION EQUIPMENT	449	17	26	491	1,543	931	-	-	286	140	-	3,883
FURNITURE	376	1,507	447	147	35	1,557	-	-	91	1,309	-	5,469
COMMUNICATION	-	-	-	-	3,486	-	-	-	-	-	-	3,486
AUTOMATED INFORMATION SYSTEM	-	-	-	-	218	-	-	-	-	-	-	218
	2,069	4,282	660	2,472	10,082	3,530	196	118	967	2,425	-	26,801

⁸ For E3A the number of items included in this category represents the entire AWACS fleet, including airplanes and related components.

Liabilities – Current Liabilities

7. Accounts Payable

Payables	2014	2013 restated	2013
Payable to Suppliers	(223,897,741)	(203,121,942)	(208,606,301)
Payable to staff members	(290,618)	(99,350)	(99,350)
Payable to governments	(485,377)	(180,304)	(180,304)
Other payables	(12,077,838)	(32,227,620)	(32,227,620)
Total	(236,751,574)	(235,629,216)	(241,113,575)

The restatement of the 2013 is due to the reclassification of EUFOR, NSHQ and a small change in the provision for untaken leave.

Accrued amounts for goods and services are not automatically classified by the accounting system to match the reported categories. They are reported as Payable to Suppliers. Only manual accruals are assigned to an ad-hoc category.

Payables to suppliers

Payables to suppliers include:

- a. Suppliers as third parties invoices received from commercial vendors not settled and goods and services received and accrued where no invoice has been received by reporting date.
- b. Suppliers as other NATO entities. The majority are payables/accruals to NSPA and NCIA. It should be noted that some of the accrual data provided by the local sites (e.g. JFCBS) are based on information collected and validated by the local Fund Managers (FMs).

Foreign Military Services (FMS) cases. This category represents payables due to goods and services acquired for E3A through NATO agencies such as NSPA including those related to FMS cases acquired from the US Defence Department through the Agency. The NAEW&C Force conducts twice a year (March and September) FMS case review meetings with several US organisations (AFSAC, DFAS, ANG, NAPMO US Agent, TCG). Key factor of these meetings is the review of each single pending FMS case with respect of period of performance, deliveries and budgets in order to ensure financial correctness, at least in terms of cash expenditures as no accruals data are available. A further goal is to close formally open but fully performed cases as early as possible. In all the meetings the E3A Financial Controller or his deputy is present to ensure accurate financial management overall the FMS business for NAEW&C Force. Furthermore, it should be noted, that the total amount of FMS goods and services delivered to the E3-A component is not material in relation to the overall consolidated amount of contractual services procured by ACO in the same reporting period.

Payable to staff members

Amounts due to staff members for salaries or allowances. The increase is mainly related to SHAPE and ISAF.

Payable to governments

Amounts payable to Nations for goods and services provided to ACO. The increase is mainly related to JFC Brunssum invoices to US DFAS totalling 320 KEUR.

Other payables

Following IBAN recommendation⁹ unrealised currency fluctuations for NSIP, not yet returned, have been excluded from interest and reimbursements to the Nations, since 1987. At the end of 2001 they amounted to €11,424,945.

⁹ See (IBA-IR (2002)86)

NSIP accounts at SHAPE were maintained on BUDCOM and at the time of migration to NAFS, on 31 Dec 2003, unrealised currency fluctuations amounted to €7,757,417.

Since intercompany accounts are not revalued in NAFS, the amount is also reported at the end of 2014, adjusted for other currency differences identified.

The decrease in other payables is due to a reclassification to payables to suppliers.

8. CL-Unearned Revenue and Advance

Unearned Revenue and Advance	2014	2013 restated	2013
Unearned Revenue NCSEP/AGS/AOM/NAEW	(176,149,373)	(167,143,218)	(167,143,219)
Liabilities from NCSEP/AGS/AOM/NAEW Lapse	(60,094,712)	(77,178,243)	(77,178,244)
Liabilities from NCSEP/AGS/AOM/NAEW Budget decrease	0	(692,136)	(692,136)
Liabilities from NCSEP/AGS/AOM/NAEW Result of the year	(7,231,865)	(6,454,441)	(6,454,441)
Liability from unrealised exchange rate differences	(3,032,313)	(535,030)	(535,030)
Advance NCSEP/AGS/AOM/NAEW Contributions	(338,454,675)	(310,542,336)	(310,542,336)
NSIP Unearned Revenue	(789,320)	(977,561)	(977,561)
Liabilities from NSIP Cash Call	(1,014,063)	(614,616)	(614,616)
Liabilities from NSIP Accumulated result of the year	(1,215,001)	(1,171,387)	(1,171,387)
Other Unearned Revenue	(273,370,515)	(265,037,320)	(260,855,197)
Other Advance	(283,984)	(36,960)	(36,960)
Unearned Revenue Inventory	(26,069,445)	(23,977,844)	(21,283,376)
Total	(887,705,265)	(854,361,093)	(847,484,503)

Unearned Revenue NCSEP/AGS/AOM/NAEW

Unearned revenue for NCSEP/AGS/AOM/NAEW budgets corresponds to contributions called or to be called for 2014, or before, but for which corresponding expenditures will be incurred after the reporting date. It is accounted for by type, cost share, mission and year in accordance with the ACO policy.

Liabilities from NCSEP/AGS/AOM/NAEW Lapse

These liabilities are used to record unused budget credits authorized as of end of year 2014. The lapse is in effect an amount owed back to the Nations and as per NATO IS policy; the balance will be included in the 2nd Assessment call for 2015

NCSEP/AGS/AOM/NAEW Lapse	2014	2013 restated	2013
Budgetary lapses	(38,125,376)	(61,532,534)	(61,532,534)
Overestimated accruals	(22,071,672)	(15,660,040)	(15,660,040)
Other adjustments	102,336	14,331	14,330
Total	(60,094,712)	(77,178,243)	(77,178,244)

Liabilities from NCSEP/AGS/AOM/NAEW Budget Decrease

There was no change in budget authorisation after the last call, so no liability is recorded for 2014.

Liabilities from NCSEP/AGS/AOM/NAEW Result of the year

Distribution of Result of the year	2014	2013 restated	2013
Result of the year	(9,772,761)	(7,377,503)	(7,377,503)
Unrealised exchange rate gain/loss	2,497,282	869,638	869,638
NSIP result of the year	43,614	53,424	53,424
Result of the year to be returned	(7,231,865)	(6,454,441)	(6,454,441)

This net amount of miscellaneous income, interest revenue, bank charges, realised gain and losses that needs to be returned to the Nations was summarised at ACO consolidation level, apportioned by type, cost share and mission and posted as a liability. As per NATO IS policy, the balance will be included in the 2nd Assessment call for 2015.

Advance NCSEP/AGS/AOM/NAEW Contributions

The amount is related to:

- Advance contribution called on the 2nd call 2014 for an amount of EUR 276,273,600 (NAEW/AGS/NCSEP/AOM cost share) and related to budget authorization of 2015. These advances are recorded with the appropriate account code by type/year/cost share. The amount is comparable to the balance of 2013.
- Advances for an amount of EUR 61,340,981 made by some member Nations, mainly in coordination with the NATO IS Treasury for non ACO called advances.
- An overcall for AOM was recognised and returned with the 1st call for 2015, it has therefore been recorded as an advance from Nations per reporting date

NSIP Unearned Revenue

A report on expenses and one on forecasts are forwarded twice a year by SHAPE to the Security Investment, Logistics and Civil Emergency Planning (SILCEP). These quarterly reports are the basis for the calculations of the NSIP calls for contributions. Calls not expensed in the year are unearned revenue. Any difference is normally returned with the following cash calls, as explained below, but some amounts were never corrected and these are shown as unearned revenue. The NOR has been informed about the amount, but no correction has been made so far.

Liabilities from NSIP Cash Call

The difference between forecasted expenses and the actual expenses is returned with the cash calls for the following year. The balance represents the forecasted amounts for 3rd and 4th quarter 2014 less actual expenses,

Liabilities from NSIP Result of the year

NSIP Result of the year	2014	2013 restated	2013
Cumulated result of previous years	(1,171,387)	(1,117,963)	(1,117,963)
Result of the year	(43,614)	(53,424)	(53,424)
Liabilities from NSIP Result of the year	(1,215,001)	(1,171,387)	(1,171,387)

Interest and results, distributed by cost share, have been reported. The accumulated result from 2008 to 2014 still needs to be redistributed to the Nations. This is a NOR responsibility.

Other Unearned Revenue

The amount represents funds called but not used in respect for ACO non-core activities, like SHAPE International School (SIS), Trusts Funds, NSHQ, the EU Operation Althea and the Escrow account.

Unearned Revenue Inventory

This amount consists of unearned revenue received from Nations used for acquisition of inventories. It will be recognised as revenue in the applicable reporting period

9. Provision

Provisions	2014	2013 restated	2013
Provisions	(27,620,588)	(11,175,430)	(11,239,572)
Total	(27,620,588)	(11,175,430)	(11,239,572)

Provisions are valued with best accounting estimate available. The amounts of the provisions reported in the ACO 2014 statement of financial position are shown in more detail in the Note E.

Liabilities – Non-Current Liabilities

10. Non-CL Unearned Revenue

Unearned Revenue	2014	2013 restated	2013
Unearned Revenue for PP&E and WIP	(72,619,400)	(31,929,673)	(26,333,865)
Total	(72,619,400)	(31,929,673)	(26,333,865)

In accordance with the NATO IPSAS Manual, option 1 has been applied in the ACO Consolidated Financial Statements. Revenue is recognised incrementally and equally with the depreciation. The revenue is matched to the depreciation to correspond to revenue earned with the consumption of the asset. With this option, there are no surpluses or deficit resulting from asset depreciation or acquisition.

The Unearned Revenue is the counterpart of the PP&E Net Value

D. Notes to Statement of Financial Performance

11. Revenue

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

12. Expenses

Expenses for ACO entities are recognised by nature as follows:

a) *Personnel*

All civilian and military Personnel expenses as well as other non salary related expenses, in support of common funded activities. The amounts include expenses for salaries and emoluments for approved NATO permanent civilian positions and temporary personnel, for other salary related and non related allowances including overtime, medical examinations, recruitment, installation, and removal and for contracted consultants and training.

b) *Contractual Supplies and Services*

Contractual Supplies and Services expenses include expenses for general administrative overheads, and the maintenance costs of buildings/grounds, communication and information systems, transportation, travel expenses, representation/hospitality and miscellaneous expenses. These expenses were mainly needed to meet HQs' operational requirements in order to fulfil the different missions. The increase of 1.08% over 2013 is mainly due to NCCB budget, in terms of budget authorised and cost incurred. It should be noted that 2014 was the first year of the SLA implementation between ACO and NCIA using a fixed customer rate for the CIS service provided.

In this category there is a considerable amount for the maintenance of the E3A Fleet aircraft performed in three levels: maintenance performed directly by the Logistic Wing for the first and intermediate level; and the third level required by legal or contractual obligations such as Depot Level Maintenance (DLM). The third level is typically performed by Industry and contractually governed by the DLM Contract MG2012 between NSPA and IAMCO. As experienced during to 2013, also in 2014 a DLM event for one aircraft was delayed likely without creating a direct negative impact on the availability of the E3A fleet. This

measure didn't result on a reduction of the overall maintenance costs due to the unchanged number of aircrafts. 2014 amount was lower than average even with only 2 DLM events

c) Operating Leases

The following table shows a list of operating leases in force in the various ACO Commands at the reporting date. The disclosure of this information is made for those leases which exceed ACO's financial reporting materiality threshold of 50,000 Euro per lease contract, in relation to lease payments occurred during the reporting year, and expose ACO to future liabilities beyond the reporting period. The information shown in the table includes the amount of payments recognised as an expense in the reporting period, the total of future payments to be made in the subsequent periods, a general description of the leasing arrangements including renewal or purchase options and/or restrictions.

Site	PPE category	Asset leased	Amount paid in 2014 (€)	Amount to pay in 2015 (€)	Amount to pay in 2016-2019 (€)	Renewal or purchase options/restrictions
SHAPE	Transport Equipment	Lease of 2 armoured light body police vehicles	71,723.22	53,779.50	-	End of contract 15/05/2016.
JFCBS	Transport Equipment	Civilian lease-fleet	142,696.30	128,398.32	390,000.00	-
E3A	AIS	Servers	289,623.10	289,623.10	868,869.36	
JFCNP	AIS	B/W Copiers	60,522.00	10,000.00	-	Expires 28/02/2015

d) Capital & Investment

Acquired assets of PP&E which exceed the materiality thresholds are capitalized and depreciated over their useful life as per ACO accounting policy. Expenses related to projects are reported as WIP for expenses occurred in 2014, except for projects approved for repair and maintenance.

As required by NSIP regulations, ACO J8 reports for each project where SHAPE has been nominated HN, on authorisations in funds, cumulative expenses and forecasts of future expenditures.

Reimbursable activities

The total expenses made by ACO for reimbursable activities are 58 MEUR with an increase of 4 MEUR over 2013. It includes mainly activities related to NCIA, EU Operation Althea, NSHQ, and NBC.

13. Net Surplus or Deficit for the Period

The result of the year is the difference of non-budgetary revenue and expenses, such as interests, exchange rate loss or gain, and depreciation. The amount, except unrealised gain/losses for exchange rate, will be re-distributed to the Nations in the 2nd Assessment Call for 2015.

E. Contingent Assets, Contingent Liabilities and Provisions

Contingent Assets

A contingent asset is a possible asset that arises from past events and of which the existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. A contingent asset is disclosed when an inflow of economic benefits or service potential is probable.

For the closing reporting period ACO has no contingent assets to disclose.

Contingent Liabilities

IPSAS 19.101 allows an entity to determine which provisions or contingent liabilities may be aggregated to form a class. Based on the nature of the items ACO has aggregated the contingent liabilities reported by the ACO consolidated entities in the following two classes:

- A. Those subject to legal action or other litigation. This class includes all pending litigation action including alleged breaks of contractual clauses or claims such as court cases, claims to the Appeals Board, NATO SOFA (art. VIII) claims;

B. Those of a legislative/contractual nature. This includes liabilities deriving from legislation such as environmental regulations or from contracts and/or MOUs including those which are under negotiation and not yet signed,.

The estimates of the outcome and the financial impact of the contingencies have been determined based on judgment supplemented by past experience of similar transactions.

The provisions and contingencies reported below are based on the information provided by the Legal Offices of the respective ACO Command and the local ACO Financial Controllers. All reported contingencies and provisions were further analysed at corporate level by SHAPE to make a final assessment on the recognition of provisions and the disclosure of contingent assets and liabilities. This final assessment is the result of internal coordination and additional clarifications between SHAPE and the local sites.

Other than those recognised and disclosed in the Notes to the financial statement, SHAPE is not aware of any other event that could give rise to potential provisions, contingent assets and/or liabilities.

Contingent liabilities of legal action/litigation nature

With regard to the first class of contingent liabilities the overall aggregated total for this class of contingent liabilities has been estimated at approximately Euro 36.5 MEUR. The amount has increased significantly in 2014 over 2013 where the same class was estimated at 3.5 MEUR. The total includes the following cases:

- A.1. **SHAPE – Belgian NATO International Civilians (NICs) and Local Wage Rates (LWRs) – Security clearance.** In October 2013 the SHAPE BEL NMR informed SHAPE that, in accordance with a Belgian Royal Decree of 4 September 2013, the procedure for requesting a new or a renewal of a security clearance will only be initiated after receipt of the appropriate fee by the BEL National Security Authority (NSA). The SHAPE position is that the payment of the fee is the responsibility of either the Nation or the individual concerned. The issue is, however, related to the liability for employment termination and potential Loss of Job Indemnity (LOJI) due to the lack of a valid security clearance. SHAPE has decided to disclose a possible liability in the event that SHAPE has to terminate the contract with its Belgian employees. The average cost to be paid by SHAPE to a NIC or a LWR in such an event would amount to 123 KEUR and 165 KEUR respectively which include the six months' notice period plus the LOJI¹⁰. Currently on the SHAPE Peace Establishment (PE) there are 43 Belgian NATO International Civilians (NIC) and 180 Belgian Local Wage Rate (LWR) employees. Consequently, the overall funds needed to settle the aforementioned liability would amount to 35 MEUR.
- A.2. **KFOR - International Hotels Worldwide (IHW) claim.** In 1999 KFOR/SHAPE contracted with IHW, a private company, to rent premises for housing and related services for KFOR troops at the Sports and Recreation Centre in Pristina. The total amount of the contract was 360 KUSD. KFOR stopped making the payments for the rent shortly after signing the contract, when discovered that the facilities provided by IHW at the Sports and Recreation Centre in Pristina were actually publicly owned property which KFOR was legally entitled to use free of charge. KFOR indicated a willingness to continue to pay for the services rendered (separate from the rent) but IHW never accepted to provide invoices on that basis. In 2001 IHW succeeded in obtaining an arbitration award against NATO to pay the amount outstanding including interest of 537.5 KUSD (436.6 KEUR). NATO does not consider this award valid because IHW did not comply with the contractual preconditions for such arbitration and the proceedings were not conducted in accordance with the procedures applicable to such arbitration. In 2010 the Belgian court sent an execution order to several of the vendors located at the Staff Centre, as the companies are under Belgian law, ordering to make payments, normally payable to NATO, to the Hotel Group, until the outstanding amount is settled (436.6 KEUR). NATO continues to oppose those court decisions because the view is that those rulings violate the special legal status which NATO enjoys under the Ottawa Agreement. At present different court proceedings are ongoing and it is difficult to predict when those proceedings will be finalized and what the final outcome may be.
- A.3. **Various HQs – Claims under NATO SOFA Article VIII.** An overall amount of **900 KEUR** is estimated as reliable and potentially required to settle various ACO possible liabilities due to intergovernmental and/or third parties claims presented in accordance to article VIII of the NATO SOFA, including ex gratia payments due to damages incurred by the use of official vehicles. The 'ex gratia claims' also include an amount of 400 KEUR estimated by the NHQSa LEGAD to settle

¹⁰ Reference to ACO Financial Controller letter FC306/14 dated 1 December 2014 and BC-D(2014)0250 dated 4 December 2014

some Glamoc Range claims in addition to the budgetary provision already made in the Balkans budget. The likelihood of the out-flow of resources needed to settle these claims has not yet been assessed as probable but it is considered prudent to include it into contingent liabilities. This is mostly based on past experience and statistical data related to the settlement of Glamoc Range which have shown that some of them may be denied for lack of substantiation or rejected because the claimant has refused the settlement offer. Moreover, it is unknown how many claimants will be able to get the proper authenticated ownership documents from the cadastral authorities.

- A.4. **Various HQs – labour and employment issues.** An overall amount of **200 KEUR** is reliably estimated as required to settle various liabilities related to employment termination which have been reported by SHAPE, LANDCOM and JFC BRUNSSUM, the latter in relation to an ISAF ICC for which a special carry forward of credits amounting to 133 KEUR was approved by the BC.
- A.5. **Various HQs – liabilities with no reliable amount.** It should be noted that included in this class of contingent liabilities there are also various cases for which it is not possible at this stage to estimate reliably the amount necessary to settle the liability. It is worthwhile noting within this group the following cases:
- SHAPE/JFC NAPLES/NHQSa - eleven International Civilian Consultants (ICCs) at NHQSa who are represented by the Omnia Strategy LLP have requested NATO to convert their posts into NICs. SHAPE LEGAD is dealing with this case at strategic level given its legal, financial and manpower implications and following potential impact on other ICCs ACO-wide. With regard to the 11 ICCs JFC NAPLES J1 has so far estimated that the potential overall annual cost increase for NHQSa in the event that the ICCs would be converted into NICs would amount to 247,4KEUR. This amount, however, only addresses the annual cost increase and does not take into account any potential retroactive liabilities resulting from the conversion¹¹.
 - JFC BRUNSSUM - Supreme Group has raised a variety of claims towards JFC BRUNSSUM to the value of 254 MUSD. All these claims will be subject to settlement in accordance with the applicable contractual arrangements. SHAPE holds an Escrow account amounting to approximately 144 MEUR to meet the eventuality of such claims. The final amount required to settle the claims is, however, considered unreliable before the claims have been fully reviewed to assess whether they are substantiated or not.
 - JFC BRUNSSUM - Supreme Group has furthermore raised a claim against JFC BRUNSSUM regarding the overall fuel ordered and delivered to ISAF under the terms of the Basic Ordering Agreements (BOAs). As at the date of the closure of the BOAs with Supreme approximately 33 M litres of fuel remained in Supreme managed fuel storage facilities relating to the BOA. A quadrilateral agreement (Supreme, Nordic Camp Supply, NSPA and JFCBS) was initially agreed between all parties, however not executed. As there was no longer an agreement the fuel was deemed to have been delivered by Supreme and as such JFC BRUNSSUM is liable for its payment to Supreme. Accordingly JFC BRUNSSUM has, negotiated an Agreement with NSPA under which NSPA will sell the fuel stored and transfer the money to JFC BRUNSSUM to pay off the fuel delivered by Supreme. Based on this the only liability for JFC BRUNSSUM will be related to the payment to Supreme of the fuel that NSPA will not be able to resell. Pending ongoing audits of the final bills with Supreme, the costs related to this issue are at this stage unpredictable.
 - NHQSa – LCH pension contributions gap. A contingent liability is disclosed in relation to the payment made by NATO in the period from January 1996 to March 2006 of social contributions to local civilian hires (LCH) currently employed at NHQSa directly to the LCH rather than into a governmental pension fund. Although this was done in accordance with the Labor Annex to the Technical Agreement between Bosnia and Herzegovina (BiH) and IFOR, the BiH pension funds never established a scheme by which these LCH employees could make payments and thereby get credit towards their pensions. Moreover, the analysis of the LCH salaries for the ten year period reveal that NATO and its predecessors underpaid LCH employees the portion of their salary constituting social contributions by about 60% and has been estimated in approximately 400 KEUR. It should also be noted that other employees who no longer work for NATO have also submitted some claims which create some potential liability as well. However, there are still some uncertainties surrounding amount actually required by NATO to settle its liability, because the reliable amount required by NATO is dependent upon the ability of NATO to reach a “settlement” agreement with the employees as

¹¹ Reference to JFCNP/SPT/J1/OJSHRX/2540/TT13028-14 dated 18 November 2014

well as by the employees' willingness to actually participate in the settlement as they can also decide not to be covered by the concerned Pension Funds.

There is also an additional case classified by the ACO management as remote contingent liability: it is related to ITA MOD for TCSOR. In August 2014 the ITA MOD submitted a request for reimbursement of TCSOR costs amounting to 12.8 MEUR for 2013 for the provision of the Airborne Electronic Attack (AEA) which operated since March 2012 with one C27J under COMISAF OPCON in support of the ISAF Mission. ITA considers that this capability is eligible for NATO Common Funding (CF) in accordance with the revised funding arrangements for ISAF¹². However, although listed under the revised ISAF TCSOR endorsed by the MC the AEA capability is not specifically identified under the eligibility criteria of the revised funding arrangements for ISAF. In October 2014 SHAPE sought the advice of the RPPB on the eligibility for NATO CF for the reimbursement of the AEA capability to ITA. NOR was tasked by the RPPB to advise on the eligibility of the request. On 14 Jan 2015 the NOR recommended the non-eligibility of the AEA capability. The management is not aware of any formal request from ITA for exceptional funding. The total costs needed to cover the liability towards ITA amounts to approximately 24 MEUR for 2012 and 2013; however, due to information received, ACO consider this contingent liability as remote and no amount is recognised. It should be noted that the Budget Committee has authorised a special carry forward of ISAF budget credits to cover this possible liability.

With regard to the second class of contingent liabilities the overall aggregated total amounts to an estimated 27.9 MEUR. This class includes the following contingent liabilities:

- B.1. JFC BRUNSSUM/SHAPE – ISAF closure – NSPA employees LOJI. Due to termination of the ISAF mission at 31 December 2014 and the NATO reduced footprint in RSM SHAPE holds responsibility towards NSPA for the payment of the LOJI associated with redundant NSPA NIC manpower approved by SHAPE to support the ISAF operation. A special carry forward of credits of approximately 1.4 MEUR was approved by the BC to cover this liability. However, since NSPA is currently working on contracted solutions for a number of services for the Resolute Support Mission (RSM), it is likely that a certain number of redundant staff will continue to work under the follow-on mission which will reduce this liability. The final outcome of the measures currently being implemented by NSPA is currently unpredictable.
- B.2. JFC BRUNSSUM/SHAPE – ISAF closure – Various short-term liabilities. For the liabilities listed below the BC has approved a special carry forward of credits in a total amount of 29,055,194 EUR to cover potential future ISAF related liabilities and has agreed that this amount should be frozen until required¹³. Of this total, 16, 1 MEUR represents specific liabilities which are expected to mature in the near future and of this total 3,115,000 EUR have now been unfrozen by the BC¹⁴ to cover some liabilities for which provisions have been recognised, as disclosed under the Paragraph further below related to the "Legal Provisions". The break-down of the above mentioned amount of 16 MEUR is provided below, deducted by the amount recognised as a provision:
 - o Container storage cost - 6,979,500 EUR. NATO share for approximate 400 containers stored at Karachi for 3 years, based on 150EUR/per container/per day and costs for shipping of approximately 10% of the stored containers at 12KEUR per container.
 - o Food claim Supreme - 1,700,000 EUR. NATO expects approximately 10% cost share in Supreme Food claim for food waste due to late cancellation of the contract
 - o E3A delegation – 175,000 EUR. E3A expects 175,000 EUR shortfall in 2014/ISAF delegation to cover overtime costs
 - o ISAF archiving – 1,823,335 EUR. 5 temporary hires (B3/B4) for 5 years to archive ISAF files, at a yearly cost of 364,667 EUR.
 - o Remediation and de-scoping – 2,240,000 EUR. Remediation cost and expected engineering investment and O&M costs

B.3 JFC BRUNSSUM/SHAPE – ISAF closure – Long-term liabilities. – The amount of 13,022,359 EUR represents the overall estimated future liabilities due to the ISAF closure which include restoration of facilities, pollution claims, site reclamation and environmental clean-up and other contractor claims.

¹² SG(006)0160-REV1 dated 25 July 2006

¹³ BC-DS(2014)0071 dated 8 December 2014

¹⁴ BC-DS(2015)0018 dated 25 March 2015

B.4 E3-A – NSPA accruals - 550,109 EUR Based on ACO policy on accruals at E3-A in relation to services provided by NSPA in the event that NSPA has provided services in excess to what ordered by E3A and the services in excess are not covered by a contract authority approved by the BC, E3A may decide not to receive the services and deny payment to NSPA. For this reason E3A discloses only a possible liability and does not recognise the provision.

B.5 There is an additional case for E3A – NSPA/IAMCO/ALENIA- As a consequence of the NE-3A fleet reduction decisions, Alenia-IAMCO's subcontractor, provided a Rough Order of Magnitude (ROM) cost for closure/deactivation of all activities related to NE-3A airframe Depot Level Maintenance (DLM). The request is deemed at this stage not reliable as NSPA and IAMCO still need to assess the eligibility of the request from Alenia. Therefore, no amount is reported for this contingent liability.

Provisions

a. TFR

Provisions were made in JFC HQ Naples for “*Trattamento di Fine Rapporto (TFR)*” in application of the Italian Law and of IPSAS 19. TFR is a vested benefit payable to the employee for a part of his/her salary deferred in time to the moment when termination of contract takes place, this applies to LWR. The value of this liability is determined annually and includes interests for the loan forcedly made by the employee to the employer given the fact that payment is deferred to a later time. In view of the foregoing, TFR has to be considered as a termination benefit calculated as one extra monthly instalment of the annual pay.

b. Untaken leave

Paid leave is an employee benefit and as such part of overall personnel expenses. An entity can designate paid leave as transferable to future years or can specify that paid leave can only be taken in the financial year when it is earned.

In ACO the remaining balance at year end may be carried forward to the following calendar year. Any balance that is carried forward in this way must be taken prior to 30 April¹⁵. If a – rare - special permission is obtained, leave can even be carried over to subsequent financial years.

IPSAS requires the specific disclosure of employee benefits. Employee benefits relating to the current financial year are reported as an expense under “Personnel, in the Statement of Financial Performance”. In view of the above untaken leave is specifically reported under IPSAS if the monetary value of untaken leave is material, the ratio Untaken Leave at 31 December 2014 / Total Annual Leave Entitlement exceeding 10%.

The cost for these untaken leave days has been absorbed during the year through the monthly salaries whereas the loss of production capacity when the leave to be taken is pushed forward into the next year. This clearly constitutes a liability towards the future which needs to be provisioned.

c. Bad debts and doubtful debts

An allowance is provided for known and estimated bad debts. Provisions for doubtful debts are raised on very old outstanding credits and their amounts depend on estimation methodologies and techniques.

This provision is created for the outstanding credits of more than 12 months for which no write-off has been requested using a ratio of 0.5%, recognising a high probability that 0.5% of long outstanding credits will not be recovered. No materiality threshold is implemented for 2014.

d. Legal Provisions

Under this category the following provisions have been recognised in the FS for an overall amount of 20.2 MEUR. A materiality threshold of 5KEUR has been applied for the recognition of this category of provisions.

¹⁵ It can be exceptionally expanded to 31 October of the subsequent year in accordance with NCPR art. 42.3.5 and 42.3.6 (Amendment 8 April 2012).

1. NHQSa

a) Review of the provision made for Glamoc Range claims

With DC(2013)0013 dated 14 February 2013 NATO HQ agreed that SHAPE could proceed with the settlement of the claims.

As at the end of 2014 a total of 1388 total claims were lodged by various landlords. 286 claims have been settled and 458 have been denied. For another 102 claims an offer has been issued by the NHQSa most of which will ultimately be settled based on the internal legal assessment. 132 claims have been suspended most of which will be denied for lack of substantiation. Of the remaining 410 claims about half will probably be settled and about half will probably be denied for lack of substantiation or rejection of the settlement offer. Based on this summary of claims and past experience the NHQSa Legal Office has reviewed the original provision considering that an overall amount of 2.5 MEUR should be required to settle all the substantiated claims. By deducting the actual payments so far processed in 2013 – 2014 time-frame, the outstanding liability has been estimated at 1,279,640 EUR and a provision consequently recognized in the 2014 FS. It should be noted that the BC has authorized a special carry forward in 2015 for the settlement of the Glamoc Range claims amounting to 800 KEUR.

2. JFC NAPLES

a) Company's claim for cleaning contract at Bagnoli Compound

In the second half of 2012, JFC NAPLES started its move to the new compound in Lago Patria. JFC NAPLES J8/P&C issued new contracts for cleaning and ground maintenance services in the new site. At the same time JFC NAPLES gradually reduced the scope of maintenance at Bagnoli and finally, in December 2012, terminated the contracts extant in Bagnoli for both the above mentioned services with the company G.S.A.

At that date JFC NAPLES also decided to suspend outstanding payments to the provider G.S.A. mostly related to non-satisfactory contract performance and also because of G.S.A.'s employees claiming lack of payments by the company of salaries, severance pay, pension contributions, etc.. In March 2014 the company obtained a payment injunction from the Court of Naples based on the invoices payment for which had been suspended by JFC NAPLES for the reasons above. JFC NAPLES challenged this injunction and now the relevant case is pending before the Court of Naples. JFC NAPLES has requested the Court to either declare the injunction null and void or, alternatively, to decrease the amounts due to the bad services provided. Moreover JFC NAPLES has further requested the Court that any payment possibly ordered against JFC NAPLES should be conditional upon verification that nothing is due to be paid by the company to its employees.

The outcome of this case is likely to depend on JFC NAPLES's ability to prove the company's lack of performance and non-fulfilment of its contractual obligations. However, based on the JFC NAPLES Legal Office the case may render JFC NAPLES liable to pay the aforementioned amount thus requiring the recognition of a provision in accordance with IPSAS 19 for a total of 200,000 EUR. Furthermore, JFC NAPLES Legal Office envisages the possibility that another case may be filed in the future by this company against JFC NAPLES to claim reimbursement for damages allegedly due to the early termination/lack of renewal of the two contracts.

b) Remediation cost for soil pollution at Bagnoli compound

At the end of 2013 JFC NAPLES issued a contract to a specialized company in order to assess the possible additional costs related to the reclamation of the NATO site at Bagnoli and oil contamination of the subsoil. The majority of the works have not been performed as of 31-Dec-2014 as it requires prior approval by the appropriate authority (Campania Region). It should be noted that the contract with the company has expired and the related 2012 funds released. Nevertheless JFC Naples is obliged to perform this work. Depending on the possible outcome further liabilities could be assessed. The amount recognised as a provision is 194,800 EUR.

c) Company's claim for electricity arrears at Bagnoli Compound

Due as a result of the electricity consumption at JFC NAPLES in the 2005 – 2008 where the electricity provider (ENEL) has claimed for arrears related to a malfunctioning of the electrical meter in the Bagnoli compound which was discovered in 2012. Until last year JFC NAPLES considered it probable that payment would be required to settle the liability. However, the related amount was still under dispute and, therefore, the measurement was likely to be unreliable. For this reason the case was only disclosed in

2013 as a contingent liability. However, in the period from October 2014 until 10 March 2015 other meetings with the provider have been held and the arrears further analysed to determine more precisely the amount of the outstanding liability for actual electricity consumption by JFC NAPLES in the Bagnoli Compound. The result is that the amount of 3,352,885 EUR can be reliably considered as due to ENEL. JFC NAPLES has no dedicated budget or any special carry forward to cater for this liability.

3. JFC BRUNSSUM

a) Contractual dispute

Based on MOUs signed between NATO and lead Nations providing capabilities in accordance with the Theatre Capability Statement Of Requirements (TCSOR) and the ISAF funding principles, Nations who provided TCSOR capabilities, such as Role 2/3 medical services, Intelligence Surveillance and Reconnaissance (ISR) capabilities etc., were entitled to claim for the reimbursement of redeployment costs at the end of the mission in accordance with the ISAF funding arrangement principles laid down in SG(006)0160-REV1 dated 25 July 2006.

Consequently a special carry forward amounting to 11,465,000 EUR was approved by the BC¹⁶ based on the cost estimates submitted by the Nations.

b) Potential future short-term ISAF-related liabilities

As indicated in the Paragraph above for the contingent ISAF related liabilities a request to unfreeze the overall amount of 3,115,000 EUR was approved by the Budget Committee¹⁷ to cover the following liabilities for which a provision has been recognised:

- Remediation and de-scoping – 150,000 EUR. Remediation cost and expected engineering investment and O&M costs.
- Redeployment of approximate 80 containers (Thales) at a cost of 12KEUR each and residual disposal of NFE for a total estimated cost of 1,710,000 EUR.
- NCIA invoices – 380,000 EUR. This includes invoices for: 171 routers of decommissioned POPs, Procurement support for Camp Dogan CISA-11 CIS removal and ICN Base Station Relocation.
- Repair and shipment of ESS cameras for a total estimated cost of 375,000 EUR.
- NSPA invoices – prior year NSPA invoices for a total estimated cost of 500,000 EUR.

4. E3A

a) FMS case

A provision of 607,151 EUR has been reported by the E3-A component based on data provided by NSPA at year end in relation to NSPA accruals. This amount relates to services provided by NSPA at year end which have exceeded the commitment given by E3A but covered by sufficient Contract Authority approved by the Budget Committee.

5. NCISG

a) A provision amounting to 5,526 EUR (representing 75% of the total amount of 7,369 EUR due by NATO in accordance with article VIII SOFA) is recognised due to a claim from an accident involving one NSB vehicle in Germany in November 2014 which is very likely to lead NCISG paying for the settlement of the liability. The estimated amount of 7,369.18 EUR appears reasonably certain thus the recognition of the provision which is above the materiality threshold of 5KEUR.

6. Various HQs – provisions not recognised below the materiality threshold

a) There have been reported by various ACO Commands cases related to liabilities for which payments are likely to be required. Under normal circumstances these cases would require the recognition of a provision in accordance with IPSAS 19. However, since the amounts concerned lie below the materiality threshold of 5 KEUR they have not been recognised in the FS. They all relate to Article VIII claims except one. The overall amount of such cases is estimated at 11.198 EUR

¹⁶ BC-DS(2014)0071 dated 8 December 2014

¹⁷ BC-DS(2015)0018 dated 25 March 2015

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In the note K, a table is disclosing a cross-reference between the amounts of special carry forward of 2014 credits approved by the Budget Committee for each related contingent or legal provision.

The table below provides the breakdown of the total of provisions as reported in the statement of the financial position. The amounts are expressed in Euro currency:

	Untaken Leave	LOJI	Others (TFR)	TCSOR and others	Legal Provisions	Total		Doubtful and uncollectible AR
FS 2013	4,591,563	252,481	3,158,935	-	3,236,592	11,239,571		251,059
Re-statement 2013	(64,142)	-	-	-	-	(64,142)		-
31-Dec-13	4,527,421	252,481	3,158,935	-	3,236,592	11,175,429		251,059
Adjustment	42,963	-	-	-	-	42,963		-
1-Jan-14	4,570,384	252,481	3,158,935	-	3,236,592	11,218,392		251,059
Addition	4,169,010	-	256,443	-	20,220,003	24,645,456		39,700
Used	-	-	(183,803)	-	-	(183,803)		(39,676)
Reversed	(4,570,385)	(252,481)	-	-	(3,236,592)	(8,059,458)		(42,172)
31-Dec-14	4,169,009	-	3,231,575	-	20,220,003	27,620,587		208,911
Paid in 2014		103,846			1,030,415			

In the statement of financial position the receivable of more than 12 months have been reported net of the amount for doubtful and uncollectible receivables.

F. Segment Reporting

In accordance with IPSAS 18, ACO discloses financial statement information about distinguishable activities of its consolidated reporting entities. IPSAS 18 distinguishes two types of 'segments':

- a) 'service segments' refer to a distinguishable component of an entity is engaged in providing related outputs or achieving particular operating objectives consistent with the overall mission of each entity; and
- b) 'geographical segments' are a distinguishable component of an entity is engaged in providing outputs or achieving particular operating objectives within a specific geographical area.

The financial reporting by segments elected by ACO is based on service segments on the HQ structure shown under the 'Consolidation' section that represents the grouping of activities for which ACO is responsible. In the preparation of the ACO 2014 financial statements the segment reporting has been prepared in conformity with the accounting policies and also reported in the ACO guidance for EOY 2014. As a consequence, , the command with control over a budget reflects those budgetary activities within its segment, so that for example many of the activities in Afghanistan are managed by JFC HQ Brunssum rather than in the ISAF budget and consequently are reflected there.

The tables presented for the segment reporting is adjusted for balances against other parts/segments within the entity. Where reported, the column 'restated' reflects the changes in inventory, PPE and provision as well as some few reclassifications. Each segment includes the intercompany balance at year-end between ACO consolidated entities that is cleared at consolidated level.

NSIP is shown as a separate segment and includes all 4 locations executing the different projects, where SHAPE is HN.

The aggregated segment information disclosed is reconciled to the information reported in the consolidated financial statements, according to IPSAS 18, para 64.

Segment reporting MB
Statement of Financial Position per HQ

		SHAPE			JFC HQ Brunssum			AIRCOM Ramstein		
		2014	2013 RESTATED	2013	2014	2013 RESTATED	2013	2014	2013 RESTATED	2013
ASSETS										
Current Assets										
Total Cash and Cash Equivalents		14,321	9,418	9,418	226,247	540,535	540,535	344,839	71,640	71,640
Total Interentity		27,911,119	18,872,104	18,872,104	127,267,781	118,007,544	118,007,543	925,874	939,361	939,361
Total Receivables		16,444,269	17,632,481	17,632,481	3,109,642	8,215,084	8,215,084	196,842	111,661	111,661
Total Prepayments and miscell. assets		2,811,924	11,303,615	11,303,615	312,913	6,336,564	6,336,564	1,275,765	49,564	49,564
Total Inventories		584,961	574,736	69,008	144,667	0	0	81,721	137,171	0
Total Current Assets		47,766,594	48,392,354	47,886,626	131,061,250	133,099,728	133,099,726	2,825,041	1,309,397	1,172,226
Non-current Assets										
Total Financial Assets		621,980	896,924	896,924	14,965,279	1,383,680	1,383,680	171,108	180,747	180,747
Total PPE & WIP		32,037,644	15,150,995	16,845,556	1,241,289	1,340,736	1,340,736	0	0	0
Total Non-current Assets		32,659,624	16,047,919	17,742,480	16,206,567	2,724,416	2,724,416	171,108	180,747	180,747
Total ASSETS		80,426,218	64,440,273	65,629,106	147,267,817	135,824,143	135,824,142	2,996,149	1,490,144	1,352,973
LIABILITIES										
Current Liabilities										
Total Payable		(43,562,552)	(45,901,043)	(45,901,042)	(115,744,251)	(117,973,954)	(117,973,954)	(2,594,885)	(1,158,338)	(1,158,338)
Total Unearned Revenue & adv. Contr.		(3,639,763)	(2,130,149)	(1,624,421)	(14,756,722)	(13,221,161)	(13,221,161)	(170,825)	(139,788)	(2,617)
Surpl./Deficit to be returned		(566,057)	(362,939)	(362,939)	(560,277)	(1,904,611)	(1,904,611)	(59,331)	(11,271)	(11,271)
Total Provisions		(620,203)	(895,147)	(895,147)	(14,965,279)	(1,383,680)	(1,383,680)	(171,108)	(180,747)	(180,747)
Total Current Liabilities		(48,388,574)	(49,289,279)	(48,783,549)	(146,026,529)	(134,483,407)	(134,483,406)	(2,996,149)	(1,490,144)	(1,352,973)
Non-current Liabilities										
Total Unearned Revenue		(32,037,644)	(15,150,995)	(16,845,557)	(1,241,289)	(1,340,736)	(1,340,736)	0	0	
Total Non-current Liabilities		(32,037,644)	(15,150,995)	(16,845,557)	(1,241,289)	(1,340,736)	(1,340,736)	0	0	0
Total LIABILITIES		(80,426,218)	(64,440,273)	(65,629,106)	(147,267,817)	(135,824,143)	(135,824,142)	(2,996,149)	(1,490,144)	(1,352,973)
Net Assets										
Surplus/Deficit		0	0	0	0	0	0	0	0	0
Total NET ASSETS		0	0	0	0	0	0	0	0	0

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	CP Heidelberg			ISAF			E3A Component		
	2014	2013 RESTATED	2013	2014	2013 RESTATED	2013	2014	2013 RESTATED	2013
ASSETS									
Current Assets									
Total Cash and Cash Equivalents	0	0	0	941,346	4,218,674	4,218,673	211,205	1,699,822	1,699,822
Total Interentity	0	176,759	176,759	19,685,892	7,429,105	7,429,105	29,675,206	(1,832,380)	(1,832,380)
Total Receivables	0	10,852	10,852	461,022	705,876	705,876	2,141,688	1,566,895	1,566,895
Total Prepayments and miscell. assets	0	0	0	2,880	82,050	82,051	5,183,630	28,918,380	28,918,380
Total Inventories	0	0	0	4,178,748	6,185,922	5,188,397	19,073,093	15,684,179	15,684,179
Total Current Assets	0	187,611	187,611	25,269,889	18,621,627	17,624,102	56,284,822	46,036,896	46,036,896
Non-current Assets									
Total Financial Assets	0	0	0	0	0	0	2,334,266	1,894,630	1,894,630
Total PPE & WIP	0	0	0	3,034,439	7,032,017	0	35,246,871	5,048,694	4,790,341
Total Non-current Assets	0	0	0	3,034,439	7,032,017	0	37,581,137	6,943,324	6,684,971
Total ASSETS	0	187,611	187,611	28,304,328	25,653,644	17,624,102	93,865,959	52,980,220	52,721,867
LIABILITIES									
Current Liabilities									
Total Payable	0	(62,780)	(62,780)	(18,274,211)	(12,313,596)	(12,313,596)	(34,086,239)	(27,985,682)	(27,985,682)
Total Unearned Revenue & adv. Contr.	0	(11,483)	(11,483)	(7,023,228)	(6,401,174)	(5,403,648)	(19,836,410)	(16,225,203)	(16,225,203)
Surpl./Deficit to be returned	0	(113,348)	(113,348)	27,551	93,142	93,142	(2,362,173)	(1,826,010)	(1,826,010)
Total Provisions	0	0	0	0	0	0	(2,334,266)	(1,894,631)	(1,894,631)
Total Current Liabilities	0	(187,611)	(187,611)	(25,269,889)	(18,621,627)	(17,624,102)	(58,619,087)	(47,931,526)	(47,931,526)
Non-current Liabilities									
Total Unearned Revenue	0	0	0	(3,034,439)	(7,032,017)	0	(35,246,871)	(5,048,694)	(4,790,341)
Total Non-current Liabilities	0	0	0	(3,034,439)	(7,032,017)	0	(35,246,871)	(5,048,694)	(4,790,341)
Total LIABILITIES	0	(187,611)	(187,611)	(28,304,328)	(25,653,644)	(17,624,102)	(93,865,959)	(52,980,220)	(52,721,867)
Net Assets									
Surplus/Deficit	0	0	0	0	0	0	0	0	0
Total NET ASSETS	0	0	0	0	0	0	0	0	0

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	JFC HQ Naples			NHQSa			LANDCOM IZMIR		
	2014	2013 RESTATED	2013	2014	2013 RESTATED	2013	2014	2013 RESTATED	2013
ASSETS									
Current Assets									
Total Cash and Cash Equivalents	650,157	1,413,145	1,413,145	36,427	344,458	344,458	153,217	791,759	791,759
Total Interentity	2,483,175	2,115,308	2,115,309	19,935	(209,684)	(209,684)	(414,798)	(844,183)	(844,182)
Total Receivables	2,403,107	3,389,068	3,389,067	83,015	155,068	155,069	666,689	299,339	299,338
Total Prepayments and miscell. assets	1,542,701	2,510,817	2,510,817	599	1,150	1,150	1,577	2,882	2,882
Total Inventories	252,528	323,885	55,290	162,959	163,072	78,371	538,073	282,825	0
Total Current Assets	7,331,667	9,752,223	9,483,628	302,935	454,064	369,364	944,759	532,622	249,797
Non-current Assets									
Total Financial Assets	6,331,911	3,225,418	3,225,418	1,279,640	1,926,424	1,926,424	79,234	92,917	92,917
Total PPE & WIP	64,871	32,229	32,229	69,271	56,072	56,072	57,754	30,954	30,954
Total Non-current Assets	6,396,782	3,257,647	3,257,647	1,348,911	1,982,496	1,982,496	136,988	123,871	123,871
Total ASSETS	13,728,449	13,009,870	12,741,275	1,651,845	2,436,560	2,351,860	1,081,747	656,493	373,668
LIABILITIES									
Current Liabilities									
Total Payable	(5,103,895)	(7,696,268)	(7,696,268)	(120,395)	(125,505)	(125,506)	(213,718)	(420,306)	(420,307)
Total Unearned Revenue & adv. Contr.	(709,914)	(711,313)	(442,717)	(176,002)	(283,465)	(198,765)	(772,844)	(285,900)	(3,075)
Surpl./Deficit to be returned	(63,098)	(92,256)	(92,256)	(6,538)	(45,093)	(45,093)	41,803	173,584	173,584
Total Provisions	(7,786,671)	(4,477,805)	(4,477,805)	(1,279,640)	(1,926,424)	(1,926,424)	(79,234)	(92,917)	(92,917)
Total Current Liabilities	(13,663,578)	(12,977,641)	(12,709,046)	(1,582,575)	(2,380,488)	(2,295,788)	(1,023,993)	(625,539)	(342,715)
Non-current Liabilities									
Total Unearned Revenue	(64,871)	(32,229)	(32,229)	(69,271)	(56,072)	(56,072)	(57,754)	(30,954)	(30,953)
Total Non-current Liabilities	(64,871)	(32,229)	(32,229)	(69,271)	(56,072)	(56,072)	(57,754)	(30,954)	(30,953)
Total LIABILITIES	(13,728,449)	(13,009,870)	(12,741,275)	(1,651,845)	(2,436,560)	(2,351,860)	(1,081,747)	(656,493)	(373,668)
Net Assets									
Surplus/Deficit	0	0	0	0	0	0	0	0	0
Total NET ASSETS	0	0	0	0	0	0	0	0	0

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	NCISG			CP Madrid			KFOR		
	2014	2013 RESTATED	2013	2013	2012 RESTATED	2012	2014	2013 RESTATED	2013
ASSETS									
Current Assets									
Total Cash and Cash Equivalents	14,267	16,377	16,377	0	0	0	181,062	956,242	956,241
Total Interentity	1,530,560	391,417	391,417	0	147,052	147,052	(41,119)	(1,157,732)	(1,157,732)
Total Receivables	410,060	386,379	386,378	0	2,326	2,326	526,107	401,787	401,787
Total Prepayments and miscell. assets	52,873	41,114	41,114	0	0	0	578,097	692,351	692,351
Total Inventories	854,554	391,109	0	0	0	0	107,727	155,759	208,132
Total Current Assets	2,862,313	1,226,395	835,286	0	149,378	149,378	1,351,875	1,048,406	1,100,779
Non-current Assets									
Total Financial Assets	232,656	240,533	304,675	0	0	0	91,017	83,546	83,546
Total PPE & WIP	0	0	0	0	0	0	173,675	19,507	19,507
Total Non-current Assets	232,656	240,533	304,675	0	0	0	264,692	103,053	103,053
Total ASSETS	<u>3,094,969</u>	<u>1,466,928</u>	<u>1,139,961</u>	<u>0</u>	<u>149,378</u>	<u>149,378</u>	<u>1,616,567</u>	<u>1,151,459</u>	<u>1,203,832</u>
LIABILITIES									
Current Liabilities									
Total Payable	(2,006,024)	(841,123)	(841,123)	0	(135,615)	(135,615)	(1,134,695)	(821,799)	(821,799)
Total Unearned Revenue & adv. Contr.	(854,554)	(391,109)	0	0	(9,959)	(9,959)	(142,178)	(155,759)	(208,132)
Surpl./Deficit to be returned	(1,735)	5,837	5,837	0	(3,804)	(3,804)	(75,002)	(70,848)	(70,848)
Total Provisions	(232,656)	(240,533)	(304,675)	0	0	0	(91,017)	(83,546)	(83,546)
Total Current Liabilities	(3,094,969)	(1,466,928)	(1,139,961)	0	(149,378)	(149,378)	(1,442,892)	(1,131,952)	(1,184,325)
Non-current Liabilities									
Total Unearned Revenue	0	0	0	0	0	0	(173,675)	(19,507)	(19,507)
Total Non-current Liabilities	0	0	0	0	0	0	(173,675)	(19,507)	(19,507)
Total LIABILITIES	<u>(3,094,969)</u>	<u>(1,466,928)</u>	<u>(1,139,961)</u>	<u>0</u>	<u>(149,378)</u>	<u>(149,378)</u>	<u>(1,616,567)</u>	<u>(1,151,459)</u>	<u>(1,203,832)</u>
Net Assets									
Surplus/Deficit	0	0	0	0	0	0	0	0	0
Total NET ASSETS	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

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	MARCOM Northwood			CP Lisbon			ACO Corporate Accounting and Control		
	2014	2013 RESTATED	2013	2014	2013 RESTATED	2013	2014	2013 RESTATED	2013
ASSETS									
Current Assets									
Total Cash and Cash Equivalents	645,793	739,648	739,648	0	0	0	923,488,333	891,483,661	891,483,661
Total Interentity	57,331	(734,265)	(734,265)	0	77,919	77,919	(209,100,955)	(143,378,326)	(143,378,326)
Total Receivables	361,608	803,054	803,054	0	0	0	105,987,376	52,693,152	53,995,387
Total Prepayments and miscell. assets	3,859	33,391	33,391	0	0	0	13,409,401	14,185,230	14,185,230
Total Inventories	90,412	79,185	0	0	0	0	0	0	0
Total Current Assets	1,159,003	921,013	841,828	0	77,919	77,919	833,784,155	814,983,717	816,285,952
Non-current Assets									
Total Financial Assets	60,515	0	0	0	0	0	0	0	0
Total PPE & WIP	84,676	101,254	101,254	0	0	0	0	0	0
Total Non-current Assets	145,190	101,254	101,254	0	0	0	0	0	0
Total ASSETS	1,304,194	1,022,267	943,082	0	77,919	77,919	833,784,155	814,983,717	816,285,952
LIABILITIES									
Current Liabilities									
Total Payable	(863,903)	(671,646)	(671,646)	0	(23,399)	(23,399)	(4,369,946)	(9,773,768)	(15,258,126)
Total Unearned Revenue & adv. Contr.	(320,201)	(100,842)	(21,657)	0	(42,311)	(42,311)	(825,782,100)	(803,073,858)	(798,891,735)
Surpl./Deficit to be returned	25,101	(148,525)	(148,525)	0	(12,209)	(12,209)	(3,632,109)	(2,136,091)	(2,136,091)
Total Provisions	(60,515)	0	0	0	0	0	0	0	0
Total Current Liabilities	(1,219,518)	(921,013)	(841,828)	0	(77,919)	(77,919)	(833,784,155)	(814,983,717)	(816,285,952)
Non-current Liabilities									
Total Unearned Revenue	(84,676)	(101,254)	(101,254)	0	0	0	0	0	0
Total Non-current Liabilities	(84,676)	(101,254)	(101,254)	0	0	0	0	0	0
Total LIABILITIES	(1,304,194)	(1,022,267)	(943,082)	0	(77,919)	(77,919)	(833,784,155)	(814,983,717)	(816,285,952)
Net Assets									
Surplus/Deficit	0	0	0	0	0	0	0	0	0
Total NET ASSETS	0	0	0	0	0	0	0	0	0

NOTE: Result of the year for ACO Corporate Accounting and Control is EUR 6,129,392 from which EUR 2,497,283 is unrealized exchange rate gain, that will not be reimbursed

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		NSIP		
		2014	2013 RESTATED	2013
ASSETS				
Current Assets				
Total Cash and Cash Equivalents		14,069,894	13,735,691	13,735,691
Total Interentity		0	0	0
Total Receivables		183,744	0	0
Total Prepayments and miscell. assets		711,880	711,880	711,880
Total Inventories		0	0	0
Total Current Assets		14,965,518	14,447,571	14,447,571
Non-current Assets				
Total Financial Assets		0	0	0
Total PPE & WIP		608,911	3,117,215	3,117,215
Total Non-current Assets		608,911	3,117,215	3,117,215
Total ASSETS		<u>15,574,430</u>	<u>17,564,786</u>	<u>17,564,786</u>
LIABILITIES				
Current Liabilities				
Total Payable		(8,676,861)	(9,724,393)	(9,724,394)
Total Unearned Revenue & adv. Contr.		(5,073,657)	(3,551,790)	(4,669,753)
Surpl./Deficit to be returned		(1,215,001)	(1,171,387)	(53,424)
Total Provisions		0	0	0
Total Current Liabilities		(14,965,518)	(14,447,571)	(14,447,571)
Non-current Liabilities				
Total Unearned Revenue		(608,911)	(3,117,215)	(3,117,215)
Total Non-current Liabilities		(608,911)	(3,117,215)	(3,117,215)
Total LIABILITIES		<u>(15,574,430)</u>	<u>(17,564,786)</u>	<u>(17,564,786)</u>
Net Assets				
Surplus/Deficit		0	0	0
Total NET ASSETS		<u>0</u>	<u>0</u>	<u>0</u>

NOTE: Total Unearned Revenue & adv. Contr. includes other unearned revenue of 3,270,274. – Surpl./Deficit to be returned is the accumulated result for NSIP, result of current year is EUR 43,614.

**Segment reporting: Reconciliation to Consolidated Financial Statement
Statement of Financial Position**

		TOTAL FOR SEGMENTS		ELIMINATIONS		CONSOLIDATED	
		2014	2013 RESTATED	2014	2013 RESTATED	2014	2013 RESTATED
ASSETS							
Current Assets							
Total Cash and Cash Equivalents		940,977,108	916,021,068	0	(0)	940,977,108	916,021,068
Total Interentity		(0)	0	0	(0)	0	0
Total Receivables		132,975,170	86,373,021	0	(0)	132,975,170	86,373,021
Total Prepayments and miscell. assets		25,888,099	64,868,988	(0)	0	25,888,099	64,868,988
Total Inventories		26,069,445	23,977,844	0	(1)	26,069,445	23,977,843
Total Current Assets		1,125,909,821	1,091,240,922	1	(2)	1,125,909,822	1,091,240,920
Non-current Assets							
Total Financial Assets		26,167,605	9,924,819	(0)	0	26,167,605	9,924,819
Total PPE & WIP		72,619,400	31,929,673	0	0	72,619,400	31,929,673
Total Non-current Assets		98,787,005	41,854,491	(0)	1	98,787,005	41,854,492
Total ASSETS		<u>1,224,696,826</u>	<u>1,133,095,413</u>	<u>1</u>	<u>(1)</u>	<u>1,224,696,827</u>	<u>1,133,095,412</u>
LIABILITIES							
Current Liabilities							
Total Payable		(236,751,574)	(235,629,217)	(0)	1	(236,751,574)	(235,629,216)
Total Unearned Revenue & adv. Contr.		(879,258,399)	(846,735,265)	0	(0)	(879,258,399)	(846,735,265)
Surpl./Deficit to be returned		(8,446,866)	(7,625,828)	(0)	0	(8,446,866)	(7,625,828)
Total Provisions		(27,620,588)	(11,175,430)	(0)	(0)	(27,620,588)	(11,175,430)
Total Current Liabilities		(1,152,077,426)	(1,101,165,740)	(1)	1	(1,152,077,427)	(1,101,165,739)
Non-current Liabilities							
Total Unearned Revenue		(72,619,400)	(31,929,673)	(0)	(0)	(72,619,400)	(31,929,673)
Total Non-current Liabilities		(72,619,400)	(31,929,673)	(0)	(0)	(72,619,400)	(31,929,673)
Total LIABILITIES		<u>(1,224,696,826)</u>	<u>(1,133,095,413)</u>	<u>(1)</u>	<u>1</u>	<u>(1,224,696,827)</u>	<u>(1,133,095,412)</u>
Net Assets							
Surplus/Deficit		0	0	0	0	0	0
Total NET ASSETS		<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

Statement of Financial Performance per HQ

		SHAPE			JFC HQ Brunssum			AIRCOM Ramstein		
		2014	2013 RESTATED	2013	2014	2013 RESTATED	2013	2014	2013 RESTATED	2013
REVENUE				(202,021,405)			(378,192,341)			(8,884,851)
ACO BC		(263,701,202)	(173,420,151)		(332,994,351)	(365,998,733)		(17,559,149)	(8,453,407)	
Non-consolidated BC		(2,275,948)	(1,732,595)		(719,005)	(3,720,148)		(650,307)	(138,847)	
Miscellaneous ACO income		(743,313)	(414,760)		(566,747)	(1,614,542)		(59,747)	(11,619)	
Financial Revenue		(10,861)	(54,466)		-	(290,084)		(349)	(345)	
Total to be returned		566,057	362,939	362,939	560,277	1,904,611	1,904,611	59,331	11,271	11,271
Total REVENUE		(266,165,268)	(175,259,034)	(201,658,466)	(333,719,826)	(369,718,896)	(376,287,730)	(18,210,221)	(8,592,947)	(8,873,580)
EXPENSES				201,658,466			376,287,730			8,873,580
ACO BC		255,199,625	172,019,327		332,731,789	365,536,697		17,559,149	8,453,407	
Personnel		39,026,578	32,988,271		10,755,495	14,529,500		5,093,379	4,313,206	
Contractual Supplies and Services		211,742,102	136,520,999		321,916,196	350,971,590		12,372,797	4,091,146	
Capital and investment		4,430,945	2,510,057		60,097	35,607		92,972	49,056	
Non-consolidated BC		2,275,948	1,732,595		719,005	3,720,148		650,307	138,847	
Personnel		88,466	156,158		-	80,422		6,000	-	
Contractual Supplies and Services		2,187,482	1,576,437		719,005	3,639,727		644,307	138,847	
Capital and investment		-	-		-	-		-	-	
Depreciation		8,501,578	1,400,824		262,562	462,036		-	-	
Financial Expenses		188,117	106,287		6,470	15		765	693	
Financial write-off		-	-		-	-		-	-	
Total EXPENSES		266,165,268	175,259,034	201,658,466	333,719,826	369,718,896	376,287,730	18,210,221	8,592,947	8,873,580
Total PERFORMANCE		-	-	-	-	-	-	-	-	-

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	CP Heidelberg			ISAF			E3A Component		
	2014	2013 RESTATED	2013	2014	2013 RESTATED	2013	2014	2013 RESTATED	2013
Revenue			(2,323,596)			(91,969,591)			(275,261,539)
ACO BC	-	(2,094,808)		(83,327,906)	(101,311,167)		(282,625,916)	(266,079,689)	
Non-consolidated BC	-	-		-	-		-	-	
Miscellaneous ACO income	-	(109,414)		68,965	(12,802)		(1,761,417)	(2,008,185)	
Financial Revenue	-	(4,043)		(9,034)	(9,477)		(905,030)	(90,935)	
Total to be returned	-	113,348	113,348	(27,551)	(93,142)	(93,142)	2,362,173	1,826,010	1,826,010
Total Revenue	-	(2,094,917)	(2,210,248)	(83,295,527)	(101,426,589)	(92,062,733)	(282,930,190)	(266,352,799)	(273,435,529)
Expenses			2,210,248			92,062,733			273,435,529
ACO BC	-	2,094,808		68,567,228	75,185,763		281,564,419	265,861,964	
Personnel	-	1,010,113		36,269,121	36,300,041		83,533,057	78,094,817	
Contractual Supplies and Services	-	1,084,695		35,178,541	41,515,942		196,656,643	182,227,775	
Capital and investment	-	-		(2,880,433)	(2,630,221)		1,374,719	5,539,372	
Non-consolidated BC	-	-		-	-		-	-	
Personnel	-	-		-	-		-	-	
Contractual Supplies and Services	-	-		-	-		-	-	
Capital and investment	-	-		-	-		-	-	
Depreciation	-	-		14,760,678	26,125,405		1,061,497	217,725	
Financial Expenses	-	110		(40,478)	115,106		304,214	273,110	
Financial write-off	-	-		8,098	315		60	-	
Total Expenses	-	2,094,917	2,210,248	83,295,527	101,426,589	92,062,733	282,930,190	266,352,799	273,435,529
Total Performance	-	-	-	-	-	-	-	-	-

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	JFC HQ Naples			NHQSa			LANDCOM Izmir		
	2014	2013 RESTATED	2013	2014	2013 RESTATED	2013	2014	2013 RESTATED	2013
Revenue			(46,620,261)			(4,104,817)			(12,878,116)
ACO BC	(37,426,771)	(40,795,970)		(3,229,914)	(3,037,170)		(13,477,788)	(11,237,974)	
Non-consolidated BC	(533,175)	(314,514)		-	-		(1,132,105)	(97,131)	
Miscellaneous ACO income	(21,521)	(87,787)		(8,938)	(44,282)		(1,800)	(3,779)	
Financial Revenue	(4,254)	(16,153)		(229)	(1,584)		(11,265)	(31,540)	
Total to be returned	63,098	92,256	92,256	6,538	45,093	45,093	(41,803)	(173,584)	(173,584)
Total Revenue	(37,922,623)	(41,122,168)	(46,528,005)	(3,232,543)	(3,037,943)	(4,059,724)	(14,664,761)	(11,544,009)	(13,051,700)
Expenses			46,528,005			4,059,724			13,051,700
ACO BC	37,422,913	40,795,699		3,182,188	3,002,131		13,473,339	11,234,851	
Personnel	15,084,726	16,859,231		1,965,317	2,091,198		7,085,540	6,836,281	
Contractual Supplies and Services	22,338,187	23,936,468		1,201,976	951,278		6,387,798	4,315,855	
Capital and investment	-	-		14,895	(40,345)		-	82,715	
Non-consolidated BC	533,175	314,514		-	-		1,132,105	97,131	
Personnel	-	19,961		-	-		-	-	
Contractual Supplies and Services	533,175	294,553		-	-		1,132,105	97,131	
Capital and investment	-	-		-	-		-	-	
Depreciation	3,858	271		47,727	35,039		4,449	3,124	
Financial Expenses	(37,323)	11,684		2,451	499		54,868	208,903	
Financial write-off	-	-		178	274		-	-	
Total Expenses	37,922,623	41,122,168	46,528,005	3,232,543	3,037,943	4,059,724	14,664,761	11,544,009	13,051,700
Total Performance	-	-	-	-	-	-	-	-	-

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	NCISG			CP Madrid			KFOR		
	2014	2013 RESTATED	2013	2014	2013 RESTATED	2013	2014	2013 RESTATED	2013
Revenue			(7,706,787)			(2,780,773)			(21,060,282)
ACO BC	(11,520,312)	(6,870,102)		-	(2,701,703)		(13,476,206)	(14,718,871)	
Non-consolidated BC	(845,731)	(346,224)		-	(18,232)		-	-	
Miscellaneous ACO income	(281)	-		-	-		(85,311)	(84,001)	
Financial Revenue	(2,445)	(196)		-	(3,804)		(569)	10,177	
Total to be returned	1,735	(5,837)	(5,837)	-	3,804	3,804	75,002	70,848	70,848
Total Revenue	(12,367,033)	(7,222,358)	(7,712,624)	-	(2,719,934)	(2,776,969)	(13,487,085)	(14,721,847)	(20,989,434)
Expenses			7,712,624			2,776,969			20,989,434
ACO BC	11,520,312	6,870,102		-	2,701,703		13,345,175	14,679,857	
Personnel	6,284,649	5,892,063		-	828,346		5,518,013	6,018,052	
Contractual Supplies and Services	5,188,573	978,039		-	1,873,357		7,743,338	8,556,439	
Capital and investment	47,090	-		-	-		83,824	105,366	
Non-consolidated BC	845,731	346,224		-	18,232		-	-	
Personnel	-	-		-	-		-	-	
Contractual Supplies and Services	845,731	346,224		-	18,232		-	-	
Capital and investment	-	-		-	-		-	-	
Depreciation	-	-		-	-		131,032	39,013	
Financial Expenses	990	6,033		-	-		10,879	2,976	
Financial write-off	-	-		-	-		-	-	
Total Expenses	12,367,033	7,222,358	7,712,624	-	2,719,934	2,776,969	13,487,085	14,721,847	20,989,434
Total Performance	-	-	-	-	-	-	-	-	-

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	MARCOM Northwood			CP Lisbon			ACO Corporate Accounting & Control		
	2014	2013 RESTATED	2013	2014	2013 RESTATED	2013	2014	2013 RESTATED	2013
Revenue			(8,064,085)			(699,515)			(2,694,126)
ACO BC	(9,202,617)	(7,063,919)		-	(496,227)		-	-	
Non-consolidated BC	(578,649)	(535,726)		-	-		-	-	
Miscellaneous ACO income	(407)	(7,189)		-	(12,098)		-	(1,665)	
Financial Revenue	(3,922)	(173,310)		-	(123)		(6,405,215)	(3,033,182)	
Total to be returned	(25,101)	148,525	148,525	-	12,209	12,209	6,129,392	3,005,729	3,005,729
Total Revenue	(9,810,695)	(7,631,621)	(7,915,560)	-	(496,239)	(687,306)	(275,823)	(29,118)	311,603
Expenses			7,915,560			687,306			(311,603)
ACO BC	9,138,904	7,048,286		-	496,227		-	-	
Personnel	1,981,144	2,833,632		-	90,268		-	-	
Contractual Supplies and Services	7,157,760	4,004,089		-	405,959		-	-	
Capital and investment	0	210,565		-	-		-	-	
Non-consolidated BC	578,649	535,726		-	-		-	-	
Personnel	-	-		-	-		-	-	
Contractual Supplies and Services	578,649	535,726		-	-		-	-	
Capital and investment	-	-		-	-		-	-	
Depreciation	63,713	15,634		-	-		-	-	
Financial Expenses	27,739	31,975		-	12		275,823	29,118	
Financial write-off	1,691	-		-	-		-	-	
Total Expenses	9,810,695	7,631,621	7,915,560	-	496,239	687,306	275,823	29,118	(311,603)
Total Performance	-	-	-	-	-	-	-	-	-

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		NSIP		
		2014	2013 RESTATED	2013
Revenue				(1,218,237)
ACO BC		-	-	
NSIP		(534,463)	(1,164,262)	
Non-consolidated BC		-	-	
Miscellaneous ACO income		-	-	
Financial Revenue		(43,895)	(53,975)	
Total to be returned		43,614	53,424	53,424
Total Revenue		(534,744)	(1,164,813)	(1,164,813)
Expenses				
ACO BC		-	-	
Personnel		-	-	
Contractual Supplies and Services		-	-	
Capital and investment		-	-	
NSIP		534,463	1,164,262	1,164,813
Capital and Investment		534,463	1,164,262	1,164,813
Non-consolidated BC		-	-	
Personnel		-	-	
Contractual Supplies and Services		-	-	
Capital and investment		-	-	
Depreciation		-	-	
Financial Expenses		281	551	
Financial write-off		-	-	
Total Expenses		534,744	1,164,813	1,164,813
Total Performance		-	-	-

**Segment reporting: Reconciliation to Consolidated Financial Statement
Statement of Financial Performance**

		TOTAL FOR SEGMENTS		ELIMINATIONS		CONSOLIDATED PERFORMANCE	
		2014	2013 RESTATED	2014	2013 RESTATED	2014	
Revenue							
ACO BC		(1,068,542,133)	(1,004,279,891)	-	(1)	(1,068,542,133)	(1,004,279,892)
NSIP		(534,463)	(1,164,262)	-	-	(534,463)	(1,164,262)
Non-consolidated BC		(6,734,920)	(6,903,418)	-	(0)	(6,734,920)	(6,903,418)
Miscellaneous ACO income		(3,180,516)	(4,412,124)	-	-	(3,180,516)	(4,412,124)
Financial Revenue		(7,397,069)	(3,753,041)	-	0	(7,397,069)	(3,753,040)
Total to be returned		9,772,761	7,377,503	-	(0)	9,772,761	7,377,503
Total Revenue		(1,076,616,340)	(1,013,135,232)	-	(1)	(1,076,616,340)	(1,013,135,233)
Expenses							
ACO BC		1,043,705,040	975,980,821			1,043,705,040	975,980,822
Personnel		212,597,020	208,685,018	-	(1)	212,597,020	208,685,018
Contractual Supplies and Services		827,883,911	761,433,630	(0)	2	827,883,911	761,433,632
Capital and investment		3,224,109	5,862,173	-	0	3,224,109	5,862,173
NSIP		534,463	1,164,262			534,463	1,164,262
Capital and Investment		534,463	1,164,262	-	-	534,463	1,164,262
Non-consolidated BC		6,734,920	6,903,418			6,734,920	6,903,418
Personnel		94,466	256,540	-	(1)	94,466	256,540
Contractual Supplies and Services		6,640,454	6,646,877	-	1	6,640,454	6,646,878
Capital and investment		-	-	-	-	-	-
Depreciation		24,837,094	28,299,070	-	-	24,837,094	28,299,070
Financial Expenses		794,796	787,073	-	(0)	794,796	787,072
Financial write-off		10,027	589	-	-	10,027	589
Total Expenses		1,076,616,340	1,013,135,232	(0)	1	1,076,616,340	1,013,135,233
Total Performance		(0)	0	(0)	(0)	(0)	(0)

G. Events after Reporting Date

ACO is required to disclose events, both favourable and unfavourable, that occurred between the reporting date and the date when the financial statements are authorized for issue. IPSAS requires two types of events which should be identified:

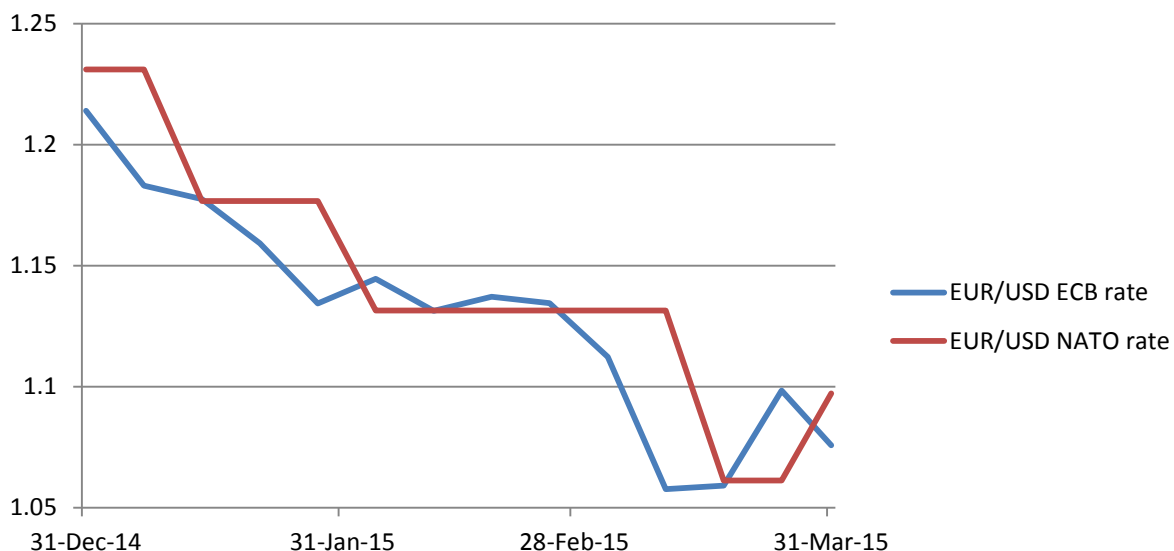
- a) Those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- b) Those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

While management considers there are no events categorized under the category a), they consider material currency changes to be an event that must be disclosed under the category b).

The entire financial market is facing currency risk in the first period of 2015 due to the change in price of certain currencies (especially USD) expressed in EUR. If the exchange rates remain at the current level or will go further down it will have a substantial impact on some contractual liabilities funded by ACO budgets. This arises from the effect that some ACO obligations are expected to be paid in foreign currency while the budget is in EUR. The chart below shows how the EUR-USD NATO official rate and the European Central Bank exchange rates changed weekly from 31 Dec. 2014 to 31 Mar. 2015.

The encumbrances and accruals in USD reported as of 31 Dec. 2014 translated at the rate of 31 Mar. 2015 can create a shortfall of approx. 9,1 MEUR. 99% of this amount belongs to E3A Component budget. The management decided to include this information in the First Budget Execution 2015 for the BC. Amounts recognized as a possible shortfall for accruals made by ISAF has been recorded as an additional expense in 2014 since ISAF mission closed at 31 Dec. 2014. Any variance will be assessed during 2015 and reflected in the 2015 financial statements.

EXCHANGE RATE CHANGES (from 31-12-2014 to 31-03-2015)



(Source: <http://www.ecb.europa.eu/stats/exchange/eurofxref>)

H. Related Parties Disclosure

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

(1) Identification of ACO related parties.

(a) key management personnel. Key management personnel include members of the governing body **who have the greatest responsibility for the government.** In a military based structure such as ACO, based on the definitions provided by IPSAS 20.4 the key management personnel has been identified as follows¹⁸:

- i. Members of the governing body of the entity: SACEUR'S Commanders' Conference which acts as the ACO Board of Directors;

SACEUR'S Commanders' Conference

Job title	Name	Role
SACEUR	Gen Philip M. Breedlove	Chairman
DSACEUR	Gen Sir Adrian Bradshaw	Member
SHAPE COS	General Werner Freers	Member
SHAPE VCOS	LGen Michel Yakovleff	Member
COM HQ JFCBS	General Hans-Lothar Domröse	Member
COM HQ JFCNP	Admiral Mark Ferguson	Member
COM LANDCOM	Lieutenant General John W. Nicholson, Jr.	Member
COM MARCOM	Vice Admiral Peter Hudson	Member
COM AIRCOM	Gen Frank Gorenc	Member
COM NAEW&C FC	MGen Jochen Both	Member
COM ASC	Vice Admiral Michael J. Connor	Member
COM NATO CIS GROUP	MGen Thomas Franz	Member
SHAPE Chief SIA	Mr. Steven Covington	Member
COM NSHQ	LtGen Marshall B. "Brad" Webb	Member
COM STRIKEFORNATO	Vice Admiral Philip S. Davidson	Member
COM ACCI	Col. Jonathan E. Freeman	Member

- ii. Key advisors: in accordance with IPSAS 20.7 key advisors are those having a special working relationship with an individual who has control over an entity. They have access to privileged information and may also be able to exercise control or have the power to participate in the **financial and operating** policy decisions of an entity. Based on such definition it is deemed that the SHAPE Management Board/Crisis Operations Board (SMB/COB) is **a key advisor and its members**, not already included in other categories of key management personnel, **satisfy the definition of key management personnel.**

SMB/COB

Job title	Name	Role
SHAPE COS	General Werner Freers	Chairman
SHAPE VCOS	LGen Michel Yakovleff	Member/Chairman
SHAPE DCOS OPI	MGen Gordon B. "Skip" Davis, Jr.	Member
SHAPE DCOS PLANS	MGen Jerzy Biziewski	Member

¹⁸ The composition and Job titles have been updated in accordance with the revised AD015-004, ACO High level Business Processes, dated 31 Oct. 2013.

SHAPE DCOS CCD	MGen Thomas Franz	Member
SHAPE DCOS RES	MGen Fernando Alejandre	Member
SHAPE DCOS MIP	MGen Ali Çetinkaya	Member
SHAPE SRM	MG José Manuel P. Esperanca Da Silva	Member
SHAPE DOM	BGen Eddy Staes	Member
SHAPE Chief SIA	Mr. Steven Covington	Member
SHAPE Chief LEGAD	Mr. Andres Munoz Mosquera	Member
ACO FINCON	Mr. Christophe Rappe	Member
SHAPE ACOS JCAP	BGen Peter-Harry Lund	Member
SHAPE Chief ODA	Col Klaus Peter Klein	Member
SHAPE Chief PUA	Col. Martin Downie	Member

- iii. Senior management group of the reporting entity: the ACO Management Board is the principle executive body within ACO for implementing command-wide strategic management on behalf of SACEUR. Based upon higher strategic direction and guidance, strategic management is the proactive and holistic management of performance, resources and associated risks/issues in order to enable the optimal delivery of ACO's core military outputs and purpose:

ACO Management Board

Job title	Name	Role
COS	General Werner Freers	Chairman
VCOS	LGen Michel Yakovleff	Member
SHAPE DCOS OPI	MGen Gordon B. "Skip" Davis, Jr.	Member
SHAPE DCOS RES	MGen Fernando Alejandre	Member
SHAPE DCOS MIP	MGen Ali Çetinkaya	Member
SHAPE DCOS Plans	MGen Jerzy Biziewski	Member
SHAPE DCOS CCD	MGen Thomas Franz	Member
COS NATO CIS GROUP	BGen Lizabertus Booman	Member
COS HQ JFCBS	Lt General Janusz Adamczak	Member
COS HQ JFCNP	LtGen Leonardo di Marco	Member
COS LANDCOM	MGen Uğur TARÇIN	Member
COS MARCOM	Admiral Giorgio Lazio	Member
COS AIRCOM	MGen Erich G. Siegmann	Member
ACO FINCON	Mr. Christophe Rappe	Member
SHAPE ACOS JCAP	BGen Peter-Harry Lund	Secretary

- (b) Consolidated entities: the ACO consolidated entities have been listed in Note A;
(c) Other NATO entities: this includes those NATO agencies that provide goods and services to ACO at an agreed price.

(2) Identification of the transactions between ACO and its related parties.

- 1) ACO and the Key management personnel. Since the remuneration of the military personnel is a national responsibility under the principle of 'costs lie where they fall' the only amount charged against the international funds is to cover the salary payment of the 3 NATO International Civilians (NICs) identified within this category, i.e. the ACO Financial Controller, the Legal Advisor and the Chief of the Strategic & International Affairs. The net salary received during the reporting year by these 3 NICs amounts to 546,484 EUR (corresponding to 142,319 EUR plus 159,877 EUR plus 244,288 EUR for respectively the three mentioned NICs). The remunerations of the ACO Financial Controller and the Chief of the Strategic & International Affairs include the transferred salaries in foreign currencies duly converted.

As a result of a campaign of enhancing transparency at ACO and in light of IPSAS 20, as well as the NATO code of conduct, the Key management personnel was requested to fill in and sign a

declaration statement and to eventually disclose information about any related party transaction with ACO, including close family members in accordance with the definitions provided by IPSAS 20. There are no further related party transactions which have been identified for the key management personnel. The statements made by the Key Management Personnel identified above were all collected prior to publishing the 2014 FS. They will not be given public disclosure but only made available upon request for audit purposes.

(a) ACO and its consolidated entities. All intercompany transactions are posted and balances are reconciled with ACO CAC as of the reporting date.

(b) ACO and other NATO entities. ACO is an integral part of NATO and it transacts in its normal business activities with other NATO bodies and these transactions occur at cost.

(3) Gratuities

As part of the effective management of the ethic program and to specifically ensure that any actual, potential or apparent conflicts of interest arising from staff members' financial interests, business relationships or other outside activities can be identified and managed in the best interest of ACO, a list of gratuities accepted by the ACO Commanders on behalf of the respective Headquarters is submitted annually to ACO in accordance with the prescriptions of the ACO Directive 60-54. Negative responses are also requested to be reported to ACO.

(4) Representation of funds

Further to ACO Directive 60-52 dated 19 September 2013 on Representation allowance ACO has implemented the guidance on the use of the Representation Allowance (RA) by ACO officials serving at ACO Headquarters. The above mentioned guidance has been developed in order to ensure compliance with the Private Office document PO(2013)0154 dated 27 March 2013 as well as to implement a policy on the use of the RA consistently across the ACO Commands. The ACO Directive has been applied during 2014. Furthermore, an additional guidance has been fully coordinated amongst the ACO Financial Controllers and implemented effective 1 January 2015.

The total expenditure reported in 2014 is 196.9 KEUR for the categories included in the ACO Directive.

I. Employee Disclosure

Employees in ACO 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. ACO is not liable for retirement benefits.

Different pension plans are applicable to employees in ACO; provident fund, defined benefit plan, and defined contribution plan. All pension plans are managed by NATO HQ and are therefore not included in the ACO Financial Statements. Contributions to the plans are expensed when occurred. The total amount paid for 2014 is EUR 2,848,703 (which shows a slight increase compared to EUR 2,534,960 in 2013) for NIC staff. Accurate data is not available for locally hired staff, LWR and LCH, but based on what has been available the total expense is estimated to be 2.0 MEUR.

Paid leave is an employee benefit and as such part of overall personnel expenses. An entity can designate paid leave as transferable to future years or can specify that paid leave can only be taken in the financial year, when it is earned. Calculation for the amount reported as untaken leave is already disclosed in the note E for provision.

Termination benefits are applicable if positions are deleted and replacement of an employee is not possible. This change requires approval at high level and budget for payment must be approved by the Budget Committee. Termination benefits are recorded as a liability when employees have been notified of termination, as described under the note E for provision, and expensed when paid.

ACO has different groups of employees. Below is a table showing a summary of the different groups with number for approved and filled positions.

Position	Total Approved PE	Total Filled Positions
Civilian (PE)	1,137	1,045
Civilian (CE)	59	59
Military	7,737	6,579
LWR	815	811
VNC	135	80
Others	650	399
ICC	342	297
LCH	31	31
ACO Total	10,906	9,301

J. Financial Instruments Disclosure/Presentation

Financial Risk Factors

The entity's activities expose it to a variety of financial risks, including the effects of foreign currency exchange rates and interest rates.

Credit Risk

ACO has no significant exposures to any concentration of credit risk. Most cash receivables are due from sovereign member Nations, which are considered credit worthy. The outstanding accounts receivable aging balance provides info on the debtors and the due date of these accounts receivable. Follow-up procedures are established to ensure collection of receivable amounts, as well as procedure for provision for bad debt and possible write off.

Cash transactions are conducted through high credit quality financial institutions.

Liquidity Risk

The exposure to liquidity risk is considered to be almost non-existent due to the funding mechanisms available through cash advances and calls from the contributing Member Nations, as well as internal policies and procedures put in place to ensure there are appropriate resources to meet the financial obligations.

Currency risk

Foreign currency transactions are recorded at the NATO exchange rate at the date of the transaction. Foreign currency cash and cash equivalents, receivables, payables and provisions are revalued at NATO exchange rates of 31 December of the applicable reporting financial year.

Realised and unrealised gains and losses resulting from the settlement of transactions in foreign currencies and from the revaluation at the reporting date are recognised in the Statement of Financial Performance.

Exposure to foreign exchange rate risk is primarily through financial assets and liabilities, although a change in the exchange rates will have an impact on the Statement of Financial Position or the Statement of Financial Performance.

Currency risk is minimized by holding bank accounts in the major currencies needed and ensuring funds are transferred / held in these accounts at the most favourable rate possible.

Cash contributions from the contributing Nations can be done in foreign currency if required to minimize foreign currency exchange impact.

Interest Rate Risk

The ACO approach is to keep the liquidity at a central level in order to have higher interests revenue. Cash equivalents are invested in short-term deposit accounts to ensure the best return on cash holdings, and the rate on these deposits follows the current market. Other financial assets and liabilities of ACO do not have an associated interest rate and are short term in nature. The exposure to interest risk is therefore not significant.

Other Price Risk

ACO is dealing with the price risk due to changes in market prices through the procurement procedures applicable for NATO, and by making fixed price contracts.

Fair Values

The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities of the entity approximates their carrying amounts as they are short term in nature.

K. Budget Execution

Budget Authorizations and final budget credit by cost share

Budget/ Year/Cost Share	(A) BA1	(B) BA2	(C) BA3	(D) FINAL	(E)=D-C Diff.
2014 – NCSEP 28N	363,107,868	363,107,868	356,990,197	356,990,197	0
2014 – AGS 26N	2,266,500	2,266,500	626,500	626,500	0
2014 – NAEW 17N	248,551,356	248,551,356	248,551,356	248,551,356	0
2014-NAEW 18N	1,448,644	1,448,644	1,448,644	1,448,644	0
2014-NAEW 26N			7,970,000	7,970,000	0
2014 – AOM 28N	493,576,279	493,381,279	492,737,160	492,737,159	0

It has to be noted that based on PO(2014)0469, dated July 2014 of a non-precedent-setting basis and as a sign of Alliance solidarity and cohesion, an adjustment was required in order to fund with participation from all nations the amounts linked to the sustained NAEW&C operations in support of the ongoing reinsurance effort following the development in Ukraine that cannot be covered from within the current NAEW&C budgetary allocations.

The adjustment made was done between 2014 authorised budget for 16Nations and 2014 reinsurance authorised budget for 26Nations for a total amount of EUR 198,117.

Where there have been changes to budgets in the year they have been approved by the Budget Committee or by authority delegated to the financial controller. As the Budget Committee has access to documentation supporting the changes in budgets, reasons for changes are not detailed here.

Statement of transfers

In accordance with the NATO Financial Regulations (NFR II Art. 10), all the changes between the initial and the final budget which were due to reallocations were either authorised by the BC or the ACO Financial Controller in accordance with the NFRs for inter and intra budget transfers. These changes are presented in the Budget Execution Report which is prepared using a similar accrual basis approach used in the financial position and performance. The ACO Budget Execution Report – also includes the contract authority already committed against credits converted into cash in the same financial year.

No transfers were made for budgets carried forward from previous years and no major variances occurred during the reporting year.

Statement of Credits Carried forward

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 and are equal to the closing Unearned Revenue.

Special Carry Forward

The special carry forward authorized by NAC amounted to 678 KEUR in the NCCB for the Federated Mission Network implementation requirements in 2015. In addition, 66.1 MEUR was carried forward related to ISAF budget due to the closure of ISAF and the transition to the Resolute Support Mission (RSM). To pay the remainder of the settled Glamoc Range claims in 2015 the NAC approved the special carry forward of 800 KEUR. For the sake of completeness it should be noted that the NAC also authorized the special carry forward of 10 MEUR from the 2013 ACO reorganisation budget for 2015 Readiness Action Plan (RAP) requirements.

The table below provides the summary of the approved 2014 special carry forward and the link to each related contingent or legal provisions if any

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Budget	Amount of Special Carry Forward (EUR)	Amount of Special Carry Forward (EUR)	Amount of the provision (EUR)	Amount of CL (EUR)	Description
	BC-D(2014)0227 - REV3	Breakdown			
2014 ISAF (BC 185)	37,008,300	11,465,000	11,465,000	-	TCSOR redeployment Cost
		24,000,000	-	-	ITA - Airborne Electronic Attack (2012-2014)
		394,884	-	394,884	Potential future ISAF related NSPA loss of job indemnity liability KAF
		1,015,416	-	1,015,416	ISAF ICC's Claim - LEGAD
		133,000	-	133,000	
2014 ISAF (BC 185)	29,055,194	2,390,000	150,000	2,240,000	Remediation and descopeing - Remediation cost and expected engineering investment and O&M costs
		1,710,000	1,710,000	-	Redeployment of Approx. 80 containers (Thales) at a cost of 12KEUR each and residual disposal of NFE
		380,000	380,000	-	NCIA invoices
		375,000	375,000	-	Repair and shipment of ESS camera
		500,000	500,000	-	Prior year NSPA invoices
		6,979,500	-	6,979,500	Container storage cost
		1,700,000	-	1,700,000	Food claim Supreme (HQ ISAF)
		175,000	-	175,000	E3A shortfall in 2014 ISAF delegation
		1,823,335	-	1,823,335	Temporary hires for ISAF archiving
		13,022,359	-	13,022,359	Future potential liabilities
2014 Balkans Operations (BC 183)	800,000	800,000	1,279,640	400,000	Glamoc Range claims
AOM sub-total	66,863,494	66,863,494	15,859,640	27,883,494	
2014 NCCB (BC 177)	678,000	678,000	-	-	
NCSEP Sub-total	678,000	678,000	-	-	
2013 ACO Reorganization Budget (BC 122)	10,000,000	10,000,000	-	-	
Transition Sub-total	10,000,000	10,000,000	-	-	
GRAND TOTAL	77,541,494	77,541,494	15,859,640	27,883,494	

Reconciliation between the ACO Budget Execution Report and the ACO Statement of Financial Performance

ACO is required under the NFR to present the results of its budget execution. For 2014 ACO is not required, nor does it elect, to make its approved budgets publically available and hence IPSAS 24: Presentation of Budget Information in Financial Statements is not applicable to ACO.

Below ACO is showing the reconciliation between the Budget execution Statement and expenses listed in the ACO Consolidated Statement of Financial Performance.

Total expenses as reported in the ACO BC Budget Execution Report:	1,061,946,325
Inventory variances	-2,049,400
Property, Plant and Equipment and WIP ¹⁹	-10,320,036
Over-estimated accruals	-22,071,672
<i>Changes in provision for the year:</i>	
Loss of job indemnities	-252,481
Untaken Leave	-401,374
TFR	-129,732
Provision expense services	16,983,410
	16,199,823
	1,043,705,040
ACO BC expenses as reported in the Statement of Financial Performance:	1,043,705,040

¹⁹ Total cost of PPE and WIP is EUR 65,526,821 of which EUR 10,320,036 is funded by current year's budget

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Reconciliation between ACO authorised Budgets and Calls in 2014

The table below is showing the reconciliation between the Budget Authorisation and the Calls made in 2014:

Budget authorization 2014										
Budget Groups	Advance 2014 called in 2013	1st Call 2014	2nd Call 2014	Total by cost share called as of 31 Dec 2014	BA3	Actual as of 31 Dec 14	CF as of 31 Dec 14	Difference between Calls, Actual and CF as of 31 Dec 14	Lapse	Adjustment
28N AOM	134,400,000	235,808,666	123,266,295	493,474,961	492,751,927	417,371,075	71,393,701	4,710,185	(3,972,384)	737,801
26N AGS	-	1,699,875	(1,073,375)	626,500	626,500	355,290	18,646	252,564	(252,564)	-
28N NCSEP	75,500,000	196,991,470	85,162,371	357,653,841	357,223,925	324,226,242	26,162,365	7,265,234	(6,601,590)	663,644
17N NAEW	62,768,856	123,644,661	62,137,839	248,551,356	248,551,356	205,228,439	43,322,917	-	-	-
18N NAEW	381,144	705,339	362,161	1,448,644	1,448,644	1,272,317	39,647	136,680	(136,680)	-
26N NAEW	-	-	7,970,000	7,970,000	7,970,000	4,496,029	-	3,473,971	(3,473,971)	-
GRAND TOTAL	273,050,000	558,850,011	277,825,291	1,109,725,302	1,108,572,352	952,949,392	140,937,276	15,838,634	(14,437,189)	1,401,445

(1) Of this amount EUR 695,871 was recognised and returned with first cash call for 2015. This has been recorded as an advance, and remaining amount of EUR 41,930 as an exchange rate difference.
(2) Budgets authorised in GBP were converted and executed using a parity rate for the fiscal year 2014. The rate was fixed using the rate as of 1st January 2014, 1 EUR = GBP 0.8431

Budget authorization 2013										
Budget Groups	Carry Forward	Adjustment to Carry Forward	Exchange rate	Adjusted Carry Forward	Other adjustments	New initial Balance	Actual as of 31 Dec 14	CF as of 31 Dec 14	Lapse	
28N AOM	10,899,062			10,899,062		10,899,062	7,954,275	277,235	(2,667,552)	
26N AGS	350,000			350,000		350,000	350,000	-	-	
28N NCSEP	65,285,555	754,000		66,039,555		66,039,555	33,250,132	21,278,183	(11,511,240)	
17N NAEW	51,572,825			51,572,825		51,572,825	35,719,892	13,656,679	(2,196,255)	
18N NAEW	90,841			90,841		90,841	65,949	-	(24,892)	
GRAND TOTAL	128,198,283	754,000	-	128,952,283	-	128,952,283	77,340,248	35,212,097	(16,399,939)	

Budget authorization 2012										
Budget Groups	Carry Forward	Adjustment to Carry Forward	Exchange rate	Adjusted Carry Forward	Other adjustments	New initial Balance	Actual as of 31 Dec 14	CF as of 31 Dec 14	Lapse	
28N AOM	2,242,571			2,242,571		2,242,571	274,571	-	(1,968,000)	
28N NCSEP	11,874,570			11,874,570		11,874,570	8,083,123	-	(3,791,447)	
17N NAEW	24,827,794			24,827,794		24,827,794	23,298,993	-	(1,528,801)	
18N NAEW	-			-		-	-	-	-	
GRAND TOTAL	38,944,935	-	-	38,944,935	-	38,944,935	31,656,687	-	(7,288,248)	

L. Write Off

In accordance with the NATO Financial Regulations (NFR II Art. 19, FRP XIX.c), an annual summary of property and cash losses, including irrecoverable debts, written-off in 2014 is annexed to the annual financial statements at the following table.

ACO Headquarters Write-off Report			
EUR			
HEADQUARTERS	HEADQUARTERS PROPERTY		CASH LOSSES ²⁰
	<u>Equipment</u>	<u>Vehicles</u>	
ACO	-	-	11
SHAPE HQ	95,782	244,585	-
JFC HQ Brunssum	761,513	212,986	-
JFC HQ Naples	88,480	-	5,710
HQ LC Izmir	11,104	515,660	-
HQ AC Ramstein	22,325	152,527	-
HQ MC Northwood	-	-	1,691
NCISG	-	-	-
E-3A Component	4,429,650	17,603	189
ISAF	2,559,344	633,439	41,925
KFOR	58,898	347,546	-
NHQSa	-	213,850	178
Total	6,251,035	2,815,390	49,703

²⁰ An amount of EUR 39,676 has been offset against provision for bad debt previously expensed, hence not expensed in 2014, and an amount of EUR 10,027 has been written off and expensed in 2014

M. Trust Funds

ACO is also responsible managing Trust Funds for Afghan National Army (ANA), Kosovo Security Forces (KSF)²¹, MHI missions and nationally-funded projects²². The primary purpose of trust funding is to provide a mechanism for the NATO Commander to achieve objectives and undertake authorised activities complimentary to the mission which are not eligible for NATO common funding through the Military budget or the NATO Security Investment Program (NSIP).

Trust Funds contributions are transferred to the ACO CAC bank accounts in BNP Paribas Fortis Bank. Upon proper authorisation ACO CAC also executes payments on behalf of the Trust Funds. All incoming and outgoing funds are recorded in the Weekly Status Reports and in FinS. The majority of Trust Funds are managed purely for inflow and outflow through ACO CAC.

The following tables show the execution of the Trust Funds as of 31 December 2014:

	<u>Funds received</u>	<u>Interests</u>	<u>Actual expenses</u>	<u>Cash transfers</u>	<u>Assesment rate</u>	<u>Total</u>	<u>Accumulated balance</u>
ANA Trust Funds							
Previous years	633,820,960	2,645,712	(3,461,093)	(411,959,812)	(4,598,875)	216,446,892	216,446,892
2014	85,998,377	426,611	-	(199,425,477)	8,468,809	(104,531,680)	111,915,212
Total	719,819,337	3,072,323	(3,461,093)	(611,385,289)	3,869,934	111,915,212	
KPC Trust Funds							
Previous years	12,251,689	97,986	-	(11,871,390)	-	478,285	478,285
2014	(478,285)	-	-	-	-	(478,285)	-
Total	11,773,404	97,986	-	(11,871,390)	-	-	
KSF Trust Funds							
Previous years	7,673,728	103,279	(7,057,510)	-	-	719,496	719,496
2014	-	1,518	(396,563)	-	-	(395,045)	324,451
Total	7,673,728	104,797	(7,454,074)	-	-	324,451	
KSF Trust Funds - US National funded							
Previous years	1,777,500	35,852	(553,154)	-	-	1,260,198	1,260,198
2014	-	3,856	134,605	-	-	138,461	1,398,659
Total	1,777,500	39,708	(418,549)	-	-	1,398,659	
Multinational Helicopter Initiative (MHI)							
Previous years	33,975,463	520,966	-	(18,048,598)	(51,822)	16,396,009	16,396,009
2014	182,315	(44)	-	(4,520,876)	-	(4,338,604)	12,057,404
Total	34,157,779	520,922	-	(22,569,474)	(51,822)	12,057,404	
POHRF - ISAF							
Previous years	5,069,355	(5,132)	-	(4,938,862)	-	125,361	125,361
2014	-	(51)	-	-	-	(51)	125,310
Total	5,069,355	(5,183)	-	(4,938,862)	-	125,310	

²¹ The KSF Trust Fund was closed in 2013 as the donors did not agree to use the remaining funds for other purposes. The remaining balances have now all been transferred back to the donor nations. The final refund was completed in December 2014.

²² See ACO Directive 60-59.

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ACRONYMS

ACO	Allied Command Operations	Strategic NATO Military HQ located in Casteau Belgium
ACT	Allied Command Transformation	Strategic NATO Military HQ located in Norfolk VA, USA
ADG	Air Defence Ground	Network of radars providing an early warning system
AGS	Alliance Ground Surveillance	The AGS system performs wide-area terrestrial and maritime surveillance in near real-time
AMB	ACO Management Board	Principal executive body within ACO for providing command-wide direction on requirements, prioritisation, and resource allocation
ANA	Afghan National Army	A service branch of the military of Afghanistan, which is currently trained by the coalition forces to ultimately take the role in land-based military operations in Afghanistan
AOM	Alliance Operations & Missions	Acronym for operations mounted by NATO in response to a crisis
AWACS	Airborne Warning and Control System	An airborne radar system designed to detect aircraft; used at a high altitude, the radars allow the operators to distinguish between friendly and hostile aircraft from hundreds of miles away
BA1	Budget Authorisation 1	Initial Budget Authorisation amount approved by the Budget Committee for a given Fiscal Year
BA2	Budget Authorisation 2	Second Budget Authorisation amount approved by the Budget Committee for a given Fiscal Year after the first review
BA3	Budget Authorization 3	Final Budget Authorisation amount approved by the Budget Committee for a given Fiscal Year after the final review
BC	Budget Committee	NATO body responsible for approving and administering annual NATO budgets
CAC	Corporate Accounting and Control	The Cash, Accounting, Finance and Travel Branch within the NATO, ACO J8 Division
CAOC	Combined Air Operations Centre	The command and control of airpower throughout the theatre of operations.
CC	Component Command	The subordinate Air, Land, or Maritime headquarters assigned under a JFC HQ within NATO
CE	Crisis Establishment	NATO command structure for a contingency operation
CF	Common Funding	Budgetary contributions provided to the Alliance by the Nations based on established cost-shares
CIS	Communications Information Services	Used occasionally to refer to communications budgets
COS	Chief of Staff	A principal staff officer, who is the coordinator of the supporting staff or a primary aide to an important individual
CRP	Consolidated Resource Proposal	Provides a summary of additional NATO and national infrastructure required (as well as associated NATO and national capital costs) and NATO operation and maintenance and manpower costs necessary to achieve the required capability
CSSC	CIS Sustainment Support Centre	NCIA's asset management and repair facility located in Brunssum, Netherlands
DACCC	Deployable Air Command and Control Centre	A fully deployable air command & control centre to support deployed NATO air operations worldwide. Located at Poggio Renatico, Italy
E-3A Component		Base located in Geilenkirchen GE managing NATO AWACS aircrafts used for surveillance
EOY	End of Year	Occurring or done at the end of the fiscal year
ERP	Enterprise Resource Planning	Associated with business application software suites; ERP serves as architecture for integrating business applications, they act as one system even though each module can be implemented alone

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EUFOR	European Union Force– Operation Althea	European Union military mission in Sarajevo, starting from 1 st December 2004
EUR	Euro	The official currency of the Eurozone; utilized by 19 of the 28 member states of the European Union (EU) consisting of Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania (from 2015), Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain. The currency is also used in Montenegro, Kosovo, Andorra, Monaco, San Marino and Vatican.
EURIBOR	Euro Interbank Offered Rate	A daily reference rate based on the averaged interest rates at which banks offer to lend unsecured funds to other banks in the euro wholesale money market
FA	Fixed Assets	A term used for assets and property which cannot easily be converted into cash
FinS	Financial Accounting System	NAFS is replaced by a newer version of software and a centralised architecture; this new system, pronounced “finesse” is shortened from the Bi-Strategic Command Automated Information Systems Financial Services (Bi-Sc AIS FinS)
FMS	Foreign Military Sales	Facilitates sales of arms, defense equipment, defense services, and military training to foreign governments
FOC Plus	Full Operational Capability Plus	A dedicated communications backbone; this program provides 66 points of presence across the Afghanistan theatre
FRP	Financial Rules & Procedures	Financial rules laid down by the member nations, via NATO which provide more specific guidance than the over arching rules expressed in the NATO Financial Regulations
FS	Financial Statements	A formal record of the financial activities of a business, person, or other entity
FY	Fiscal Year	Within NATO, runs from 1 January to 31 December
GPFR	General Purpose Financial Reporting	Establish and make explicit the concepts that are to be applied in developing International Public Sector Accounting Standards
HN	Host Nation	The organization appointed to be responsible for the execution of NSIP projects
HQ	Headquarter(s)	Denotes the location where most, if not all, of the important functions of an organization are coordinated
HRM	Human Resource Management	The management of an organization's workforce, or human resources. It is responsible for the attraction, selection, training, assessment, and rewarding of employees, while also overseeing organizational leadership and culture, and ensuring compliance with employment and labour laws
HSG	Headquarters Support Group	
IAMCO	International Aerospace Management Company	A joint venture company founded in 1991 acting as the Industrial Prime Contractor for the maintenance of NATO E-3A (AWACS) and Trainer Cargo Aircraft fleet
IASB	International Accounting Standards Board	An independent standard-setting body of the IFRS foundation; it is responsible for developing International Federation Reporting Standards (IFRS)
IBAN	International Board of Auditors for NATO	Provides the North Atlantic Council and the governments of NATO member countries with assurance that common funds have been properly used for the settlement of authorised expenditure.
IC	Infrastructure Committee	Responsible for monitoring, authorisation and overall implementation of all projects funded by the NATO Security Investment Programme

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ICC	International Civilian Consultant	These positions are for civilian nationals of NATO Member countries and Troop Contributing Nations who can provide a NATO recognised Security Clearance certificate
IEMS	Installation Engineering Management System	Contains essential management information: to include budgetary, financial, contractual, work scheduling, timekeeping, warehousing, and daily administrative functions
IFAC	International Federation of Accountants	The global organization for the accountancy profession; the organization, through its independent standard-setting boards, establishes international standards on ethics, auditing and assurance, accounting education, and public sector accounting
IFRS	International Federation Reporting Standards	A harmonized accounting and reporting framework used widely throughout the world
IMS	International Military Staff	The executive body of the Military Committee, NATO's senior military authority
IPSAS	International Public Sector Accounting Standards	A set of accounting standards issued by the International Public Sector Accounting Standards Board of the IFAC for use by public sector entities around the world in the preparation of financial statements
IPSASB	IPSAS Board	IFAC established the IPSASB to develop the IPSAS; these standards are based on the IFRS issued by the IASB with suitable modifications relevant for public sector accounting
ISAF	International Stabilisation Force – Afghanistan	NATO AOM mission in Afghanistan. Completed 31 December 2014
IT	Information Technology	The acquisition, processing, storage and dissemination of data by a microelectronics-based combination of computing and telecommunications
JFC	Joint Forces Command	Joint Headquarters overseeing the activities of separately assigned subordinate headquarters responsible for Air, Land, and Maritime operations within an assigned region of NATO
KAIA	Kabul International Airport	The primary international airfield in Afghanistan; services commercial and military flights each day
KFOR	Kosovo Force	NATO AOM operation in Kosovo
KPC	Kosovo Protection Corps	A civilian protection body having served since 1999; was dissolved on 14 June 2009
KSF	Kosovo Security Force	Dissolution of the KPC took place in parallel with the creation of the KSF; the KSF has primary responsibility for security tasks that are not appropriate for the police such as emergency response, explosive ordnance disposal and civil protection; it may also participate in crisis response operations, including peace support operations; this professional, all-volunteer force is trained according to NATO standards and placed under civilian-led, democratic control
LCH	Local Civilian Hire	ISAF positions meant for Afghan nationals.
LEGAD	Legal Advisor	A label customarily attached to lawyers who advise commanders in the field in NATO operations and within the countries participating in NATO peacekeeping
LIFO	Last In, First Out	An accounting technique used in managing inventory and financial matters meaning that the newest inventory items are recorded as sold first. This technique is not allowed in accordance with IPSAS
LOJI	Loss of Job Indemnity	Income replacement indemnity payments extended to individuals who have lost employment
LWR	Local Wage Rate	A member of the NATO work force who typically performs skilled or unskilled manual labour

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M & W	Morale and Welfare	A network of support and leisure services and activities that enhances the lives of Military, Civilians, Families, and other eligible participants
MB	Military Budget	Follows the principles of the common funding with costs shared by the contributing Nations
MEUR	Million Euro	€ 1,000,000.00
MHI	Multinational Helicopter Initiative	Supports the financing of helicopter deployment-related activities
MINFIN	Ministry of Finance	Is a federal ministry, responsible for general financial policy and for general management in the field of finance
MOD	Ministry of Defence	The government department responsible for implementation of government defence policy and the headquarters of the Armed Forces
MOU	Memorandum of Understanding	A document describing a bilateral or multilateral agreement between parties
MTF	Medical Treatment Facility	A facility established for the purpose of furnishing medical and/or dental care to eligible individuals
MWA	Moral Welfare Activity	Self generating funds used to provide Moral & Welfare activities to assigned NATO troops and civilian employees
NAC	North Atlantic Council	The NAC has effective political authority and powers of decision for NATO; consists of permanent representatives of all member nations and meets at least weekly
NAEW & FC	NATO Airborne Early Warning and Control Force Command	Inaugurated in December 1978 in order to counter the increasing low-level threat from the then Warsaw Pact aircraft over land and sea
NAF	Non-Appropriated Funds	Resources internally generated by NATO military and civilian staffs through retails and service facilities operated by the Command
NATO	North Atlantic Treaty Organisation	An intergovernmental military alliance based on the North Atlantic Treaty signed on 4 April 1949; the organization constitutes a system of collective defence whereby its member states agree to mutual defence in response to an attack by any external party
NATO IS	NATO International Staff	An advisory and administrative body, working under the authority of the Secretary General and supporting the delegations of NATO members at different committee levels and helps implement their decisions
NBC	Nation Borne Costs	Cost eligible for common funding: covered by Military Budget and the responsibility of the Troop Contributing Nation; NBC, types include: Individual Real Life Support (RLS) related costs (e.g. Food) National Entities RLS related costs (e.g. power) National Entities usage of NATO capabilities (e.g. CIS)
NCCB	NATO Centralised CIS Budget	
NCIA	NATO Communication and Information Agency	NATO Communication and Information Agency. Created by consolidating former NCSA, NC3A, and NACMA.
NCS	NATO Command Structure	Divided into two commands, one for operations and one for transformation. <ul style="list-style-type: none"> Allied Command Operations is located at SHAPE, Mons, Belgium. Allied Command Transformation) is located in Norfolk, Virginia. It
NCSEP	NATO Command Structure Headquarters and Programme	Budget formerly known as "MBC 28 Nations"
NDSS	NATO Depot & Support System	A software package maintained by NAMSA; it covers most areas of logistics support, such as item identification, supply, maintenance and property accounting
NFR	NATO Financial Regulations	Regulations published by NATO HQ governing the use and reporting of NATO financial assets

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NHQSa	NATO Headquarter Sarajevo	NATO AOM operation in Bosnia Herzegovina
NIC	NATO International Civilian	A permanent international post of NATO grade A, L, B, or C authorized to be filled by a civilian whose pay and allowances are established by the North Atlantic Council and provided from the international budget.
NMA	NATO Military Authority	Consisting of ACO, ACT and NCSA
NMR	National Military Representative	Senior military officers from NATO nations serving as members of the Military Committee
NOR	NATO Office of Resources	Brings together all international staff working on NATO military common-funded issues with the aim of reinforcing military common-funded resource management at the NATO HQ
NSHQ	NATO Special Operations Headquarters	Manages the NATO Special Operations capabilities. HQ is located at SHAPE, Casteau
NSIP	NATO Security Investment Programme	Funds authorized and allocated by the BC for specific NATO projects e.g., runways, bunkers, roads, buildings, etc.
NSPA	NATO Support Agency	Agency created by consolidating former NAMSA, NAMA, and CEPMA.
NSU	National Support Unit	Responsible for relaying logistics and personnel support to the respective national units
O & M	Operations and Maintenance	A category of appropriations which traditionally finance those things whose benefits are derived for a limited period of time, i.e., expenses, rather than investments. Examples of costs financed by O&M funds are headquarters operations, civilian salaries and awards, travel, fuel, minor construction projects, expenses of operational military forces, training and education, recruiting, depot maintenance, base operations support,
OCC	Operational Capability Concept	Designed to establish new means and mechanisms to reinforce Partnership for Peace's operational capabilities through enhanced and closer military cooperation
OPLAN	Operational Plan	Military plan prepared by ACO to conduct a mission approved by the NAC
OS	Ocean Shield	NATO's contribution to international efforts to combat piracy off the Horn of Africa
PAO	Property Accounting Officer	Maintains inventory records, for NATO-owned equipment and is responsible for assigning property, performing inventories, and for providing reports and information concerning equipment inventory records
PE	Peacetime Establishment	NATO command structure
PILS	Program Integrated Logistics System	Used by E3A to manage the data of procurement, supply and maintenance processes
PO	Purchase Order	A document issued by a buyer to a seller, indicating types, quantities, and agreed prices for products or services the seller will provide to the buyer; sending a PO to a supplier constitutes a legal offer to buy products or services; acceptance of a PO by a seller usually forms a contract between the buyer and seller
PO	Private Office (memo)	File designation for correspondence coming directly from the NATO Secretary General's Office
POW	Program of Work	
PPE	Property, Plant and Equipment	Referring to IPSAS 17. this principal a) recognizes the assets, b) determines their carrying amounts and c) depreciates charges and impairment losses to be recognized in relation to them
RAP	Readiness Action Plan	NATO strategy to ensure responds to security challenges

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RPPB	Resource Policy and Planning Board	The senior advisory body to the NAC on the management of all NATO resources; responsible for the overall management of NATO's civil and military budgets, as well as NSIP and manpower
RSM	Resolute Support Mission	NATO AOM mission in Afghanistan. Started 1 January 2015
SACEUR	Supreme Allied Commander Europe	The commanding officer of Allied Command Operations
SACT	Supreme Allied Commander Transformation	The commanding officer of Allied Command Transformation
SHAPE	Supreme Headquarters Allied Powers Europe	The major NATO HQ for ACO located Casteau, Belgium
SILCEP	Security Investment, Logistics and Civil Emergency Planning	
SLA	Service Level Agreement	A service level agreement is a negotiated agreement between two parties where one is the customer and the other is the service provider; this can be a legally binding formal or informal "contract"
SMB	SHAPE Management Board	ACO Principal body within SHAPE for providing direction on SHAPE related requirements, prioritisation, and resource allocation issues
SMG	Senior Management Group	Those key advisors who have access to privileged information and have power to exercise control or participate in the financial operating policy decisions of ACO
SOFA	Status of Forces Agreement	Legally binding document entered into between nations governing all legal aspects of military forces treatment when assigned outside their national boundaries; NATO governs the legal administration of NATO assigned forces when operating within a specific country also enters into these agreements
SRB	Senior Resource Board	A subsidiary body of the NAC and the Defence Planning Committee which have given the Board a lead policy and planning role in all military resource areas
STANAG	Standard NATO Agreement	An agreement promulgated by the Director NATO Standardization Agency under the authority vested in him by the NATO Standardization Organisation Charter
TCSOR	Theatre Capability Statement of Requirements	Specific capabilities included in the OPLAN
TF	Trust Funds	Funding provided by nations to achieve objectives complimentary to the NATO mission which are not eligible for NATO common funding
TFR	Trattamento di Fine Rapporto	a vested benefit payable to the employee for a part of his/her salary deferred in time to the moment when termination of contract takes place
UR	Unearned Revenue	Receiving money for a service or product that has yet to be fulfilled
USAREUR	U. S. Army Europe	Trains and leads Army Forces in support of U.S. European Command and Headquarters, Department of the U. S. Army
VNC	Voluntary National Contribution	Supports NATO's Counter-IED (C-IED) Action Plan the fund facilitates multinational cooperation by combining financial and non-financial national contributions in support of specific C-IED projects
WAC	Weighted Average Cost	A method of calculating ending inventory cost
WG	Working Group	An assembly of experts brought together for intensive work on a specific topic
WIP	Work in Progress	Work that has been started but not yet completed

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