

	NATO	NORTH ATLANTIC COUNCIL
	OTAN	CONSEIL DE L'ATLANTIQUE NORD

NATO UNCLASSIFIED

9 February 2016

DOCUMENT
C-M(2016)0008-AS1

**IBAN REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS OF THE
MUNITIONS SAFETY INFORMATION ANALYSIS CENTRE (MSIAC) FOR 2014**

ACTION SHEET

On 8 February 2016, under the silence procedure, the Council noted the IBAN report IBA-AR(2015)38 attached to C-M(2016)0008 and agreed the RPPB recommendation regarding public disclosure.

(Signed) Alexander Vershbow
Deputy Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2016)0010.

NATO UNCLASSIFIED



NATO UNCLASSIFIED

29 January 2016

DOCUMENT
C-M(2016)0008
Silence Procedure ends:
8 Feb 2016 18:00

**IBAN REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS OF THE
MUNITIONS SAFETY INFORMATION ANALYSIS CENTRE (MSIAC) 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 the Munitions Safety Information Analysis Centre (MSIAC) for the year ended 31 December 2014. The audit report sets out an unqualified opinion.
2. The IBAN report has been reviewed by the Resource Policy and Planning Board (RPPB). In line with PO(2015)0052, the RPPB report, agreed on 20 January 2016, recommends to Council that the subject audit report, together with the related 2014 financial statements, be made available to the public (Annex).
3. I consider that no further discussion regarding this report is required. Consequently, **unless I hear to the contrary by 18:00 hours on Monday 8 February 2016**, I shall assume that the Council has noted the IBAN report IBA-AR(2015)38 and agreed the RPPB recommendation regarding public disclosure.

(Signed) Alexander Vershbow

4 Annexes
1 Enclosure

Original: English

NATO UNCLASSIFIED

-1-



BLANK PAGE

**IBAN REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS OF THE
MUNITIONS SAFETY INFORMATION ANALYSIS CENTER (MSIAC) FOR 2014**

Report by the Resource Policy and Planning Board

References: (A) IBA-A(2015)224 & IBA-AR(2015)38

(B) FC(2015)070, dated 9 September 2015

1. Council agreed with PO(2015)0052 that, in principle, unclassified IBAN audit reports, together with any related financial statements, should be made publicly available after they have been dealt with by Council.
2. The IBAN issued an unqualified audit opinion on the Munitions Safety Information Analysis Centre 2014 Financial Statements. The unqualified audit report (reference (A)) will be forwarded to Council for notation, as per agreed procedures.
3. In reference (B), the MSIAC Financial Controller concludes that the 2014 MSIAC Financial Statements can be disclosed.

With regard to public disclosure, the RPPB concludes that the subject IBAN report does not contain information which, according to NATO Policy on Disclosure of NATO Information, shall be withheld from public disclosure, and in line with the agreed policy in PO(2015)0052, therefore recommends that the Council agree to the public disclosure of the subject IBAN report and the related financial statements.

BLANK PAGE

**Summary Note for Council
by the International Board of Auditors for NATO (Board)
on the audit of the Financial Statements of the
Munitions Safety Information Analysis Centre (MSIAC)
for the year ended 31 December 2014**

The Munitions Safety Information Analysis Center (MSIAC) provides a focal point within NATO to assist national and NATO munitions development programmes. The MSIAC project is directed and administered by a Steering Committee and a Project Manager. Budget authorisations for the year 2014 (including brought forward) amounted to EUR 1.53 million while budget expenses amounted to EUR 1.37 million.

The Board issued an unqualified opinion on the MSIAC Financial Statements and on compliance for the year ended 31 December 2014.

During the audit, the Board made two observations and provided two recommendations regarding a delay in issuing the 2014 financial statements and an excess amount in the Reserve Fund, which are summarised in Annex 3.

The Board also followed up on the status of one observation from its previous year's audit and noted that it was superseded by a current year's observation (see Annex 3).

This page is intentionally left blank

18 December 2015

INTERNATIONAL BOARD OF AUDITORS FOR NATO

**AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF
MUNITIONS SAFETY INFORMATION ANALYSIS CENTRE
(MSIAC)**

FOR THE YEAR ENDED 31 DECEMBER 2014

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

Report on the Financial Statements

The International Board of Auditors for NATO (Board) audited the accompanying financial statements of the Munitions Safety Information Analysis Centre (MSIAC), which comprised the statement of financial position as at 31 December 2014, and the statement of financial performance, statement of changes in net assets/equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The Board also audited the statement of budget execution for the year ended 31 December 2014.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion on Financial Statements

In our opinion, the financial statements present fairly, in all material respects, the financial position of MSIAC 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 financial statements described above, management is also responsible for ensuring that the financial transactions and information reflected in the financial statements are in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations as authorised by the North Atlantic Council (NAC).

Auditor's Responsibility

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

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

Opinion on Compliance

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

Brussels, 18 December 2015

Lyn Sachs
Chairman

NATO UNCLASSIFIED

ANNEX 4
C-M(2016)0008
IBA-AR(2015)38

18 December 2015

INTERNATIONAL BOARD OF AUDITORS FOR NATO

**LETTER OF OBSERVATIONS AND RECOMMENDATIONS
FOR THE MUNITIONS SAFETY INFORMATION ANALYSIS CENTRE
(MSIAC)**

FOR THE YEAR ENDED 31 DECEMBER 2014

NATO UNCLASSIFIED

Introduction

The International Board of Auditors for NATO (Board) audited the Munitions Safety Information Analysis Centre (MSIAC) Financial Statements for the year ended 31 December 2014, and issued an unqualified opinion on those financial statements and on compliance.

Observation and Recommendation

During the audit, the Board identified two observations and provided two recommendations regarding a delay in issuing the 2014 financial statements and an excess amount in the Reserve Fund.

The Board also followed up on the status of one observation and recommendation from its previous year's audit and noted that it was superseded by a current year observation.

The Board issued a Management Letter (reference IBA-AML(2015)17) to the Project Manager with observations for management's attention.

OBSERVATION AND RECOMMENDATION**1. DELAY IN ISSUING THE 2014 FINANCIAL STATEMENTS****Reasoning**

1.1 Article 27 of the NATO Financial Regulations (NFRs) in place for 2014 states that the annual financial statements shall be submitted to the International Board of Auditors for NATO and the Finance Committee not later than the 30th of April following the end of the financial year. The revised NFRs state that the financial statements should be issued no later than 31st of March as from financial year 2015.

Finding

1.2 The financial statements were issued on 09 September 2015, not respecting the requirements of the NFRs. This does not enable the Board to properly plan and carry out the financial statements audit, and to report its results to the Council on a timely basis.

Recommendation

1.3 The Board recommends that the preparation, review and publication of the financial statements be completed by the required deadline of the NFRs.

Comments of the International Staff

The recommendation is agreed.

The timelines related to the issuance of the 2014 financial statements have been impacted by the implementation of the ERP and first steps in learning to use it, whilst the same scarce resources had to be used to generate the financial statements from the old system.

Considering the number of statements to be issued by the Office of Financial Control (nine each year) and the overall shortage of staff it was not possible, therefore, to publish all of them by the required deadline.

2. EXCESS IN THE RESERVE FUND

2.1 The NFRs state that currency holdings should be restricted to those needed until the next call for contributions is received. The NFRs were revised in 2015, but the above requirement to restrict currency holdings was retained.

2.2 Article 4.17 of the MSIAC Memorandum of Understanding states that any surplus remaining in the Project accounts at the close of each fiscal year will be disbursed, distributed or applied as determined by the Steering Committee (SC). In this respect, the following decisions were made by the SC:

- In June 2007, the SC agreed that reserve funds were necessary to stabilize entity finances if a member nation should suddenly drop out of MSIAC, or a sudden need for extra finances arises to start or sustain a critical component of the entity.
- In October 2012, the SC agreed that the Standing Instructions regarding the level of the Reserve Fund should be adjusted to reflect that five shares represent an appropriate level for the Reserve Fund and that the share cost would be EUR 84 thousand (five shares x EUR 84 thousand = EUR 420 thousand).
- In November 2013, the SC agreed to accept the budget where the share cost was dropped to EUR 80 thousand, which would decrease the total call for contributions.
- In October 2014, the SC agreed to increase the reserve fund to EUR 650 thousand, with the justification being that this is the amount that would be needed to pay for the Loss of Job Indemnities in the event that MSIAC is dissolved. Per the MSIAC Risk Register, this risk is improbable, though. Also, the share price for 2015 was raised again to EUR 84 thousand.

Observation

2.3 The Board found that the amount in the Reserve Fund at 31 December 2014 was EUR 1.079 million, representing an increase of EUR 157 thousand as compared to the prior year. Although it is expected that this level will decrease over the next several years, it currently corresponds to almost thirteen shares, which is in excess of the level that was established as appropriate for the Reserve Fund by the SC. It also does not restrict currency holdings to those needed until the next call for contributions is received.

Recommendation

2.4 The Board recommends that MSIAC and the participating nations ensure compliance with the revised NFRs in respect to restricting currency holdings at MSIAC. If it is determined that a deviation from the NFRs in this respect is desired by the nations, approval to such a deviation should be sought from the North Atlantic Council.

Comment of the International Staff

The MSIAC Steering Committee has been and continues to address the issue of the level of the reserve fund. A five year plan has been approved and the Steering Committee intends to adapt the level of individual national shares and the level of budgets. The reserve fund will be drawn down to the agreed level by setting the share price for national contributions at a level where income generated is significantly less than the annual spend. By planning undercalls, the reserve fund will be drawn down to the agreed level. The plan makes a number of assumptions which are likely to change, and hence it is subject to regular review and adjustment.

Board's position

The Board reiterates that if the amount of currency holdings held by MSIAC, including the Reserve Fund, is in excess of amount of currency holdings needed until the next call for contributions, the approval of a deviation from the NFRs from Council is needed.

FOLLOW-UP OF PREVIOUS YEAR'S OBSERVATIONS

The Board reviewed the status of the observation and recommendation arising from previous year's audits. This observation and its status is summarised in the table below.

Status of previous year's observations

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
2013 Financial Statement Audit Report IBA-AR(2014)25, section 1.1 Excess in the Reserve Fund Level Recommendation The Board recommends that the Reserve Fund should be kept within the five share limit (EUR 420,000) level that was decided by the Steering Committee.	The Board found that the amount in the Reserve Fund at 31 December 2014 was EUR 1.079 million, representing an increase of EUR 157 thousand as compared to the prior year. This level corresponds to almost thirteen shares, which is in excess of the level that was established as appropriate for the Reserve Fund by the SC.	Observation Superseded by the current year's Observation 2.

NATO UNCLASSIFIED

FC(2015)068-REV1

NATO MSIAC

**FINANCIAL STATEMENTS AS AT 31/12/2014
FINANCIAL YEAR 2014**

Annexes :

- 1 Statement of financial position
- 2 Statement of financial performance
- 3 Cash flow statement
- 4 Changes in net assets/equity
- 5 Budget execution
- 6 Explanatory notes to the financial statements

NATO UNCLASSIFIED

NATO MSIAC
STATEMENT OF FINANCIAL POSITION
as at 31 December 2014

(All amounts in Euro)			
Notes	Current Year	Prior Year	Variance
	31-Dec-14	31-Dec-13	CY - PY
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	3		
Cash	33.40	153.67	-120.27
Current bank accounts	1,457,824.65	1,519,496.57	-61,671.92
Cash equivalents	0.00	0.00	0.00
Subtotal Cash & Equivalent	1,457,858.05	1,519,650.24	-61,792.19
Cash Managed for Third Parties	4	0.00	0.00
Total Cash and Cash Equivalents	1,457,858.05	1,519,650.24	-61,792.19
Accounts Receivable	5		
Contributions from Member Nations	244,000.00	252,000.00	-8,000.00
Other Receivable from Nations/Partners	0.00	0.00	0.00
Receivable from Staff Members	0.00	0.00	0.00
Receivable from other NATO Bodies	0.00	0.00	0.00
Bank interest accrued	4,531.12	7,179.82	-2,648.70
Other accounts receivable	0.00	0.00	0.00
Total Accounts Receivable	248,531.12	259,179.82	-10,648.70
Prepayments	6		
Prepaid expenses	7,516.20	6,929.58	586.62
Total Prepayments	7,516.20	6,929.58	586.62
TOTAL CURRENT ASSETS	1,713,905.37	1,785,759.64	-71,854.27
NON CURRENT ASSETS			
Receivables	0.00	0.00	0.00
Infrastructure, plant and equipment	0.00	0.00	0.00
Land and buildings	0.00	0.00	0.00
Intangible assets	0.00	0.00	0.00
TOTAL NON CURRENT ASSETS	0.00	0.00	0.00
TOTAL ASSETS	1,713,905.37	1,785,759.64	-71,854.27

NATO MSIAC
STATEMENT OF FINANCIAL POSITION
as at 31 December 2014

(All amounts in Euro)				
	Notes	Current Year	Prior Year	Variance
		31-Dec-14	31-Dec-13	CY - PY
LIABILITIES				
CURRENT LIABILITIES				
ACCOUNTS PAYABLE	8			
Payable to Nations				
Interest		1,987.10	5,744.53	-3,757.43
Lapsed credits		118,811.37	304,021.51	-185,210.14
Miscellaneous receipts		0.00	9,997.72	-9,997.72
US reimbursables		451,749.39	318,968.66	132,780.73
Project accumulated surplus		1,079,388.65	921,974.89	157,413.76
Other payables		8,000.00	168,000.00	-160,000.00
Total Payable to Nations		1,659,936.51	1,728,707.31	-68,770.80
Payable to Staff		0.00	0.00	0.00
Payable to NATO Bodies				
NATO International Staff		0.00	36,151.54	-36,151.54
Pensions		0.00	0.00	0.00
Total Payable to NATO Bodies		0.00	36,151.54	-36,151.54
Payable to Suppliers				
Payable to Suppliers		0.00	9,675.09	-9,675.09
Accrued expenses		32,566.28	10,700.70	21,865.58
Total Payable to Suppliers		32,566.28	20,375.79	12,190.49
Payable to Others				
Other Accounts Payable		128.42	0.00	128.42
Trust Funds		0.00	0.00	0.00
Total Payable to Others		128.42	0.00	128.42
Total Accounts Payable		1,692,631.21	1,785,234.64	-92,603.43
Unearned Revenue and Advance Contributions				
Unearned revenue from budgetary credits	9	21,274.16	525.00	20,749.16
Unearned revenue from pre-financing		0.00	0.00	0.00
Unearned revenue from lapsed credits		0.00	0.00	0.00
Unearned revenue from accumulated surplus		0.00	0.00	0.00
Advance contributions		0.00	0.00	0.00
Total Unearned Revenue and Advance Contributions		21,274.16	525.00	20,749.16
Total Extrabudgetary Funds		0.00	0.00	0.00
TOTAL CURRENT LIABILITIES		1,713,905.37	1,785,759.64	-71,854.27
NON CURRENT LIABILITIES				
	10			
Provisions		0.00	0.00	0.00
Long Term unearned Revenue Funding PPE		0.00	0.00	0.00
Long Term unearned Revenue Intangible Assets		0.00	0.00	0.00
TOTAL NON CURRENT LIABILITIES		0.00	0.00	0.00
TOTAL LIABILITIES		1,713,905.37	1,785,759.64	-71,854.27
NET ASSETS				
Surplus/Deficit of the period		0.00	0.00	0.00
Total Net Assets		0.00	0.00	0.00
TOTAL NET ASSETS		0.00	0.00	0.00

NATO MSIAC
STATEMENT OF FINANCIAL PERFORMANCE
As at 31 December 2014

(All amounts in EUR)				
	Notes	Current Year	Prior Year	Variance
		30-Dec-14	31-Dec-13	CY - PY
Revenue	11			
Revenue from non-exchange transactions		1,390,292.78	1,367,632.27	-22,660.51
Financial Revenue		4,531.12	7,219.91	2,688.79
Other revenue		0.00	0.00	0.00
Total Revenue		1,394,823.90	1,374,852.18	-19,971.72
Expenses	12			
Wages, salaries and employee benefits		1,170,480.50	1,180,309.21	9,828.71
Supplies and consumables used		219,812.28	187,323.06	-32,489.22
Financial Costs		2,544.02	1,475.38	-1,068.64
Other expenses (interest to be reimbursed to nations)		1,987.10	5,744.53	3,757.43
Total Expenses		1,394,823.90	1,374,852.18	-19,971.72
Surplus/Deficit for the period		0.00	0.00	0.00

NATO UNCLASSIFIED

ANNEX 3 to
FC(2015)068-REV1

NATO MSIAC
CASH FLOW STATEMENT
 As at 31 December 2014

	Notes	2014	2013
CASH FLOW FROM OPERATING ACTIVITIES			
RECEIPTS	13		
Contributions		1,208,000.00	1,260,000.00
Financial Revenue		7,358.64	8,993.99
Others		3,390.15	176.65
TOTAL		1,218,748.79	1,269,170.64
PAYMENTS	13		
Personnel Costs		(1,043,508.73)	(1,091,392.42)
Operating Costs		(229,155.29)	(156,960.23)
Miscellaneous Payments		(5,282.54)	(9,575.96)
Financial Costs		(2,594.42)	(1,831.58)
TOTAL		(1,280,540.98)	(1,259,760.19)
NET CASH FLOW FROM OPERATING ACTIVITIES		(61,792.19)	9,410.45
CASH FLOW FROM INVESTING ACTIVITIES	13		
RECEIPTS			
PAYMENTS			
NET CASH FLOW FROM INVESTING ACTIVITIES		0.00	0.00
CASH FLOW FROM FINANCIAL ACTIVITIES	13		
RECEIPTS			
PAYMENTS			
NET CASH FLOW FROM FINANCING ACTIVITIES		0.00	0.00
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(61,792.19)	9,410.45
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1	1,519,650.24	1,510,239.79
CASH AND CASH EQUIVALENTS AT END OF PERIOD	1	1,457,858.05	1,519,650.24

NATO UNCLASSIFIED

NATO UNCLASSIFIED

ANNEX 4 to
FC(2015)068-REV1

NATO MSIAC

STATEMENT OF CHANGES IN NET ASSETS AS AT 31/12/2014

(in EUR)

	Accumulated surpluses/(deficits)
Balance at 31 December 2013	0.00
Deficit on revaluation of property	0.00
Surplus on revaluation of investments (1)	0.00
Currency translation differences	0.00
Net gains and losses not recognized in the statement of financial performance	0.00
Net for the period	0.00
Balance at 31 December 2014	0.00

(1) fixed assets in progress

NATO UNCLASSIFIED

NATO MSIAC
BUDGETARY OPERATIONS FOR FINANCIAL YEAR 2014
n = 2014

(en EUR / in EUR)

CHAPTER Article		BUDGET AUTHORISATIONS			COMMITMENTS	EXPENDITURES	BUDGETARY SURPLUS	
		BUDGET (ref.)	AUTHORIZED TRANSFERS	ADJUSTED CREDITS			Credits carried forward to n+1	Lapsed credits
		MSIAC(SC)DS/18						
		(1)	(2)	(3) = (1)+(2)				
I.	PERSONNEL COSTS							
01.01.01	Basic salaries	700,000.00	0.00	700,000.00	682,601.53	682,601.53	0.00	17,398.47
01.01.02	Allowances	334,000.00	0.00	334,000.00	315,503.73	315,503.73	0.00	18,496.27
01.01.07	Medical examinations	200.00	0.00	200.00	54.00	54.00	0.00	146.00
01.02	Other personnel expenses	50,000.00	0.00	50,000.00	32,715.43	32,715.43	0.00	17,284.57
01.04	Administrative support	58,000.00	0.00	58,000.00	56,225.87	56,225.87	0.00	1,774.13
01.05	Consultants + Temps	137,000.00	-37,150.00	99,850.00	89,156.98	83,379.94	5,777.04	10,693.02
	Financial year n	1,279,200.00	-37,150.00	1,242,050.00	1,176,257.54	1,170,480.50	5,777.04	65,792.46
	Carried forward:							
	Financial year n-1	3,515.80	0.00	3,515.80	3,515.80	3,515.80	0.00	0.00
	Financial year n-2	0.00	0.00	0.00	0.00	0.00	0.00	0.00
		1,282,715.80	-37,150.00	1,245,565.80	1,179,773.34	1,173,996.30	5,777.04	65,792.46
II.	COMMON OPERATING COSTS							
02.01	Missions	74,500.00	-1,000.00	73,500.00	63,331.40	62,916.60	414.80	10,168.60
02.02	supplies	6,000.00	1,000.00	7,000.00	6,166.26	5,585.22	581.04	833.74
02.03	Communications	14,250.00	0.00	14,250.00	13,588.00	13,307.60	280.40	662.00
02.05	Buildings	70,000.00	-2,250.00	67,750.00	66,218.48	66,218.48	0.00	1,531.52
02.06	Representation	5,000.00	0.00	5,000.00	4,696.02	4,520.75	175.27	303.98
02.07	Library, information	3,000.00	2,250.00	5,250.00	5,039.81	5,039.81	0.00	210.19
02.08	Technical supp & equipt	22,000.00	0.00	22,000.00	5,904.30	5,904.30	0.00	16,095.70
02.09	Miscellaneous and Unforeseen	15,000.00	0.00	15,000.00	0.00	0.00	0.00	15,000.00
	Financial year n	209,750.00	0.00	209,750.00	164,944.27	163,492.76	1,451.51	44,805.73
	Carried forward:							
	Financial year n-1	7,365.92	0.00	7,365.92	6,840.92	6,840.92	0.00	525.00
	Financial year n-2	0.00	0.00	0.00	0.00	0.00	0.00	0.00
		217,115.92	0.00	217,115.92	171,785.19	170,333.68	1,451.51	45,330.73
III.	CAPITAL COSTS							
03.01	Technical expenses	33,000.00	37,150.00	70,150.00	63,055.38	23,753.24	39,302.14	7,094.62
03.02	Equipment	400.00	0.00	400.00	0.00	0.00	0.00	400.00
	Financial year n	33,400.00	37,150.00	70,550.00	63,055.38	23,753.24	39,302.14	7,494.62
	Carried forward:							
	Financial year n-1	343.98	0.00	343.98	150.42	150.42	0.00	193.56
	Financial year n-2	0.00	0.00	0.00	0.00	0.00	0.00	0.00
		33,743.98	37,150.00	70,893.98	63,205.80	23,903.66	39,302.14	7,688.18
	GRAND TOTAL							
	Financial year n	1,522,350.00	0.00	1,522,350.00	1,404,257.19	1,357,726.50	46,530.69	118,092.81
	Carried forward:							
	Financial year n-1	11,225.70	0.00	11,225.70	10,507.14	10,507.14	0.00	718.56
	Financial year n-2	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	GRAND TOTAL	1,533,575.70	0.00	1,533,575.70	1,414,764.33	1,368,233.64	46,530.69	118,811.37

NATO MSIAC
BUDGETARY OPERATIONS FOR FINANCIAL YEAR 2013

n = 2013

(en EUR / in EUR)

CHAPTER Article		BUDGET AUTHORISATIONS			COMMITMENTS	EXPENDITURES	BUDGETARY SURPLUS	
		BUDGET (ref.)	AUTHORIZED TRANSFERS	ADJUSTED CREDITS			Credits carried forward to n+1	Lapsed credits
		MSIAC(SC)DS/16						
		(1)	(2)	(3) = (1)+(2)	(4)	(5)	(6) = (4) - (5)	(7) = (3) - (4)
I.	PERSONNEL COSTS							
01.01.01	Basic salaries	767,000.00	0.00	767,000.00	695,674.32	695,674.32	0.00	71,325.68
01.01.02	Allowances	447,458.00	0.00	447,458.00	371,330.67	371,330.67	0.00	76,127.33
01.01.07	Medical examinations	200.00	0.00	200.00	0.00	0.00	0.00	200.00
01.02	Other personnel expenses	70,000.00	-776.13	69,223.87	35,242.79	31,726.99	3,515.80	33,981.08
01.04	Administrative support	56,000.00	776.13	56,776.13	56,776.13	56,776.13	0.00	0.00
01.05	Consultants + Temps	90,000.00	0.00	90,000.00	21,285.30	21,285.30	0.00	68,714.70
	Financial year n	1,430,658.00	0.00	1,430,658.00	1,180,309.21	1,176,793.41	3,515.80	250,348.79
	Carried forward:							
	Financial year n-1	83,870.75	0.00	83,870.75	83,870.75	83,870.75	0.00	0.00
	Financial year n-2	0.00	0.00	0.00	0.00	0.00	0.00	0.00
		1,514,528.75	0.00	1,514,528.75	1,264,179.96	1,260,664.16	3,515.80	250,348.79
II.	COMMON OPERATING COSTS							
02.01	Missions	85,000.00	0.00	85,000.00	66,650.92	61,355.32	5,295.60	18,349.08
02.02	supplies	6,000.00	4,569.24	10,569.24	7,223.13	6,089.21	1,133.92	3,346.11
02.03	Communications	16,500.00	0.00	16,500.00	13,954.40	13,429.40	525.00	2,545.60
02.05	Buildings	72,000.00	-3,569.24	68,430.76	68,430.76	68,430.76	0.00	0.00
02.06	Representation	5,000.00	0.00	5,000.00	3,034.52	3,034.52	0.00	1,965.48
02.07	Library, information	3,000.00	-1,000.00	2,000.00	720.00	720.00	0.00	1,280.00
02.08	Technical supp & equipt	23,000.00	0.00	23,000.00	13,327.86	12,916.46	411.40	9,672.14
	Financial year n	210,500.00	0.00	210,500.00	173,341.59	165,975.67	7,365.92	37,158.41
	Carried forward:							
	Financial year n-1	1,775.18	0.00	1,775.18	1,775.18	1,775.18	0.00	0.00
	Financial year n-2	0.00	0.00	0.00	0.00	0.00	0.00	0.00
		212,275.18	0.00	212,275.18	175,116.77	167,750.85	7,365.92	37,158.41
III.	CAPITAL COSTS							
03.01	Technical expenses	30,000.00	0.00	30,000.00	14,506.47	14,162.49	343.98	15,493.53
03.02	Equipment	400.00	0.00	400.00	0.00	0.00	0.00	400.00
	Financial year n	30,400.00	0.00	30,400.00	14,506.47	14,162.49	343.98	15,893.53
	Carried forward:							
	Financial year n-1	963.58	0.00	963.58	342.80	342.80	0.00	620.78
	Financial year n-2	0.00	0.00	0.00	0.00	0.00	0.00	0.00
		31,363.58	0.00	31,363.58	14,849.27	14,505.29	343.98	16,514.31
	GRAND TOTAL							
	Financial year n	1,671,558.00	0.00	1,671,558.00	1,368,157.27	1,356,931.57	11,225.70	303,400.73
	Carried forward:							
	Financial year n-1	86,609.51	0.00	86,609.51	85,988.73	85,988.73	0.00	620.78
	Financial year n-2	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	GRAND TOTAL	1,758,167.51	0.00	1,758,167.51	1,454,146.00	1,442,920.30	11,225.70	304,021.51

NATO UNCLASSIFIED

6-1

ANNEX 6 to
FC(2015)068-REV1

**EXPLANATORY NOTES TO MSIAC
2014 FINANCIAL STATEMENTS**

NOTE 1: GENERAL INFORMATION

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

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

At the end of 2014, MSIAC had twelve participating countries: Australia, Belgium, Canada, Finland, France, Germany, Italy, The Netherlands, Norway, Spain, Sweden, the United Kingdom and the United States. The Republic of Korea was approved for membership at the end of 2013.

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

The participating countries pay all operational and administrative costs relating to the Project office, in accordance with an agreed cost-sharing formula.

NOTE 2: ACCOUNTING POLICIES

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

Declaration of Conformity

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

Basis of Preparation

The IS IT financial system, currently used by MSIAC, is a budgetary driven system which is cash based. It does not have an accrual based accounting functionality. Commitments are recorded for budget execution and control purposes, in accordance with NATO Financial Regulations. Commitment of credits is defined as the advance acceptance and recording of the financial consequence resulting from a legal obligation incurred during the financial year.

Contributions are registered as unearned revenue on the date they are called and revenue is recognized afterwards on the basis of expenditure. In the financial system, commitments are recorded for budget execution and control purposes, in accordance with NATO Financial Regulations. Payments linked to those commitments are recorded when the settlement of invoices is due.

Transformational entries for accruals are made based on an analysis of the commitments carried-forward at year-end, in order to determine the expenditure in the Statement of Financial Performance and the matching earned revenue from budgetary contributions.

The MSIAC financial statements are currently compliant with the NATO Accounting Framework using the transformational method described above.

NATO UNCLASSIFIED

6-1

NATO UNCLASSIFIED

ANNEX 6 to
FC(2015))068-REV1

6-2

MSIAC will transition to full transactional accrual accounting with the implementation of an integrated Enterprise Resource Planning (ERP) solution.

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

The financial statements have been prepared on a going-concern basis and the amounts shown in these financial statements are presented in EUR. MSIAC will continue in operation for the foreseeable future.

The following IPSAS have no material effect on the 2014 MSIAC financial statements:

IPSAS 5: Borrowing Costs

IPSAS 6: Consolidated and Separate Financial

IPSAS 7: Investments in Associates.

IPSAS 8: Interests in Joint Ventures

IPSAS 10: Financial Reporting in Hyperinflationary Economies

IPSAS 11: Construction Contracts

IPSAS 16: Investment Property

IPSAS 21: Impairment of non-cash generating assets

IPSAS 26: Impairment of Cash-Generating Assets

IPSAS 27: Agriculture

IPSAS 32: Service Concession Arrangements: Grantor

Reclassification of Financial Statements of Previous Years

Nothing to report

Use of Estimates

In accordance with generally accepted accounting principles, the financial statements include amounts based on estimates and assumptions by management, according to the most reliable information available, judgement and assumptions. Estimates include accrued revenue and expenses. Actual results could differ from those estimates. Changes in estimates are reflected in the period in which they become known.

Foreign Currency Transactions

The MSIAC budget is authorized and managed in EUR so contributions called are made in EUR. Foreign currency transactions as required are accounted for at the NATO exchange rates prevailing on the date of the transactions. Monetary assets and liabilities at year-end which were denominated in foreign currencies were converted into EUR using the NATO rates of exchange applicable at 31 December 2014.

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

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

NATO UNCLASSIFIED

6-2

Financial Risks

MSIAC uses only non-derivative financial instruments as part of its normal operations. These financial instruments include cash, bank accounts and deposit accounts.

All the financial instruments are recognised in the Statement of Financial Position at their fair value.

The organisation is exposed to a variety of financial risks, including foreign exchange risk, credit risk, currency risk, liquidity risk and interest rate risk.

a. Foreign currency exchange risk

The exposure to foreign currency risk is limited as the majority of the NATO-MSIAC's expenditures are made in EUR, the currency of its budget. The current bank accounts are held in EURO.

b. Credit risk

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

The maximum exposure as at 31 December 2014 is equal to the total amount of bank balances, short term deposits and receivables. There is very limited credit risk associated with the realization of these elements.

Concerning cash and cash equivalent NATO MSIAC credit risk is managed by holding current bank accounts and short term highly liquid deposits that are readily convertible to a known amount of cash held with ING Bank (Belgium) which has the following short term credit ratings:

ING Bank	Credit Ratings as at 31.12.2014			
	Fitch	S&P	Moody's	Date of last rating update
Short term	A+	A	A2	19.12.2014

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

c. Liquidity risk

The liquidity risk, also referred to as funding risk, is based on the assessment as to whether the Organisation will encounter difficulties in meeting its obligations associated with financial liabilities. A liquidity risk could arise from a short term liquidity requirement. There is a very limited exposure to liquidity risk because of the funding mechanism which guarantees contributions in relation to the approved budgets. Some limited risk could be due to the accuracy of budget forecasts. However, past history shows that this process results in surpluses and the budgetary rules provide for revised budgets.

d. Interest rate risk

Except for certain cash and cash equivalent balances, MSIAC's financial assets and liabilities do not have associated interest rates. MSIAC is restricted from entering into borrowings and investments, and, therefore, there is an insignificant interest rate risk. Interest earned is not a budgetary resource but contributes to the surplus owed to Nations.

Current Assets

a. Cash and cash equivalents

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

b. Funds Managed for Third Parties

Funds managed on behalf of third parties are held in cash and are presented as a liability. They are accounted for when cash is effectively received. They are represented as a separate item in the cash flow statement of the entity in order to avoid any confusion.

c. Receivables

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

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

d. Prepayments

A prepayment is a payment in advance of the period to which it pertains and is mainly in respect of an advance payment made to a third party.

e. Inventories

As mentioned above, NATO's adaptations of IPSAS were spelled out in C-M(2013)0039 of July 2013, which included IPSAS 12 Inventories. It is described as follows:

Control of NATO Inventories was refined with a set of 10 criteria to be used in assessing the level of control of an asset. A positive response on six of the criteria will lead to the asset being capitalised in the Financial Statements if it is above the capitalisation threshold. This is applied from January, 2013.

Criteria that may indicate control of an asset
The act of purchasing the asset carried out (or resulted from instructions given) by the NATO Reporting Entity.
The legal title is in the name of the NATO Reporting Entity.
The asset is physically located on the premises or locations used by the NATO Reporting Entity.
The asset is physically used by staff employed by the NATO Reporting Entity or staff working under the NATO Reporting Entity's instructions.
The fact that the NATO Reporting Entity can decide on an alternative use of the asset.
The fact that the NATO Reporting Entity can decide to sell or to dispose the asset.
The fact that the NATO Reporting Entity, if it has to remove or destroy the asset, can take the decision to replace it.
The fact that a representative of the NATO Reporting Entity regularly inspects the asset to determine its current condition.
The fact that the asset is used in achieving the objectives of the NATO Reporting Entity.
The fact that the asset will be retained by the NATO Reporting Entity at the end of the activity.

Capitalisation thresholds relevant to the financial statement are as follow:

Category	Threshold	Basis
Consumables	€50,000	Per location/warehouse
Spare Parts	€50,000	Per location/warehouse
Ammunition	€50,000	Per location/warehouse
Strategic stocks	€50,000	Per location/warehouse

The MSIAC will capitalise inventory which it controls in its financial statements. Where there is a conflict between more than one NATO Reporting Entity as to the control of inventory, only the end-user entity will report the inventory in its financial statements, based on reliable information provided by the NATO services provider entity as defined in individual agreements between the two entities.

The MSIAC will include transportation costs involved in bringing the inventories to their present location and condition in the initial valuation of inventory. These costs will be measured on the actual cost of transportation per item of inventory or by using an apportionment of the global transportation costs of bringing the inventories to their present location and condition across all inventory items in the period. Transportation costs involved in the subsequent movement of inventory which brings them into operational use will not be included in the value of inventory. The method of measuring these costs will be disclosed.

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

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

Where this adaptation conflicts with another requirement of IPSAS this adaptation shall apply. For the remainder, IPSAS 12 shall apply.

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

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

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

a. Property, Plant & Equipment

As mentioned above, NATO's adaptations of IPSAS were spelled out in C-M(2013)0039 of July 2013, which included IPSAS 17 Property Plant and Equipment.

Control of NATO PPE was refined with a set of 10 criteria to be used in assessing the level of control of an asset – they are the same as mentioned above under Inventory. A positive response on six of the criteria will lead to the asset being capitalised in the Financial Statements if it is above the capitalisation threshold. This is applied from January, 2013.

Capitalisation thresholds relevant to the financial statement are as follow:

NATO UNCLASSIFIED

ANNEX 6 to
FC(2015)068-REV1

6-6

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

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

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

b. Intangible Assets

As mentioned above, NATO's adaptations of IPSAS were spelled out in C-M(2013)0039 of July 2013, which included IPSAS 31 Intangible Assets. It is described as follows:

Control of NATO Intangible Assets was refined with a set of 10 criteria to be used in assessing the level of control of an asset – they are the same as mentioned above under Inventory. A positive response on six of the criteria will lead to the asset being capitalised in the Financial Statements if it is above the capitalisation threshold. This is applied from January, 2013.

NATO Intangible Assets Capitalisation Thresholds - MSIAC will capitalise each intangible asset item above the following agreed NATO thresholds:

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

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

MSIAC will capitalise integrated systems and include research, development, implementation and can include both software and hardware elements. But the MSIAC will not capitalise the following types of intangible assets in their financial statements:

- rights of use (air, land and water);
- landing rights;
- airport gates and slots;
- historical documents; and,
- publications

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

- Copyright
- Intellectual Property Rights
- Software development

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

MSIAC will report controlled Intangible assets in its financial statements. Where there is a conflict between more than one NATO Reporting Entity as to the control of intangible assets, only the end-use entity will capitalise the intangible asset in its financial statements based on reliable information provided by the NATO services provider entity as defined in individual agreements between the two entities.

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

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

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

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

Non-Current Assets Other Than PPE

There are none.

Current Liabilities

a. Payables

Payables are amounts due to third parties, based on goods received or services provided that remain unpaid. These include estimates of accrued obligations to third parties for goods and services received but not yet invoiced.

b. Advances and Unearned revenue

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

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

Non-Current Liabilities

The MSIAC has no non-current liabilities.

Revenue Recognition

Revenue comprises contributions from Member Nations.

NATO UNCLASSIFIED

ANNEX 6 to
FC(2015)068-REV1

6-8

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be measured reliably. The balance of unspent contributions and other revenues that relate to future periods are deferred accordingly.

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

Contributions to be called from Member Nations, based on the budget they approved, are initially recorded as unearned revenue liabilities. They are recognised as revenue in the statement of financial performance when such contributions are used for their intended purpose as envisioned in the approved Budget.

Transformational adjustments were made in calculating earned revenue and expenses in the Statement of Financial Performance.

Segment Reporting

A segment is a distinguishable activity or group of activities for which it is appropriate to separately report financial information. There is no segment in MSIAC.

Statement of Financial position

NOTE3: CASH AND CASH EQUIVALENTS

The current bank accounts are held in EUR. Deposits are held in interest-bearing bank accounts, immediately available.

Considering the various interest rates paid on the various types of bank accounts, most funds were placed in the short-term account as of 31 December 2014.

NOTE 4: FUNDS MANAGED FOR THIRD PARTIES

MSIAC does not manage funds for third parties.

NOTE 5: ACCOUNTS RECEIVABLE

Contributions receivable from member nations are funds requested from the Nations to finance the MSIAC budget. The call for contribution was issued on 17 February 2014.

At year-end 2014, outstanding contributions relating to previous financial years amounted to EUR 84,000.

Bank interest accrued in 2014 in the amount of EUR 4,531.12.

NOTE 6: PREPAYMENTS

Corresponds to services to be delivered in the following years (typically travel expenses).

NOTE 7: NON-CURRENT ASSETS

MSIAC has registered no non-current assets.

NATO UNCLASSIFIED

6-8

NATO UNCLASSIFIED

6-9

ANNEX 6 to
FC(2015)068-REV1**NOTE 8: ACCOUNTS PAYABLE****Payable to nations**

The payable of EUR 1,987.10 represents the net revenue in 2014 from interest, foreign exchange difference gain and bank charges as shown below:

	December 31, 2014	December 31, 2013
Revenue		
Interest	4,531.12	7,219.91
Foreign exchange rate difference gain		
Total revenue	4,531.12	7,219.91
Expenses		
Bank costs	826.34	613.37
Foreign exchange rate difference loss	1,717.68	862.01
Total expense	2,544.02	1,475.38
Net revenue to return to nations	1,987.10	5,744.53

The payable of EUR 451,749.39 in relation to the reimbursable salaries represents the amount due to the United States (US) for one civilian staff member who is paid directly by the US government. This amount payable is usually paid by the US subtracting it from its annual contribution payment to MSIAC.

The project's accumulated surplus of EUR 1,079,388.65 relates to funds held under the direction of the Steering Committee. It is comprised of the previous year's surplus (EUR 921,974.89) plus 2013 lapsed funds (EUR 304,021.51) plus net interest earned in 2013 (EUR 5,744.53) plus miscellaneous income (EUR 9,997.72) minus the amount of surplus allowed for use in funding the 2014 budget (EUR 162,350.00). The Steering Committee keeps these funds in case of emergency funding needs for the Project. The growth in accumulated surplus over previous years reflects more Nations entering the Project but zero growth in Project staff. Over the mid-term the Steering Committees' intent is to keep 5-6 shares worth of reserve funding.

Other payables of EUR 8,000 are an overpayment by one contributing Nation. End 2013, EUR 168,000 represent one nation's advance payment of its 2014 contribution.

Payable to NATO bodies

None for 2014. Corresponded, for 2013, to rent due to NATO IS for office space in Building Z.

Payable to Suppliers and Accrued Expenses

Payable to suppliers relates to goods and services for which an invoice has been received, checked, and queued for payment but for which payment was still pending at year-end (EUR 0 for 2014, EUR 9,675.09 for 2013).

Accrued expenses of EUR 32,566.28 (EUR 10,700.70 end 2013) correspond to the estimated accrual obligation to third parties for goods and services received but not yet invoiced.

Payable to Others

None.

NATO UNCLASSIFIED

6-9

NATO UNCLASSIFIED

ANNEX 6 to
FC(2015)068-REV1

6-10

NOTE 9: UNEARNED REVENUE AND ADVANCES**Unearned Revenue**

Unearned revenue corresponds to contributions called for 2014 but for which corresponding expenditures will be incurred after the reporting date of 31 December 2014. They include principally those amounts of contributions which will be spent in subsequent years on the MSIAC Budget.

The unearned revenue is composed of the amount of EUR 46,530.69 in credits carried forward, as per the NATO Financial Regulations, from which accrued expenses in an amount of EUR 32,566.28 have been deducted and to which prepayments from budget commitments in the amount of EUR 7,309.75 have been added. This unearned revenue is foreseen to be spent in subsequent years. If the funds are not spent by the end of the second year following the year in which they have been approved, these funds may be kept and used an additional year.

Reconciliation between Carry Forward (Budget Execution Statement) and Unearned Revenue		
	2014	2013
Commitment based carry forward	46,530.69	11,225.70
Adjustment for accrued expenses	-32,566.28	-10,700.70
Prepayments from budget commitments	7,309.75	0.00
Unearned revenue	21,274.16	525.00

NOTE 10: NON-CURRENT LIABILITIES AND LONG TERM UNEARNED REVENUE

The long term unearned revenue is unearned revenue in relation to net carrying amounts of Property, Plant and Equipment and intangible assets. Revenue is recognised over the estimated life cycle of the Property, plant and equipment and the intangible assets.
There are no non-current liabilities.

Statement of Financial Performance**NOTE 11: REVENUE**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be measured reliably.

Revenue from member Nations' budgetary contributions is considered as non-exchange revenue in consideration of the fact that the shares are equal. Non-exchange revenue is matched with expenses stemming from budget execution.

NOTE 12: EXPENSES**Wages, Salaries and Employee Benefits**

The personnel costs include all civilian personnel expenses as well as other non-salary related expenses in support of funded activities. They also include expenses for salaries and emoluments for approved NATO permanent civilian positions and temporary personnel, for other salary related and non-related allowances including overtime, medical examinations, recruitment, installation and removal, and for contracted consultants and training.

Supplies and Consumables Used

This item also includes expenses attributed to Capital Expenses from a budget perspective, if they do not meet the criteria of PPE or Intangible Assets (EUR 63,055.38 in 2014).

NOTE 13: BUDGET INFORMATION

NATO MSIAC Budget

Presently, the NATO MSIAC Budget is not publicly available.

The actual amounts referred to by IPSAS 24 ("amounts that result from execution of the budget") are considered to be the commitment of credits.

Presentation of budget information in the financial statements

An analysis of the budget execution is provided in Annexes 5. The MSIAC 2014 budget execution compares the budget's authorized credits and the actual amounts committed and expended.

The MSIAC budget classification is based on the economic nature of the expenses broken down into three chapters as follows:

- Chapter I : Personnel Expenses
- Chapter II : Operating Expenses
- Chapter III : Capital Costs

The MSIAC Budget is prepared for the same period (1 January to 31 December) and encompasses the same entity as these financial statements. The budget and accounting bases differ. The MSIAC Budget is prepared and executed on a commitment basis; it is not prepared on an accrual basis. Consequently, the reconciliation is done with the cash flow statement, in accordance with IPSAS 24. In addition, the MSIAC manages a series of non-appropriated funds.

The budget and accounting bases differ. The MSIAC budget is prepared and executed on a commitment basis; it is not prepared on an accrual basis. The main causes for differences are the following.

- 1) The commitment of credits is the advance acceptance and recording of the financial consequence resulting from a legal obligation incurred during the financial year. As a consequence credits are allocated, and commitments are approved, for goods, services and works to be delivered at a later stage. Commitments are settled when an invoice is presented for payment, and not when the service is rendered or goods delivered as is the case for expenses under accrual accounting. All invoices received after 31 December, 2014, but relating to 2014 have been taken into account and allocated against the appropriate commitment as expenditure.
- 2) Unliquidated commitments are carried forward and added to the budget of the following financial year in relation to an existing legal commitment or if a special agreement is given by the Steering Committee. Outstanding commitments can be carried forward for two years. As a consequence, the services or goods received may relate to a commitment of credits from previous years' budgets.
- 3) Commitments, because they are an advance acceptance, and because payments cannot be made above approved credit levels, typically include an estimation factor and are (if only slightly) higher than the actual amount eventually paid. This results in commitments being higher than the actual expenses and in credits eventually lapsing.
- 4) Commitments are only made in respect of future payments relating to the initial purpose of the commitment. Commitments for capital expenditures are normally made in the year during which the purchase order is issued. In accrual accounting, the related costs would not appear in the Statement of Financial Performance but in the Balance Sheet and only upon reception of the works, goods or services. Conversely, there is no budgetary commitment of credits for non-cash flow transactions such as capital depreciation or provisions which would normally appear in the Statement of Financial Performance under accrual accounting.

NATO UNCLASSIFIED

ANNEX 6 to
FC(2015)068-REV1

6-12

- 5) On an exceptional basis, the MSIAC Steering Committee may approve the carry-forward of credits without any prior legal commitment, for instance for projects at their initiation stage or planned expenditures. In accrual accounting there would be no expense recorded.
- 6) The balance of unused budgetary credits (not committed) lapses and is returned to Member Nations at year-end. Lapses may include cases where a project was eventually not completed or started, and therefore lead to no expense.

Outstanding commitments can be carried forward during two years.

Credits are transferred under the authority delegated to the NATO-IS Financial Controller by the NATO Financial Regulations and Financial Rules and Procedures. An amount of EUR 37,150 was transferred from Chapter I Personnel to Chapter III Capital.

Transfer of Credits Authorised by the Financial Controller
(NFR, ARTICLE 10)

ORIGIN OF CREDITS			DESTINATION OF CREDITS		
ARTICLES	AMOUNTS	TOTAL	ARTICLES	AMOUNTS	TOTAL
01.05	37,150.00	37,150.00	03.01	37,150.00	37,150.00
GRAND TOTAL	37,150.00	37,150.00	GRAND TOTAL	37,150.00	37,150.00

Reconciliation between Budget Execution and Outflows of Cash

As required by IPSAS 24, actual amounts as presented in the Budget Execution Statement are to be reconciled to the actual amounts in the financial statements with the Cash Flow Statement. Actual amounts concerning the budget are the amounts of committed credits. The differences between the budget actual amounts and the Cash Flow Statement are due to the difference in bases.

		BUDGET		ACTUALS			DIFFERENCE		DIFFERENCE		
		Initial	Final	Commitment	Expenses in Budget Statement	Cash Flow 2014	Commitment minus exp in budget statement	Exp in budget statement minus cash flow	BASIS	TIMING	ENTITY
U S e	Personnel Costs	1,282,716	1,245,566	1,179,773	1,173,996	1,043,509	5,777	130,488	130,488		
	Operating Costs	250,860	288,010	234,991	194,237	229,155	40,754	-34,918	-34,918		
	Programmes Costs	0	0	0	0	0	0	0	0		
o f	SUBTOTAL Budgetary Operations	1,533,576	1,533,576	1,414,764	1,368,234	1,272,664	46,531	95,570	95,570		
	Non-budgetary Operations					7,877		-7,877	-7,877		
F u n d s	SUBTOTAL Non-budgetary Operations					7,877		-7,877	-7,877	0	0
	SUBTOTAL	1,533,576	1,533,576	1,414,764	1,368,234	1,280,541	46,531	87,693	87,693	0	0

The final budget authorization amounted to EUR 1,533,575.70, whereas actual commitments in 2014 amounted to EUR 1,414,764.33. The difference, which amounted to EUR 118,811.51, lapsed. As such the latter amount becomes part of the annual 2014 budget surplus and should be returned to the contributing Nations unless they should decide to re-use this surplus.

Based on the committed credits, an amount of EUR 1,368,233.64 was considered as expended, due to 2014 invoices paid in 2014 or received at the date of closure of the accounts. The difference with the committed credits amounted to EUR 46,530.69 and was carried-forward.

The out-flows of cash in 2014 amounted to EUR 1,280,541 of which EUR 1,272,664 related to budget operations and EUR 7,877 related to miscellaneous and financial transactions. The difference between the expenditures in the budget execution statement and the cash flow statement is explained as follows.

- 1) Concerning Personnel Costs: The difference relates mainly to US reimbursable staff. The corresponding expenses are credited to the US account. There is no related cash flow. They might be used as a US contribution to the MSIAC Budget.

NATO UNCLASSIFIED

6-13

ANNEX 6 to
FC(2015)068-REV1

- 2) Concerning Operating Costs: Capital Expenditures in the MSIAC budget did not meet the criteria to be considered as investment in IPSAS terms and are therefore recognized under O&M in the cash-flow statement. For the purposes of this note, the budgetary operations for Chapter II Operating Expenditure and Chapter III Capital Expenditure have been grouped. The difference between budgetary expenses and flows of cash relates mainly to the settlement of supplier account invoices for EUR 34,918.

Reconciliation between Budget Funding and Inflows of Cash

The funding of the budget is made of one call for contributions, carried over credits and a part of previous years' surplus.

S o u r c e o f F u n d s	BUDGET AUTHORIZATIONS 2014		in/en EUR	REFERENCES
	Current year		1,522,350.00	MSIAC(SC)DS/018
	Carried forward		11,225.70	
	TOTAL :		1,533,575.70	
	MEANS OF FINANCING			
	SURPLUS PREVIOUS YEARS			
	Surplus allowed to budget 2014		162,350.00	MSIAC(SC)DS/018
	CREDITS CARRIED OVER TO 2014		11,225.70	-
	CONTRIBUTIONS CALLED		1,360,000.00	FC(CC)(2014)003-(MSC-01)
	TOTAL :		1,533,575.70	

The total 2014 MSIAC Budget authorization was EUR 1,533,575.70. An amount of EUR 11,225.70 corresponded to credits carried-forward from previous financial years. The related amounts were fully funded by contributions called before 1 January 2014.

The budget authorisation specific to 2014 amounted to EUR 1,522,350.00. It was funded as follows.

The 2014 call for contribution was issued on 17 February 2014 (FC(CC)(2014)0003(MSC-01)). As directed by the Steering Committee, the call covered EUR 1,360,000. The remainder of EUR 162,350.00 for the 2014 annual budget was financed by the refundable surplus reported from previous years.

EUR 1,360,000 was called in 2014. Of this EUR 1,200,000 was received in the course of the year. One Nation made an over-payment of EUR 8,000. The resulting total in-flow of cash related to contributions called therefore amounted to EUR 1,208,000. There was an accounts receivable of EUR 244,000 including EUR 84,000 from the previous budget year.

NOTE 14: INVENTORIES

Nothing to report, inventories are not considered material.

NOTE 15: WRITE-OFFS

Nothing to report.

NATO UNCLASSIFIED

6-13

NATO UNCLASSIFIED

ANNEX 6 to
FC(2015)068-REV1

6-14

NOTE 16: LEASES

MSIAC does not have any financial leases.

NOTE 17: RESTRICTIONS ON FIXED ASSETS

There are no restrictions on fixed assets.

NOTE 18: CONTINGENT LIABILITIES

There have been no contingent liabilities identified that would be expected to result in a material obligation.

NOTE 19: CONTINGENT ASSETS

Nothing to report

NOTE 20: EMPLOYEE DISCLOSURE

Accounting for employee benefits is accounting for any liability in relation to all forms of consideration given by an entity in exchange of service rendered by employees.

It should be noted that the NATO-IS is managing centrally three pension programmes, namely the Defined Benefit Pension Scheme (DBS), the Provident Fund and the Defined Contribution Pension Scheme (DCPS) as well as the Retirees Medical Claims Fund (RMCF), covering staff employed by all NATO bodies. NATO-wide financial statements are issued by NATO-IS Office of Financial Control for the three Pension Schemes and the RMCF, therefore, no related assets or liabilities are recognised in these financial statements.

For 2014, MSIAC had an approved Personnel Establishment of 9 positions funded by the MSIAC budget (9 for 2013).

End 2014, six staff members (same as 2013) participated in the Defined Contribution Pension Scheme (DCPS) administered by NATO. The DCPS provides that the MSIAC budget makes a 12 percent monthly matching contribution to the staff members' contributions for current service. End 2014, two other employees (same as 2013) participated in NATO's Defined Benefit Pension Scheme (DBPS): a deduction of 9% of their salaries is made and contributed to the annual financing of this Plan. In addition, the MSIAC budget makes a monthly matching contribution of 18% to the DBPS. Consequently, the MSIAC has neither DBPS nor DCPS liabilities for its staff members. These contributions are expensed during the year in which the services are rendered and represent the total pension obligation of the entity.

End 2014, one staff member was employed on a reimbursable basis with an agreement between NATO-IS and the United States (same for 2013). The individual is remunerated and accrues pension rights under the United States pension scheme.

amounts in EUR	2014			2013		
	Staff	Employer	Total	Staff	Employer	Total
Co-ordinated Pension Scheme	37,379.00	56,068.35	93,447.35	37,889.30	56,834.01	94,723.31
Defined Contribution Pension Scheme	10,627.44	21,254.88	31,882.32	10,566.30	21,132.60	31,698.90
Reimbursable Staff		11,673.85	11,673.85		11,367.59	11,367.59
TOTAL	48,006.44	88,997.08	137,003.52	48,455.60	89,334.20	137,789.80

Untaken leave by MSIAC staff is not considered material.

NATO UNCLASSIFIED

6-14

NOTE 21: KEY MANAGEMENT PERSONNEL

The MSIAC Steering Committee (one representative per member nation) is the governing body of the MSIAC. Steering Committee members are nominated by their respective national authorities. They are paid on the basis of applicable national pay scales. The Steering Committee members do not receive from MSIAC or NATO any additional remuneration for Steering Committee responsibilities or access to benefits.

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

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

NOTE 22: RELATED PARTIES

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

In 2014, NATO International Staff charged MSIAC an amount of EUR 56,225.87 for administrative support costs (EUR 56,776.13 in 2013) and EUR 30,092.86 for common operating costs (EUR 32,305.14 in 2013). In addition, the International Staff charges an annual rent for office space occupied in Building Z (EUR 36,125.62 in 2014 and in 2013).

* * * * *

List of acronyms:

AHWGFC	Ad Hoc Working Group of Financial Controllers
BC-	Budget Committee
CNAD	Conference of National Armaments Directors
DI	Defence Investment Division
ERP	Enterprise Resource Planning
IPSAS	International Public Sector Accounting Standards
IS	International Staff
IWG	IPSAS Working Group
MOU	Memorandum of Understanding
MSIAC	Munitions Safety Information Analysis Centre
NIMIC	NATO Insensitive Munitions Information Centre
PPE	Property, Plant and Equipment