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|  | NATO | NORTH ATLANTIC COUNCIL |
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2 December 2016

DOCUMENT
C-M(2016)0066-AS1 (INV)

**IBAN AUDIT ON THE 2015 FINANCIAL STATEMENTS OF ALLIED COMMAND
OPERATIONS (ACO)**

ACTION SHEET

On 2 December 2016, under the silence procedure, the Council noted the IBAN report on the 2015 financial statements of ACO attached to C-M(2016)0066 (INV) and agreed the RPPB recommendation regarding public disclosure.

(Signed) Rose E. Gottemoeller
Deputy Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2016)0066 (INV).

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21 November 2016

DOCUMENT
C-M(2016)0066 (INV)
Silence Procedure ends:
2 Dec 2016 12:00

**IBAN AUDIT ON THE 2015 FINANCIAL STATEMENTS OF ALLIED COMMAND
OPERATIONS (ACO)**

Note by the Deputy Secretary General

1. I attach the International Board of Auditors for NATO (IBAN) report on the audit of the 2015 financial statements of Allied Command Operations (ACO).
2. The IBAN report sets out a qualified opinion on the financial statements of ACO and on compliance for the year 2015. 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. The IBAN report has been reviewed by the Resource Policy and Planning Board (RPPB) (see Annexes) which has provided its own report with conclusions and recommendations to Council.
3. I do not believe that this matter requires discussion in the Council. Consequently, **unless I hear to the contrary by 12:00 hours on Friday, 2 December 2016**, I shall assume that the Council has noted the IBAN report on the 2015 financial statements of ACO and agreed the RPPB recommendation regarding public disclosure.

(Signed) Rose E. Gottemoeller

4 Annexes
1 Appendix
1 Enclosure

Original: English

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IBAN AUDIT ON THE 2015 FINANCIAL STATEMENTS OF ALLIED COMMAND OPERATIONS (ACO)

Report by the Resource Policy and Planning Board

References:

- a) IBA-A(2016)82 – IBAN Audit report
- b) C-M(2015)0025 – NATO Financial Regulations
- c) C-M(2016)0023 – NATO Accounting Framework
- d) SH/J8/CAC/FC166/15-310231 – ACO report to RPPB dated 23 July 2015
- e) BC-D(2015)0260-REV1 – Financial Rules and Procedures

BACKGROUND

1. This report covers the audit of the consolidated financial statements of Allied Command Operations (ACO) for 2015. It is based on the report by the Budget Committee (BC) which was approved on Wednesday 19 October 2016 (reference: BC-D(2016)0186-FINAL (INV)).

DISCUSSION

2. The International Board of Auditors for NATO (IBAN) has issued a qualified opinion on the financial statements of ACO and on compliance for the year 2015. The IBAN has issued seven observations with recommendations. Weaknesses in asset management for the Resolute Support Mission (RSM) impacted the audit opinion on both the financial statements and on compliance. Two other observations on asset management also impacted the audit opinion on the financial statements. The remaining four observations did not impact the audit opinion.

Audit Opinion on the Financial Statements and Compliance

3. Observation 1 – weaknesses in asset management for RSM: This audit observation impacts on both the financial statements and on compliance. The IBAN found a number of weaknesses in asset management for RSM which impacted the disclosure of inventory, property, plant and equipment (PP&E) and the disclosure of write-offs in the financial statements of ACO. The RPPB notes that a similar audit observation was made on the 2014 financial statements of ACO.

4. ACO accepts that some mistakes have been made and that inventory held at Kandahar airfield and Hamid Karzai International airport should have been reported in the financial statements. ACO also acknowledge the persistent nature of problems caused by the continued lack of sufficient training and rotation of staff in key positions. However, ACO stresses that steps have been taken to implement the policies and procedures developed to manage, redeploy and dispose of NATO-funded equipment and/or infrastructure. Staff roles

and responsibilities have been clarified; however, manning gaps and the high rotation of personnel in key posts mean that continued focus is needed to address the particular challenges in operational theatres. SHAPE emphasises that parallel efforts have been made towards strengthening the interaction of internal stakeholders within each ACO Command in order to enhance financial information sharing with regards PP&E and inventory. The RPPB expects SHAPE to continue to devote efforts to better coordinate with local staffs the validation of data in terms of correct quantity, asset category and control criteria.

5. The maintenance of comprehensive accounting records and compete asset registers are fundamental to sound financial management as enshrined in the NATO Financial Regulations (NFRs) (reference b)) and the NATO Accounting Framework (reference c)). The IBAN observation gives further indications that despite the significant efforts made by ACO to improve training, develop and implement policies and procedures and IT systems, the problem remains persistent, systematic and therefore of concern.

Audit Opinion on the Financial Statements

6. Observation 2 – inaccurate and unreliable reporting of assets to SHAPE HQ by NSPA: To assess the accuracy and completeness of reporting, the IBAN conducted a physical stock-take at a site where deployable assets are stored and managed by NSPA on behalf of ACO. The IBAN found a number of issues which led it to conclude that the amounts recorded in the ACO financial statements were not accurate. The IBAN concluded that the value of inventory had not been properly classified and also had concerns that SHAPE HQ did not perform sufficient controls to verify the accuracy of reporting by NSPA. Furthermore, the IBAN found that NSPA did not provide a detailed audit trail to support the data provided to SHAPE HQ. Finalisation of the Logistics Support Agreement (LSA) between NSPA and ACO will help clarify roles and responsibilities and should significantly improve the working relationship between the two entities.

7. The RPPB notes that this observations continues to be a recurring theme and that the continued inability to record and maintain proper accounting records for inventory and PP&E reflects a structural problem in NATO that goes wider than the ability of ACO to resolve on its own since it involves multiple actors, devolved and fragmented governance arrangements and multiple IT systems. In this regard the RPPB agrees with ACO that discrepancies in asset management within NATO entities can no longer be solved on a bilateral basis. The RPPB acknowledges the on-going efforts by the Head of Financial Reporting Policy (HFRP) to work with NATO Financial Controllers to develop a common PP&E accounting policy and it looks forward to the finalisation of this work by the end of the year. The RPPB recognises that this will improve the consistency and comparability of accounting treatment between NATO bodies but also realises that it will take time to embed in terms of training, working methods and thus implement.

8. Significant progress has been made by ACO in terms of people, policies, procedures and systems identified in the PP&E Action Plan (reference d) and ACO are currently working on an update to this. This will focus on the business processes at not only ACO subordinate

commands but also other parties. This broader approach will look to identify the roles and responsibilities of each party involved in meeting the financial reporting requirements set out in the NFRs. It will be closely tied to the introduction of the NATO Logistics Functional Services (LOGFS) IT system by the end of 2018.

9. The RPPB recognises the associated efforts to tackle the use of disparate IT systems for asset management which is supposed to be mitigated by the introduction of the LOGFS IT system. The RPPB notes with some concern the comments from SHAPE with regards to the variety of tools selected to fulfil this requirement which have not been automatically integrated and expects these to be properly taken into consideration in the incremental development and introduction of this vital IT platform.

10. Observation 3 – inaccurate disclosure of PP&E in the NCIS Group: ACO generally concurs with the observation that assets delivered to and accepted by the NCIS Group should be accounted for by the NCIS Group regardless of where they are stored. ACO has strengthened the procedures for the hand-over/take-over (HO/TO) of assets to ensure this issue does not occur in the future. ACO acknowledges that the assets were incorrectly recorded in the 2015 financial statements and will address this by restating the 2015 balances in order to have proper comparative data in the 2016 financial statements. ACO will monitor and coordinate the results of the asset management Action Plan, specifically developed for the NCIS Group (deadline 31 December 2016), to address the proper financial reporting of the assets belonging to this sub-command.

IBAN Observations

11. Observation 4 – weaknesses in the exercise planning process impacted the procurement solution: This observation did not impact the audit opinion. The IBAN found that weaknesses in the exercise planning process for Trident Juncture 2015 led to deviations from normal competitive procurement procedures at Joint Forces Command (JFC) Brunssum. ACO concurs with this observation and will stress the need for exercise planners and requirement holders to provide clear requirements and funding in a timely manner to ensure procurement staffs have sufficient time to award contracts on the basis of competition.

12. Observation 5 – weaknesses in the procurement process in E3A Component, JFC Naples and Air Command: This observation did not impact the audit opinion. While ACO has implemented further checks and balances in the procurement process to ensure compliance with the NFRs and improve the consistency of application of procurement rules and procedures across ACO, the IBAN found weaknesses remain at some ACO entities. Regarding the procurement of aviation fuel at the main operating base for the NATO E3A Component, the BC had a detailed discussion¹ on the matter at its meeting on 8 June 2016 and the agreed action to improve transparency of the relative Memoranda of Agreement

¹ BC-DS(2016)0034(INV)

with the Host Nation. An Agreement is currently being developed between the Host Nation (German Defence Logistics Department) and the NATO Airborne Early Warning & Control Force (NAEW&CF) for a range of services, including aviation fuel taken from the Central European Pipeline System.

13. Observation 6 – need to prepare new logistics support agreements with NATO Support and Procurement Agency (NSPA): This observation did not impact the audit opinion. The IBAN recommended that ACO take specific steps to establish a comprehensive LSA with NSPA for the NAEW&CF. Without a signed agreement ACO cannot hold NSPA accountable to conduct effective management and reporting of assets NSPA manages on ACO's behalf and as a result ACO is unable to obtain assurance that NSPA processes are robust and consistent. The RPPB notes that the updating of the suite of governance documents and support arrangements for the NAEW&CF has just started and that the logistics support agreement with NSPA will be submitted for approval to the BC and where applicable to the NATO Airborne Early Warning & Control Programme Management Organisation (NAPMO) Board of Directors depending on the final service covered by the LSA if outside purely NSPA services by the end of 2016.

14. Observation 7 – further steps needed to ensure full compliance with the NFRs: This observation did not impact the audit opinion. The IBAN found that ACO has made significant progress in compliance with the articles in the NFRs on internal control, internal audit and risk management but that additional steps are needed to ensure full compliance. The RPPB has already invited the HFRP to encourage the sharing of best practice across NATO entities in this area and expects ACO to contribute in this regard². ACO has developed an internal control framework for procurement activities that was distributed for action by the ACO procurement community in July 2016; an internal control framework for financial reporting activities is expected to be finalised by the end of 2016 and an internal control framework for budget management is scheduled in 2017. ACO has already begun to share this experience with other NATO bodies. Resource constraints make adherence to the NFRs in these areas a tough challenge and as a result ACO expects it will take at least two years to fully implement the necessary changes.

Status of Prior Year Observations

15. The IBAN also followed up on the status of observations from previous years' audit and found that three had been settled, two were partially settled, four were superseded by current year observations and one remained outstanding. The latter concerned concluding a legal agreement with NCIA for the provision of CIS services to the International Security Assistance Force (ISAF) in Afghanistan. A draft had been prepared but is still under negotiation and is now likely to be covered by the Letter of Agreement for the RSM which is expected to be concluded by the end of 2016.

Public Disclosure

² AC/335-N(2016)0066(INV) RPPB report on the audit of the 2015 financial statements of NAPMA.

16. In accordance with the guidance contained in the Financial Rules and Procedures (reference e), ACO have made a clear declaration in the 2015 financial statements that they can be publicly disclosed.

CONCLUSIONS

17. The IBAN has issued a qualified opinion on the 2015 financial statements of ACO. The lack of accuracy and completeness of financial data related to assets held by ACO continues to be the main obstacle to achieving an unqualified audit opinion. Significant progress has been made by ACO in terms of people; policies; procedures and systems identified in the PP&E Action Plan (reference d)) and ACO are currently working on an update to this Action Plan. Resource constraints make adherence to the NFRs a tough challenge and as a result ACO expects it will take at least two years to fully implement the necessary changes. Many of the weaknesses identified in previous audit reports remain. There is no single answer to address the systemic problems in NATO to account for third party procurement and inventory management involving multiple commands, multiple agencies and multiple inventory systems. The approval of a common PP&E accounting policy (currently under development) will help but it should not be seen as a panacea. Continuous effort NATO-wide will be required across all areas involved: people; policies; procedures and systems to tackle these complex accounting difficulties.

RECOMMENDATIONS

18. The RPPB recommends that the Council:

- a) note the IBAN report IBA-A(2016)82;
- b) endorse the conclusions in paragraph 17; and,
- c) approve the public disclosure of this report, the IBAN audit (reference a)) and the associated 2015 financial statements of ACO.

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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 2015**

The Board audited the Allied Command Operations (ACO) Consolidated Financial Statements for the year ended 31 December 2015. The total budgetary spend (commitments plus actuals) for ACO against Budget Committee (BC) funded budgets in 2015 amounted to EUR 1.04 billion, compared with EUR 1.24 million in 2014. In addition to the execution of the MBC budgets, ACO also incurred EUR 1.3 million (2014, EUR 0.5 million) of NATO Security Investment Programme (NSIP) project expenditure.

The Board issued a qualified opinion on the 2015 Financial Statements and on compliance for the year ended 31 December 2015.

During the audit, the Board made 7 observations and provided recommendations. These findings are in the Letter of Observations and Recommendations (Annex 4).

The main findings are listed below. Observation 1, 2 and 3 impact the audit opinion.

1. Weaknesses in asset management for Resolute Support Mission.
2. Amounts reported for deployable assets to SHAPE HQ by NSPA are not accurate and reliable.
3. Inaccurate disclosure of PP&E both prior to and after 2013 in NCIS Group
4. Weaknesses in the planning process for exercise Trident Juncture 2015 impact the procurement solution.
5. Weaknesses in the procurement process in JFC Naples, E3A Component and AIRCOM.
6. Need to prepare new Logistic Support Agreements with NSPA.
7. Further steps are required to achieve full compliance with the revised NATO Financial Regulations in relation to Internal Control, Internal Audit and Risk Management.

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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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 2015

**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 2015, 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 2015.

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 2015 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 SHAPE HQ are recorded at correct values in the Consolidated Financial Statements.

As a result, the Board did not obtain sufficient evidence that the balances of PP&E and intangible assets in the Statement of Financial Position are fairly presented. 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 deferred revenue in the Statement of Financial Position are also affected as well as the PP&E amounts recorded in the Statement of Cash Flow.

The Board was also unable to assess whether the disclosures in Tables L-B 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, fairly present information for Resolute Support Mission and NCIS Group.

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 2015, and of its financial performance and its cash flows for the year then ended in accordance with the NATO Accounting Framework.

Emphasis of matter

We draw the attention to the accounting treatment of purchases from the United States Foreign Military Sales (FMS) programme which are presented on a “modified cash” basis of accounting rather than the accrual basis of accounting. This is in accordance with the revised NATO Accounting Framework approved by the North Atlantic Council on 29 April 2016, with retrospective application for FMS purchases as from 01 January 2015. Our audit opinion is not qualified in respect to this matter.

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 12 of the NATO Financial Regulations. In particular, due to weaknesses in the asset management in Resolute Support Mission, 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, 28 July 2016

Lyn Sachs
Chairman

INTERNATIONAL BOARD OF AUDITORS FOR NATO

**LETTER OF OBSERVATIONS AND RECOMMENDATIONS
FOR THE ALLIED COMMAND OPERATIONS
(ACO)**

FOR THE YEAR ENDED 31 DECEMBER 2015

Introduction

The International Board of Auditors for NATO (Board) audited the Allied Command Operations (ACO) Consolidated Financial Statements for the year ended 31 December 2015, and issued a qualified opinion on those financial statements and on compliance.

Observations and Recommendations

During the audit, the Board made 7 observations with recommendations.

One observation impacts the audit opinion on both the financial statements and on compliance:

1. Weaknesses in asset management for Resolute Support Mission.

Two observations impact the audit opinion on the financial statements:

2. Amounts reported for deployable assets to SHAPE HQ by NSPA are not accurate and reliable.
3. Inaccurate disclosure of PP&E both prior to and after 2013 in NCIS Group.

The remaining four observations do not impact the audit opinion:

4. Weaknesses in the planning process for exercise Trident Juncture 2015 impact the procurement solution.
5. Weaknesses in the procurement process in JFC Naples, E3A Component and AIRCOM.
6. Need to prepare new Logistic Support Agreements with NSPA.
7. Further steps are required to achieve full compliance with the revised NATO Financial Regulations in relation to Internal Control, Internal Audit and Risk Management.

The Board followed up on the status of observations from the previous years' audit and noticed that three were settled, two were partially settled, four were superseded by current year observations, one was lapsed due to adaptations made to the NATO Accounting Framework and one remains outstanding.

The Board also issued a Management Letter (reference IBA-AML(2016)05) to the ACO Chief of Staff.

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.

OBSERVATIONS AND RECOMMENDATIONS

1. WEAKNESSES IN ASSET MANAGEMENT FOR RESOLUTE SUPPORT MISSION

Reasoning

1.1 Efficient asset management in complex and long-lasting operations such as the current Resolute Support Mission is necessary to conduct military operations and procedures for redeployment and closure. 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.

1.2 The NATO Financial Regulations (NFRs), Financial Rules and Procedures (FRPs) and ACO Directive 60-80 on Property Accounting and Control prescribe the procedures to be complied with to account for NATO assets and the roles and responsibility of property accounting officers.

1.3 As part of the preparation for the redeployment, redistribution and disposal of NATO funded assets for Resolute Support Mission, ACO prepared a number of operating procedures and instructions. The Budget Committee was briefed on several occasions about the procedures established for the disposition of NATO property in Afghanistan and the Post-Resolute Support NATO presence and the eventual transfer of infrastructure to the Government of the Islamic Republic of Afghanistan (GIROA).

1.4 Based on guidance from SHAPE, the Crisis Management Resource Board in 2014 decided that the NATO chain of command will remain accountable for all NATO Funded Equipment and Infrastructure through the end of the Resolute Support Mission.

Observations

1.5 In its audit, the Board assessed the accuracy and completeness of property, plant and equipment (PP&E) and inventory recorded in the ACO Financial Statements for Resolute Support Mission as well as ACO's disclosure of PP&E prior to 2013. Further, the Board reviewed procedures in place for the write-off and disposal of NATO property in theatre as well as the preparations for re-deployment and hand-over of NATO funded assets to GIROA.

1.6 The Board found a number of weaknesses in asset management for Resolute Support Mission which impact the disclosure of inventory, PP&E prior to 2013 and the disclosure of write-offs in the ACO Financial Statements.

Incorrect deletion of inventory from ACO's books:

- Hamid Karzai International Airport (HKIA) and Kandahar Airfield (KAF) was taken over by the Framework Nations, Turkey and the United States, as of 1 January 2015. The Board found that ACO inventory at these two locations was deleted from ACO books and thus not reported in ACO Financial Statements as of 31 December 2015. No official transfer of the inventory to the Framework Nations took place and according to ACO policy, the inventory should have stayed under ACO control and thus should have been accounted for by ACO. Therefore, inventory in KAIA and KAF is not correctly recorded in ACO's Financial Statements as of 31 December 2015.
- the Board also found that the Technical Agreement with Turkey for the use of NATO funded equipment and infrastructure has not yet been signed, although Turkey became a Framework Nation as of 1 January 2015. This creates a number of risks since agreed terms and conditions for managing NATO equipment have not been formally signed and accepted.

Weaknesses in write off of NATO funded assets and transfers between Property Accounting Officers:

- more than 200 write-off actions and Reports of Survey were approved in 2015 for a total value of EUR 33,895,431 according to the 2015 ACO Financial Statements. The Board found that some Reports of Survey approved in 2015 by the Financial Controller relate to at least EUR 9 Million worth of assets that were actually disposed in 2014. For example, in KAIA, a significant portion of the Reports of Survey for assets actually disposed in 2014 were only approved in 2015 after the disposal had taken place. This impacts the disclosure in the ACO Financial Statements because the reported write offs for Resolute Support Mission are a mix of assets written off in 2014 and 2015, without clear explanation therein.
- the Board found that one Report of Survey for the write off of 387 line items of transformers for a value of EUR 7,670,413 in KAF was not a write off but a reclassification of the assets from NATO Funded Equipment to NATO Funded Infrastructure. It also represented a transfer of asset management responsibility from logisticians to the Engineer branch but since no proper handover/takeover took place it is uncertain whether any Property Accounting Officer is responsible for controlling and maintaining records of these assets. The Board believes that the write off procedure is not the right instrument to use for reclassification and transfer of assets between Property Accounting Officers. It creates a number of risks, including assets being deleted from listings, unclear responsibility for asset management and the risk of assets disappearing. Based on this observation, the disclosure of write-offs in Note J of the ACO Financial Statements is overstated by EUR 7.7 million.

- the Board found several examples in which assets were written off because they were missing, already transferred to GIROA or donated. The approval of the write off took place after the transfer but should have been prepared and approved prior to the transfer. The Board considers the moving, using and losing visibility of assets without the knowledge the Property Accounting Officer as evidence of an overall lack of control. This increases the risk of theft and fraud.
- one Report of Survey used to write off 12 mine resistant vehicles with a total value EUR 6,225,447, lacked the required documentation for approval.

Incomplete PP&E in Resolute Support Mission:

- based on information from JFC Brunssum engineers, the Board found that no complete records of NATO Infrastructure assets exist for Resolute Support Mission. The NATO Inventory system, NDSS, is not used to record infrastructure assets. Currently, no other system is in place to manage and monitor NATO funded infrastructure assets. For financial reporting purposes, ACO established a list of assets prior to 2013 for Resolute Support Mission, including some infrastructure assets. However, this list is not used by the engineers to monitor and manage infrastructure assets, and as such is not an asset management system. As a result, the Board does not have assurance that all NATO funded infrastructure has been recorded.
- ACO discloses 18 buildings in Table L-B, PP&E prior to 2013 for Resolute Support Mission segment in the 2015 Financial Statements. Based on discussions with JFC Brunssum engineers and comparison with maps of theatre military bases, the Board found that, for example in HKIA, there is at least 40 buildings under the control of ACO. Therefore, the disclosure is incorrect. The Board is unable to assess the total number of buildings in theatre since no complete records exists.
- although improvement in the identification and recording of assets delivered after 2013 took place, the Board found two examples of incompleteness of assets recorded after 2013. Also, in three other cases the costs of the assets recorded did not agree to supporting invoices. This was because the assets were delivered by NSPA and the costs reported by NSPA to ACO was not the final cost of the assets.

1.7 Factors that contribute to this outcome include a lack of prioritisation in theatre, which led to both limited management attention on asset management and a limited allocation of resources to the necessary tasks. A lack of continuity created by the high rate of staff rotation also plays an important role. Incomplete records of NATO assets in theatre will hinder effective preparations for an eventual transfer of NATO funded equipment and infrastructure to GIROA.

Recommendations

1.8 The Board recommends that ACO continue the effort of identifying, recording and reporting all assets held in theatre. The command should implement clear procedures and methodologies, ensure proper coordination among all stakeholders and allocate sufficient staff to accomplish necessary tasks.

1.9 The Board also recommends that ACO establish and follow clear procedures for the handover/takeover of NATO property, for internal transfer and transfers to Nations, contractors or other entities. This is critical considering the future plan of transferring extensive and valuable NATO property to GIROA or other NATO Nations.

2. AMOUNTS REPORTED FOR DEPLOYABLE ASSETS TO SHAPE HQ BY NSPA ARE NOT ACCURATE AND RELIABLE

Reasoning

2.1 According to the NFRs, the Secretary General, the Strategic Commanders and the other Heads of NATO bodies are responsible and accountable for sound financial management and shall put in place the necessary governance arrangements to ensure and maintain this.

2.2 An item of PP&E that qualifies for recognition as an asset shall be measured at its costs. The cost of an item of PP&E includes its purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to operate in the manner intended.

2.3 In July 2015, ACO and NSPA signed a new Memorandum of Agreement (MOA) on Logistics Cooperation. Among other things, the MOA stipulates that SHAPE will provide specific reporting requirements for each logistic support agreement and that NSPA will provide timely and reliable financial data to be incorporated in ACO's Financial Statements in line with the NATO Accounting Framework.

Observations

2.4 To assess the accuracy and completeness of deployable assets in SHAPE HQ, the Board conducted a physical stock take at Southern Operational Centre where the ACO deployable assets are stored and managed by NSPA on behalf of ACO. The Board further compared data recorded in ACO Financial Statements to detailed data in NSPA to assess the accuracy of the assets value.

2.5 Based on input from NSPA, SHAPE HQ recorded EUR 74 million (net book value EUR 48 million as of 31 December 2015) as PP&E delivered from 2013-2015 in relation to deployable assets managed and stored by NSPA but used by SHAPE HQ. The Board found significant differences between costs according to the invoices and costs reported to SHAPE HQ by NSPA and recorded in ACO Financial Statements. The differences

include over- and understatements of asset costs.

2.6 Further, the Board found that the costs of assets do not include all costs directly attributable to bringing the assets into use, for example project management costs, etc. According to the NATO Accounting Framework, these costs might be capitalised as part of the asset value, based on individual assessments. Also, during a stock take, the Board found that spare parts exist for the deployable assets. This was not separately reported to SHAPE HQ and thus the value of inventory has not been properly classified and reported in the ACO Financial Statements. The Board was not able to assess the costs of inventory and the amount of costs related to training, project management etc.

2.7 The Board also found that SHAPE HQ did not perform sufficient controls to verify the accuracy of NSPA reporting. Since these assets belong to SHAPE HQ and are recorded in ACO's Financial Statements, ACO has the primary responsibility for ensuring the accuracy and completeness of records. Also, within the SHAPE HQ logistics community, information on deployable assets delivered, spare parts, etc. is available and should be used by ACO finance staff to verify the accuracy of NSPA reporting. ACO should be able to satisfy itself that all NSPA processes related to ACO are robust and consistent.

2.8 Further, the Board found that NSPA did not provide a detailed audit trail to support the data provided to SHAPE HQ at year end. In addition, the data provided by NSPA is aggregated at project level, meaning that the historical acquisition costs for each individual asset are not reported to SHAPE HQ. The Board understands that NSPA is currently not able to provide and allocate the acquisition costs for each individual asset. This creates certain problems for ACO. For example, in relation to asset disposals and write offs, it will be difficult to determine the costs of the individual asset written off.

2.9 Based on the above, the Board concludes that the amounts recorded in the ACO financial statements for SHAPE PP&E are not accurate. The Board therefore lacks sufficient assurance on the reliability of the data provided.

Recommendations

2.10 The Board recommends ACO, in coordination with NSPA, to review the value of all deployable assets recorded and to make proper adjustments to the assets' values. It is important that documentation supporting the costs of assets (i.e. cost allocation, calculations, listing of invoices etc.) is retained and kept readily available. In general, the information exchange between ACO and NSPA should be improved, and, if possible, take place on a more regular basis. In addition, ACO should ensure that a proper coordination occurs internally among all ACO stakeholders.

2.11 The Board further recommends that ACO, in coordination with the NATO Head of Financial Reporting Policy and other NATO entities, develops detailed accounting policy for reporting requirements and responsibilities when a NATO agency acts as a service provider to another NATO body. Especially, this is important in cases where NATO agencies acts as Host Nation on projects funded with NSIP funds but the user of

the assets being delivered is another NATO body.

3. INACCURATE DISCLOSURE OF PP&E BOTH PRIOR TO AND AFTER 2013 IN THE NCIS GROUP

Reasoning

3.1 According to the NATO Accounting Framework, NATO Reporting Entities shall capitalise all controlled PP&E above the NATO PP&E Capitalisation Thresholds. PP&E acquired prior to 1 January 2013 may be considered as fully expensed. For PP&E held prior to 1 January 2013, and not previously recognised as an asset, entities shall briefly describe PP&E held within their PP&E recording systems in the notes to the financial statements. Such disclosure should include, as a minimum, the types of PPE held, locations where PPE is held and the approximate number of items held per asset category.

Observations

3.2 During its audit of NCIS Group, the Board found 22 items of PP&E with a gross value of EUR 4,954,440 received prior to 2013 but incorrectly recorded as 2015 additions in the ACO Financial Statements. In addition, in one Signal Battalion under NCIS Group, two of these assets were not recorded in the asset register even though they were physically present and delivered. This means that PP&E is overstated by a gross amount of EUR 4,954,440.

3.3 This error occurred because asset recognition wrongly took place when the assets were moved from a NATO agency location to the three NATO Signal Battalions under NCIS Group. In the Board's opinion, assets delivered to and accepted by the NCIS Group should be accounted for by the NCIS Group regardless of where they are stored. The physical location of the assets is not a valid justification for not recognising them.

3.4 Further, the Board found an additional number of inaccuracies in the disclosure of PP&E held prior to 2013. The Board found four cases where the number of items disclosed were higher than the actual number of assets physically present. In two of the cases, this was because the items disposed of had not been properly deleted from asset registers. The Board also found three cases in which the number of items disclosed was lower than the actual number of assets present. This was because assets received had not been properly recorded.

3.5 Due to these errors, the Board concludes that PP&E recorded in the ACO Financial Statements is overstated by EUR 4,954,440 (gross). This also impacts depreciation expenses. Furthermore, the Board concludes that the disclosure of PP&E held by the NCIS Group prior to 2013 does not accurately reflect the actual assets on hand.

Recommendation

3.6 The Board recommends that ACO ensure its assets are properly reported and recognised in the Financial Statements in accordance with the NATO Accounting Framework after the assets have been delivered and accepted by ACO. In the specific case of the NCIS Group, it must be clear that assets, once delivered and accepted, are under the control of ACO, regardless of the storage location.

4. WEAKNESSES IN THE PLANNING PROCESS FOR EXERCISE TRIDENT JUNCTURE 2015 IMPACTED THE PROCUREMENT SOLUTION

Reasoning

4.1 The Trident Juncture 2015 exercise was an ACT sponsored Command Post Exercise combined with a Live Exercise. Led by JFC Brunssum, the exercise was a multi-level deployable force exercise which served as the joint certification venue for NATO Response Force 2016. The exercise was conducted in Italy, Spain and Portugal in the period from 3 October through 6 November 2015.

4.2 The principles for NATO common funding for Education, Training, Exercises and Evaluation include eligibility based on the provision of requirements which are over and above those which can be reasonably expected to be available from National resources. A clear separation between requirement identification, eligibility for common funding and affordability within established ceilings needs to be maintained. In addition, military requirements need to be adequately justified.

4.3 Host Nation Support is an important factor in any operational or exercise scenario. Planning and execution of Host Nation Support must reflect the most effective and economic use of resources available to fulfil the requirement. Coordination of Host Nation Support planning and execution between NATO and the national authorities is essential for reasons of operational effectiveness, efficiency and to avoid competition for resources.

4.4 According to the BI-SC 60-70 Procurement Directive, after a requirement is identified, validated, and determined as likely to be funded, acquisition planning commences. The complexity of the requirement will dictate the extent of acquisition planning. Only essential, affordable and military operational requirements or capabilities should be considered for solicitation. Maximising opportunities for competition amongst eligible and capable sources helps to minimize the costs of goods and services. Departure from normal methods of procurement may be granted in the interest of security, operational urgency, standardisation and other practical considerations. However, urgency caused by a lack of timely action is not a valid reason for deviating from minimum sourcing requirements.

Observations

4.5 JFC Brunssum was assigned the overall lead for conducting Trident Juncture 2015. Therefore, it was responsible for exercise planning, execution and reporting. Its responsibilities also included ensuring that the necessary Real Life Support was in place. To that end, JFC Brunssum coordinated and agreed Host Nation Support, and contracting solutions were sought for support not provided by the Host Nations.

4.6 The Board found a high level of deviations for contracts awarded to provide Real Life Support services for Trident Juncture 2015. All contracts with external providers above Level B of the Established Financial Limits (EUR 20,000) deviated from normal competitive procedures. In total 16 contracts with a total value of EUR 1,317,268 were based on deviation requests. The remaining goods and services were acquired via NSPA, NCIA, national governmental solutions or were not subject to competition as the value of the contracts were below level B.

4.7 The Board notes that all deviations included justifications and were formally approved by the Financial Controller. The services were deemed critical to the exercise by JFC Brunssum.

4.8 The full exercise planning process was outside the scope of this audit. However the Board observed several instances that illustrate weaknesses in the planning and coordination of the exercise, which hindered timely communication of requirements to the JFC Brunssum contracting branch.

- In accordance with existing concepts, Nations are to provide the support needed to construct, operate and tear down deployable assets for the exercise through the process referred to as force generation. However, the Nations did not fully provide the necessary support. As a result, JFC Brunssum outsourced the support. Because the need for competition was identified late in the planning process, JFC Brunssum decided that deviations from normal competitive procurement procedures were necessary.
- The exercise represented the first use of some NATO deployable assets. In some cases, these assets were incomplete. As a result, JFC Brunssum decided to acquire new items to mitigate these gaps. For example, the command purchased stairs to access sanitary containers and 'bridges' to cover all cables. Like the gaps revealed by failed force generation, these needs were identified too late to competitively procure the necessary solutions.
- As the scope of the exercise increased, requests for Host Nation Support took place on a case by case basis without a full understanding of what the Host Nation could actually provide. As a result, gaps in the ability of the Host Nations to meet exercise requirements were not identified until late in the process, further contributing to the need for contracting support using deviated procedures.

4.9 Another example of weaknesses in the planning process is the requirement for transportation of the JFC Brunssum Command Group to Trident Juncture 2015. To support the transportation requirement, a jet was chartered for the period of the exercise, at a cost of EUR 230,000. The requirement was initially not well defined and changed continually as the exercise planning evolved. Although the Board acknowledges that the JFC Brunssum contracting branch searched for the most economical solution to provide a chartered aircraft, the Board believes that the decision and justification for the requirement for chartering a jet instead of other types of transportation was not properly documented. In addition, there was no evidence of an assessment of different types of solutions and costs for different transport means to support the decision taken.

Recommendation

4.10 To ensure that NATO obtains the best solution in terms of cost, the Board recommends that, for future exercises, ACO take steps to ensure sufficient lead time in planning to allow for careful assessment of possible solutions and more frequent use of competitive bidding procedures.

5. WEAKNESSES IN THE PROCUREMENT PROCESS IN E3A COMPONENT, JFC NAPLES AND AIRCOM

Reasoning

5.1 According to the NFRs, the Financial Controller shall ensure and verify that procurement and contracting principles are adhered to and are in line with the principles of sound financial management.

5.2 Further, according to the BI-SC 60-70 Procurement Directive, the Contracting Officer has the authority to enter into, administer, or terminate contracts and make related determinations and findings. The Contracting Officer may bind the legal entity to the extent of the authority delegated by his/her warrant. Written records of the procurement actions must be maintained detailing the history of the procurement.

5.3 All requests for departures from normal methods of procurement must be fully justified, and contract files must retain documentation of such justification. Deviations may be granted in the interest of security, operational urgency, standardization, and other practical considerations. Deviation requests should be based on the inability for the ACO HQs to reasonably comply with competitive requirements. Also, urgency caused through lack of timely action is not a valid basis for deviating from minimum sourcing requirements, and not maximizing competition amongst eligible sources.

Observations

5.4 During its audit of ACO commands, the Board verified compliance with the NFRs in the area of procurement and contracting. The Board notes that ACO has implemented further checks and balances in the procurement process, such as solicitation review

boards, the participation of Legal Advisor in Contract Award Committees, accredited training and Staff Assistance and Compliance Assurance Visits to the ACO HQs. These procedures are established to ensure compliance with the NFRs and further improve existing practices and ensure consistency across ACO.

5.5 The Board though found the following weaknesses in the contracting and procurement process in the JFC Naples, E3A Component and AIRCOM:

- out of the 46 procurement actions above Level B (EUR 20,000) executed by JFC Naples in 2015, 10 of them were based upon an authorized deviation from normal methods of procurement. The Board tested 13 contracts awarded in 2015 by JFC Naples and found three cases where the justification for deviation was not properly justified. In one case, urgency was used as a justification for the deviation request, although it was due to lack of timely action. In another case, it was not justified why only one specific recommended contractor would be able to perform the required service and also the service was to be delivered in a short timeline although urgency (non-operational) can never be a justification for a deviation. In a third case, for the provision of equipment for Morale and Welfare, the justification was based on standardization of equipment across NATO and the fact that it was a recognized and respected supplier. The Board believes that the justification for standardization reasons is not meant to be applied to all type of equipment, especially not for equipment to be used for Morale and Welfare activities.
- in E3A Component, the Board found one instance where the request for deviation and the purchase order of EUR 26,378 was approved after the actual services were delivered and invoiced. Further, the Board found two cases, out of 16 contracts deviated from normal methods of procurement, where sole source contracting was done but there was no evidence of the approval of a deviation request in the contract file. In another case, for reparation services of EUR 125,000, the deviation request had been properly approved, but there was no evidence of the Contract Award Committee decision.
- in AIRCOM, the Board found one case (GBP 21,500) where the procurement and contract file provided were not complete and did not contain all required documentation for the procurement action. It did not contain the analysis and evaluation of the three bids received and thus the decision for contract award was not documented. The Board further notes that the lowest value bid was not selected. As the evaluation of the received bids were not documented, there was no evidence documenting why it was not selected.

5.6 Specifically, in relation to the E3A Component, the Board found that for infrastructure works and other services provided by the Host Nation in accordance with the Operations and Support Memorandum of Understanding (MOU) and the Civil Administration/Civil Engineering Memorandum of Agreement (MOA), the request for work issued to the Host Nation was not signed by a contracting officer. The Board finds that this is not in full compliance with the FRPs and the BI-SC 60-70 Procurement Directive

which clearly prescribes that contracting officers have the exclusive responsibility for the procurement of goods and services and to legally bind the entity.

5.7 In relation to aviation fuel, the E3A Component purchases it from the Host Nation directly at the Main Operating Base. The supply of fuel is based on NATO STANAGS and the MOU with the Host Nation although the MOU only generically mentions the provision of fuel as part of normal base support services. Further, the MOU mentions that separate support agreements will be made for the provision of support required by E3A Component. The Board understands that no separate support agreement was made for the provision of aviation fuel and thus the detailed terms for the supply of fuel is not specified.

Recommendations

5.8 The Board recommends ACO to continue the effort of improving processes in the area of contracting and procurement in order to ensure compliance with the NFRs, FRPs and Bi-SC 60-70 Procurement Directive.

5.9 In relation to procurement of aviation fuel in E3A Component, ACO should ensure that a detailed logistic service agreement with the Host Nation is in place to ensure a clear legal basis and to ensure clear roles and responsibilities, terms and conditions.

6. NEED TO PREPARE NEW LOGISTIC SUPPORT AGREEMENTS WITH NSPA

Reasoning

6.1 According to BI-SC 60-70 Procurement Directive, under customer funding, specific financial and project arrangements must be established between the customer and the NATO agency. As reaffirmed in the new FRPs, the arrangements should include the following elements:

- MOAs which set out the general terms and conditions for engagement between both parties.
- Service Level Agreements (NCIA) and Logistics Support Agreements (NSPA) set out specific terms and conditions including acceptance of risk and liability. They describe the detailed deliverables expected from the agency and key performance indicators.
- the annual execution of the agreements will be covered by purchase orders consisting of the approved funding allocated against the deliverables articulated in the agreements.

Observations

6.2 In July 2015, ACO and NSPA signed a new MOA on logistics cooperation. The MOA is the overarching agreement for logistic support and its implementation requires specific logistic support agreements. ACO has a number of logistic support agreements with NSPA. Support to Resolute Support Mission is one example.

6.3 For the NAEW&C Force and E3A Component, the Board found that the current agreement, signed in 1985, does not include indicators to assess NSPA's performance. It also lacks specific reporting requirements. In addition, the Board notes that the E3A Component outsourced its local procurement to NSPA from 2016 onwards. However, the current logistic support agreement does not fully cover such activities.

6.4 The Board also found that no logistic support agreement is in place between ACO and NSPA for the acquisition, support and management of NSIP-funded deployable assets. The NCIS Group and SHAPE use these assets when deploying forces for exercises and operations. A significant number of deployable assets were delivered over the past years to ACO. The assets are typically stored at NCIS Group Signal Battalions or at the Southern Operational Centre managed by NSPA. The Board is aware that a draft agreement has been prepared but not yet finalised.

6.5 In Section 2 and 3 of this report, the Board raised an observation about the inaccurate data on deployable assets at SHAPE and the NCIS Group. Since a logistic support agreement has not yet been signed with NSPA, roles and responsibilities for logistic support and management are unclear. Without a signed agreement, ACO cannot hold NSPA accountable to conduct effective management and reporting. As a result, ACO is unable to obtain assurance that NSPA processes are robust and consistent. In its prior work, the Board has made repeated observations and recommendations in this area.

Recommendation

6.6 To better manage deployable assets and support to the E3A Component, the Board recommends that ACO takes steps to develop comprehensive agreements with NSPA. To maximise accountability and transparency, these agreements should clearly specify the services to be delivered, roles and responsibilities, terms and conditions, key performance and quality indicators and reporting requirements.

7. FURTHER STEPS ARE REQUIRED TO ACHIEVE FULL COMPLIANCE WITH THE REVISED NATO FINANCIAL REGULATIONS ON INTERNAL CONTROL, INTERNAL AUDIT AND RISK MANAGEMENT

Reasoning

7.1 The North Atlantic Council (Council) approved revised NFRs effective as from 4 May 2015. This was the first time in more than 30 years that the NFRs have been revised. While Article 36 of the revised NFRs states that *"the NFRs will take effect immediately*

(i.e. 4 May 2015)”, Council also agreed that full implementation was only expected by the end of 2015. Further, Article 4 of the revised NFRs states that “*the finance committee shall approve a set of Financial Rules and Procedures (FRPs) that provide additional guidance to ensure the effective implementation of the revised NFRs.*”

7.2 The revised NFRs are more explicit than the previous version in the areas of Risk Management (Article 11), Internal Control (Article 12), Internal Audit (Article 13) and the establishment of an Audit Advisory Panel (Article 16). They require the establishment of effective, efficient and economical risk management procedures, that there are necessary management functions in place to support effective internal control, and that NATO bodies have access to a permanent, adequately resourced, internal audit function that is compliant with internationally accepted Internal Auditing Standards. They also require the establishment of an Audit Advisory Panel. Further, Article 3 requires, as a demonstration of responsibility and accountability, that both the annual Financial Statements and Statements of Internal Control be signed by both the NATO Head of Body and the Financial Controller

7.3 These revised NFRs provide an opportunity for NATO bodies to solidify and codify their overall internal control framework, including risk management. They also provide internal audit functions, whether in-house or outsourced, with clear expectations that they must be in a position to fully evaluate the effectiveness and efficiency of operations and internal controls, including risk management. Finally, the Council will ensure that the detailed FRPs are consistent, to the maximum extent possible, across NATO.

Observations

7.4 The Board found that while ACO has made significant progress in respect of the revised NFRs, additional steps are needed to achieve full compliance. This result, though, is not unexpected considering that the revised NFRs were only approved by Council in May 2015 and that the more detailed FRPs, which were required by Article 4 of the revised NFRs, were not approved by the Budget Committee until the end of February 2016.

7.5 Due to the lack of detailed regulations throughout 2015, the Board considers 2015 to be a transition year. It has chosen to report on the progress against certain of these revised Articles of the NFRs, and to make recommendations against that progress. The compliance audit opinion will not be affected in 2015 as a result of these observations. This will begin as from 2016, though.

7.6 The Board reports the status of the following areas:

Article 3 Responsibility and Accountability

7.6.1 The Board found that the Supreme Allied Commander Europe together with the ACO Financial Controller signed both the Statement of Internal Control and the financial statements. This is in full compliance with the new NFRs.

Article 11 Risk Management

7.6.2 The Board found that ACO has risk management at strategic and operational levels in place since 2012. Risk management in ACO was initially implemented in 2012 with the new Command Structure and has evolved since then. The ACO risk management framework supports the ACO Strategic Management Plan 2016-2020, which is updated yearly. ACO aligns its risk management activities with its strategic goals and objectives and those of its subcommand. Each command is responsible for implementing its own command-level risk management processes and aligning it with the ACO framework. A centralised risk register is in place and maintained by SHAPE. ACO subcommands continuously reports to SHAPE on identified risks above the responsibility of the subcommand.

7.6.3 The NAEW&C Force and E3A Component do not participate in the ACO strategic risk management framework. The NAEW&C Force is currently developing its own risk management in response to an instruction issued by the Force Commander. The Board found that progress is evident and in line with direction and guidance. Specifically, the Force and Component have begun to identify and manage risks related to the organisational restructuring and the transition of the new command from Initial Operational Capability to Full Operational Capability.

7.6.4 The ACO Financial Controller introduced a financial risk management framework in 2015 with implementation throughout the ACO financial community (including NAEW&C Force and E3A Component) expected to occur during 2016. Detailed risk registers for the ACO financial community do not yet exist, but are being developed in 2016. Risks that are beyond the remit of the Financial Controller are reported through the ACO strategic management process.

Article 12 Internal Control

7.6.5 The Board found that ACO is currently developing an Internal Control Framework and directive to be implemented by the end of 2016. Also, no common NATO-wide Internal Control Framework has been chosen. Such a framework, with the appropriate supporting documentation and procedures, is essential to ensure and to clearly demonstrate to others that a complete system of internal controls is in place.

7.6.6 The ACO financial community is currently identifying, documenting, assessing and reviewing all processes and internal control procedures already in place within the finance and procurement functions. Workshops are being held and facilitators have been appointed to conduct training and support activities. Through these activities, ACO intends to ensure a common approach and methodology across the entire financial community.

7.6.7 As described in sections one, two and five above, the Board's audit of the ACO 2015 Financial Statements revealed weaknesses in internal controls specific to asset management and monitoring and controlling agencies activities. Until ACO completes the development of its internal control framework and internal control procedures are

systematically supported and documented, the Board will not be in a position to state that there is a full system of internal control in place in accordance with Article 12 of the revised NFRs.

Article 13 Internal Audit

7.6.8 The ACO Internal Audit has undertaken a wide range of internal audit activities across ACO. However, since an internal control framework is not yet fully implemented, ACO Internal Audit cannot comprehensively assess the effectiveness of the Internal Control Framework.

Article 16 Audit Advisory Panel

7.6.9 The Board found that ACO established an Audit Advisory Panel as required by Article 16 of the revised NFRs. Terms of reference for the Audit Advisory Panel was established for the panel which describe its duties and responsibilities. The Audit Advisory Panel approved the ACO's internal audit plan for 2016.

Recommendations

7.7 The Board recommends that ACO:

- a) continues on-going work to implement financial risk management, including the establishment and use of a financial risk register.
- b) continues to develop a specific Internal Control Framework, based on internationally accepted standards, and systematically document the detailed internal control procedures which support it. In the Board's opinion, this should be coordinated to ensure consistent treatment across NATO Bodies.
- c) ensure that internal audit activities are sufficiently focussed on evaluating risk management and internal control throughout the ACO.

FOLLOW-UP OF THE PREVIOUS YEARS' OBSERVATIONS

The Board followed up on the status of observations from the previous years' audit and noticed that three were settled, two were partially settled, four were superseded by current year observations, one was lapsed due to adaptations made to the NATO Accounting Framework and one remains outstanding. The observations and their status are summarised in the table below.

STATUS OF PREVIOUS YEARS' OBSERVATIONS

| OBSERVATION/RECOMMENDATION | ACTION | STATUS |
|---|---|---|
| <p>(1) ACO FY 2014 IBA-AR(2015)19, paragraph 1 PROPERTY, PLANT AND EQUIPMENT (PP&E) AND INTANGIBLE ASSETS ARE MATERIALLY MISSTATED</p> <p>Board's Recommendation The Board recommends that ACO complies with the NATO Accounting Framework and the NATO Financial Regulations in accounting for and reporting PP&E.</p> <p>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.</p> <p>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.</p> <p>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.</p> | <p>The Board concludes that the amounts recorded in ACO financial statements for SHAPE assets are not accurate and the Board does not have assurance on the reliability of the data provided.</p> | <p>Observation Superseded by current year observation.</p> |
| <p>(2) ACO FY 2014 IBA-AR(2015)19, paragraph 2 INACCURATE DISCLOSURE OF ASSETS ACQUIRED PRIOR TO 2013</p> <p>Board's Recommendation The Board recommends ACO reconsider how they prepare the table for the 2015 financial statements by taking into consideration the overall purpose of</p> | <p>Improvement took place in the disclosure and presentation of PP&E prior to 2013 and</p> | <p>Observation Partially Settled.</p> |

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| OBSERVATION/RECOMMENDATION | ACTION | STATUS |
|---|--|---|
| <p>disclosure of information on legacy assets and to ensure a clear and accurate disclosure of information in the financial statements.</p> <p>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.</p> | <p>consistency is ensured across ACO Headquarters.</p> <p>In relation to Resolute Support Mission and the NATO CIS Group, though, the Board concludes that the disclosure of PP&E prior to 2013 is not correct and does not fairly present PP&E prior to 2013. See observations raised in this report.</p> <p>Also, the Board found some duplicates in the assets disclosed for SHAPE and E3A Component.</p> | |
| <p>(3) ACO FY 2014 IBA-AR(2015)19, paragraph 3 CONSOLIDATED LONG-TERM RECEIVABLES AND UNEARNED REVENUE OVERSTATED BY EUR 15.3 MILLION</p> <p>Board's Recommendation The Board recommends ACO to ensure before recording long-term receivables against provisions that funds have not already been received for this purpose.</p> | <p>ACO restated 2014 Financial Statements to correct the error.</p> | <p>Observation Settled.</p> |
| <p>(4) ACO FY 2014 IBA-AR(2015)19, paragraph 4 WEAKNESSES IN THE ASSET MANAGEMENT AND ACCOUNTING IN ISAF (NOW RESOLUTE SUPPORT MISSION)</p> <p>Board's Recommendation 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.</p> <p>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.</p> | <p>Superseded by current year observation.</p> | <p>Observation Superseded by current year observation.</p> |

| OBSERVATION/RECOMMENDATION | ACTION | STATUS |
|---|---|---|
| <p>(5) 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 prioritise 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 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>Superseded by current year observation.</p> | <p>Observation Superseded by current year observation.</p> |
| <p>(6) 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</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 annual purchase orders to cover operation & maintenance costs. The Board has been recommending this for several years now.</p> | <p>In 2015, ACO prepared a draft agreement with NCIA for the provision of CIS services in-theatre.</p> <p>The draft agreement, though, has not yet been signed as it is</p> | <p>Observation Outstanding.</p> |

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| OBSERVATION/RECOMMENDATION | ACTION | STATUS |
|--|---|--|
| | still under negotiation with NCIA. | |
| <p>(7) 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 other NATO entities during the closure of the accounts to confirm the detailed balances.</p> <p>Many balances were confirmed and agreed but ACO did not in all cases receive responses from NSPA and NCIA. Especially in relation to goods and services delivered in the Resolute Support Mission, outstanding balances were not in all cases fully confirmed.</p> <p>The Board recommends ACO, in particular in coordination with NSPA and NCIA, to continue the process established of confirming outstanding balances with other NATO entities.</p> | <p>Observation Partially Settled.</p> |
| <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. 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>The Board did not find any instances of non-compliance with the regulations for representation allowance.</p> | <p>Observation Settled.</p> |

| OBSERVATION/RECOMMENDATION | ACTION | STATUS |
|---|---|--|
| <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>Observation Settled.</p> |
| <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>Superseded by current year observation.</p> | <p>Observation Superseded by current year observation.</p> |
| <p>(11) ACO FY 2011 IBA-AR(2012)30, paragraph 5.5 INCONSISTENT DATA FOR FOREIGN MILITARY SALES (FMS)</p> <p>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.</p> | <p>A revised NATO Accounting Framework was approved by Council on 3 May 2016. The accounting framework allows NATO entities to present data on modified cash basis to account for FMS procurements.</p> | <p>Observation Lapsed due to adaptations made to the NATO Accounting Framework.</p> |

**ALLIED COMMAND OPERATIONS (ACO) FORMAL COMMENTS ON THE
LETTER OF OBSERVATIONS AND RECOMMENDATIONS AND THE
INTERNATIONAL BOARD OF AUDITORS (BOARD) POSITIONS**

**OBSERVATION 1:
WEAKNESSES IN ASSET MANAGEMENT FOR RESOLUTE SUPPORT MISSION**

ACO's Formal Comments

1. *As stated in the Board's report, this observation impacts the audit opinion on both the financial statements (FS) and compliance. The basis used by the Board for its qualified opinion on compliance is article 12 of the NATO Financial Regulations. It should be noted that at Paragraph 7.6, the Board has clearly stated that 2015 is to be a transition year due to the lack of detailed regulations throughout 2015. ACO, therefore, does not concur with the qualification on compliance.*

2. *ACO partially concurs with the observation on weaknesses in asset management for Resolute Support and the recommendations made by the Board. ACO agrees that the inventory assets held at Kandahar Airfield (KAF) and Hamid Karzai International Airport (HKIA) should have been reported in the FS in accordance with the SHAPE Crisis Management Resource Board (CMRB) decision to retain accountability for all the NATO-funded assets. However, ACO does not agree with the Board's observation that no official transfer of the inventory to the Framework Nations took place and that the lack of a Technical Agreement (TA) at HKIA could create a number of risks since terms and conditions for managing NATO equipment have not been formally signed and accepted. It should be noted that NATO-Funded Equipment / NATO-Funded Infrastructure (NFE/NFI) are made available by SACEUR to the NATO COM TAAC and not to the FN itself. Moreover, the transfer to COM TAAC of the assets is foreseen in the Resolute Support Financial Arrangement. The implementation of a TA with the FN took place more to cater for the USA request at KAF to have such an agreement in order for the USA to comply with their internal regulations. The TA with KAF was consequently agreed with the USA and signed for the last quarter of 2014, before the ISAF closure, and for the entire duration of Resolute Support. Following the example of KAF, JFCBS requested SHAPE later in 2015 to sign a similar TA at HKIA with Turkey. However, it was not possible to finalise the TA with Turkey before the end of 2015 due to internal delays with the Turkish authorities. Nevertheless, ACO deems that any risks of mismanagement of the NATO-funded assets due to the lack of a TA can be mitigated by the policies and procedures implemented by ACO for management, redeployment and disposal of the NFE/NFI. These policies are in fact now applied consistently throughout the ACO chain of command in all Resolute Support locations where the FWNs provide airfield services to NATO and there are International Civilian Consultant (ICC) working at KAF and HKIA who ensure that there is a sufficient continuity in*

property management and control under the supervision of the HQ RS Theatre Accounting Manager (TAM) also.

3. *SHAPE does acknowledge the need to maintain real property asset registers on Alliance Operations and Missions (AOM) as tools to support operations and resource planning activities; however, the Board may wish to note that the assumption used in the NATO Security Investment Programme (NSIP) is that the territorial Host Nation (HN) is the proprietor of (NSIP funded) fixed facilities. (Reference: NATO Security Investment Program Manual Version 2011). While NATO retains beneficial use of this infrastructure through the various Support Status of Forces Agreements, it remains unclear that ACO should in fact be accounting for fixed infrastructure within the Financial Statement. Such a requirement could imply that even nationally-funded infrastructure made available for NATO use should also be included in the consolidated financial statements.*

4. *ACO partially concurs with the observation of the Board about weaknesses in write-off of NATO-funded asset and specifically with the Board's observation about the approval of some Report of Survey (ROS) by the Resolute Support Financial Controller after the assets had already been disposed of. It should be noted that according to the simplified procedures authorised by the BC/IC for the write-off of the NFE/NFI in ISAF/Resolute Support as laid down in the AD 080-102, the authority to agree on the write-off and disposal of the assets lies to the ACO Requirement Review Boards rather than to the Financial Controller, whose signature of the ROSs serves more to formalise the ACO Boards' decision ensuring at the same time compliance with the ACO Directive 060-080. Based on those simplified write-offs procedures, the PAOs in Resolute Support have the flexibility to submit lists of assets proposed for write-off to the Boards which can be considered in lieu of the ROSs required by the AD 060-080. For NFE/NFI funded by the NSIP, the IC in its decision AC/4-DS(2014)006 has also authorised ACO to initiate appropriate disposal action of surplus NSIP-funded assets in advance of any Joint Final Acceptance Inspection (JFAI) and request for deletion of the assets from the NATO inventories. It is, however, true that the lack of sufficient training to PAOs on those simplified procedures as well as the rotation of staff in such positions have created a situation where the normal procedure of write-off as foreseen by the AD 060-080 was applied instead of the simplified write-offs procedures set forth by the AD 080-102. ACO is confident that the additional training provided and the communication plan implemented will avoid similar issues in the future.*

5. *ACO agrees with the Board Observation that the write-off procedure is not the right instrument to use for reclassification and transfer of assets between PAOs. The write-off identified by the Board to reclassify some installed equipment from NFE to NFI was actually an oversight and an isolated case. The reclassification itself was in compliance with the AD 080-102 and the revised ACO accounting policy for the installed equipment. The policy laid down in the AD*

080-102 foresees that any transfer of assets from NFE to NFI can take place provided an Infrastructure Inventory Log for the NFI has been implemented to allow the transfer of the asset from NATO Depot and Support System (NDSS) to the Log, thus ensuring transparency and accountability of the assets. The Board should note that this issue is also due to the lack of a common tool designed to record the data as required for proper and consistent asset management. This issue is in principle being specifically addressed in the Logistics Functional Services (LOGFS) project, but the final programme enhancements are not scheduled for release until after 2018 and it does not cover current operations.

6. ACO appreciates the Board comments on improvements made in the identification and recording of assets delivered after 2013. As already stressed last year, the weaknesses identified pertain more to the implementation rather than the development of ACO-wide accounting policies. ACO deems that significant efforts have been made towards the development of a set of clear procedures for identifying, recording and reporting all assets held in theatre. There is a strong coordination through the ACO Requirement Review Boards among all stakeholders. SHAPE puts forth parallel efforts towards strengthening the interaction of internal stakeholders within each ACO Command such as J4, JENG and J6 in order to enhance financial information sharing with regard to Plant, Property and Equipment (PP&E) and inventories. Moreover, the issues encountered in the past related to the lack of PAOs or of their continuity in performing the job have been solved by hiring 3 ICCs (one for each base) where the majority of the NFE/NFI are located, i.e., HQ RS, KAF and HKIA. A military Theatre Accounting Manager at HQ RS further ensures that there is an oversight and coordination of the activities performed by the ICCs. These policies include clear procedures for the handover/takeover of NFE/NFI which are also part of the AD 080-102. On this respect, ACO has developed a certificate of Handover of Transferred or Donated Equipment and Material. In addition, SHAPE, in coordination with JFCBS and Resolute Support, aims at developing a holistic plan for donations of surplus NFE/NFI equipment in order to be prepared to hand-over the assets to GIROA prior to the end of the Resolute Support mission if the donation is considered to serve the interests of NATO.

7. The Board should note that SHAPE intends to continue to devote efforts for analysing PP&E and Inventory across ACO sites through on-site visits in coordination with local staff to validate the data in terms of correct quantity, asset category and control criteria. ACO has also established procedures starting from 2016 FY extending the interim closure procedure to the asset accounts in preparation of the year-end closure with the expectation to have more accurate asset data for the 2016 FS. SHAPE will continue to strengthen the internal coordination amongst other stakeholders. For 2016, SHAPE intends to widen the internal coordination across the Logistics and Engineers Offices via a SHAPE COS letter to be addressed to the COS of the ACO Commands stressing their accountability for proper asset management in compliance with NFRs/FRPs and ACO policies and directives.

Board's position

The Board qualifies its opinion on compliance because comprehensive accounting records of all ACO property had not been established and maintained for Resolute Support Mission as required by the NFRs. The requirement to have comprehensive accounting records of all assets and liabilities did not change with the new NFRs.

Further, according to the NATO Accounting Framework, controlled PP&E shall be reported in the financial statements. For PP&E acquired prior to 1 January 2013, disclosure shall be made in the notes including as a minimum the types of PP&E held, locations and the approximate number of items held.

The Board therefore asserts that ACO is responsible for maintaining complete asset registers for all controlled assets, including infrastructure assets.

With regards to write-off procedures, the Board acknowledges that the decision-making processes on the NFE in Resolute Support is handled by ACO through the ACO Requirements Review Boards as stipulated in the ACO Directive 080-102. According to this directive, the approval of write-off requests, as decided by the ACO review boards, is formalized by the Financial Controller if it falls within his delegated powers of write-offs. The Board asserts that approval of write-offs by the Financial Controller should take place prior to any actual disposal or transfer of the assets in order to comply with the NFRs and ACO Directives.

OBSERVATION 2: AMOUNTS REPORTED FOR DEPLOYABLE ASSETS TO SHAPE HQ BY NSPA ARE NOT ACCURATE AND RELIABLE

ACO's Formal Comments

8. *ACO concurs with the International Board of Auditors for NATO (IBAN) observations (with the exception of para 2.6) and Board's recommendation to develop detailed NATO accounting policy for a consistent financial reporting on PP&E NATO-wide. ACO continues in fact to face challenges with third party asset management which impacts on financial reporting. Taking into account that ACO has no authority to choose other service providers in this area other than the NATO Agencies, the issues related to assets managed on behalf of ACO are mainly due to two reasons: (1) the lack of a common NATO accounting policy on PP&E; and (2) the use of disparate Information Technology (IT) systems for asset management. With regard to the former, ACO would like the Board to note that it is an active participant in the development of a consistent NATO-wide asset accounting policy under the lead of the Office of the Head of Financial Reporting and Policy (HFRP). Concerning the latter, as the Board knows, this endemic problem is supposed to be mitigated once the NATO Logistics Functional*

Services (LOGFS) IT system will finally go-live, which means in principle not prior to 2018 and unfortunately not for the existing operations. However, it has to be noted that SHAPE has some concerns with regard to the variety of tools selected to fulfil this requirement and not automatically integrated.

9. *In the interim, ACO in conjunction with NATO Agencies and assisted by the Head of Financial Reporting Policy and the IBAN, will continue to identify mitigation measures necessary to resolve asset management discrepancies amongst the NATO entities.*

10. *Regarding the ACO and NSPA LSA, it has to be noted that the Logistics Support Agreement (LSA) negotiations took 6 months and were finalised in September 2015. Since then, NSPA has sought changes to previously agreed text during their staffing process, particularly at LEGAD level. This has culminated in a revised version of the document being submitted to SHAPE in May 2016. The NSPA changes are currently being assessed by SHAPE and we plan to provide NSPA with a response by the end of July 2016. SHAPE has been ready to sign the LSA since December 2015 and still hopes to do so before end of September 2016.*

11. *In light of the aforementioned ongoing initiatives and status, it is ACO's view that any discrepancy in asset management within NATO entities can no longer be solved based on bi-lateral agreements between ACO and the NATO Agencies. ACO deems that noteworthy efforts were sufficiently 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 these efforts have already led to significant improvements in relation to assets managed by third parties. However, ACO believes that a more suitable approach for solving the issue is through the finalization as soon as possible of a common accounting policy on PP&E. This would lead the NATO entities to use a common approach on asset management for service provider/customer profiles which would further bring to a common ground the financial requirements for asset data reporting.*

**OBSERVATION 3:
INACCURATE DISCLOSURE OF PP&E BOTH PRIOR TO AND AFTER 2013 IN THE
NCIS GROUP**

ACO's Formal Comments

12. *ACO generally concurs with the Board's observation.*

13. *ACO agrees that those assets were procured as part of CP5A0149 by NAMSA/NSPA prior to 2013 and stored in two different locations by two different NATO Agencies, i.e., SOC/NAMSA (now NSPA) in Taranto, Italy and CLD/NCSA*

(now CSSC/NCIA) in Brunssum, The Netherlands. NSPA, as one of the Host Nations of CP149, was responsible for the reception of the assets on behalf of ACO. The reception of the assets by NSPA should have been followed by a Hand-Over/Take-Over (HOTO) by ACO, despite the assets would remain physically located within the Agencies. This issue should not occur in the future as ACO has strengthened the procedures for the HOTO of the assets procured by third parties on ACO's behalf to ensure that the assets are promptly reported to ACO once they have been contractually accepted by NSPA from industry.

14. *ACO acknowledges that these assets were recorded incorrectly in the 2015 FS and will fix the issue by restating the 2015 balances. Moreover, ACO is working to review the provisions of the draft LSA with NSPA to ensure prompt reporting to SHAPE when assets are contractually accepted by NSPA from industry and entered in NSPA's internal database, thus becoming owned by ACO.*

15. *Concerning the observation made at Paragraph 3.4 of the Report, ACO only partially concurs with the comments made by the Board on inaccuracies in the disclosure of PP&E held by the NCISG prior to 2013. The reasons for some of the inaccuracies found by the Board are further explained below in details. In this regard, the Board should note that NCISG J4 has already initiated corrective administrative actions in coordination with 2nd NATO Signal Battalion (2NSB), SHAPE J4 and NSPA to reconcile the assets' data to their physical counting. Furthermore, ACO intends to enhance the existing property control measures already in place at the NCISG to avoid future inaccuracies in all NSBs NDSS accounts and Fixed Assets Register lists, as follows:*

- a. Enhancing site surveys and inspections to the NSBs and DCMs with sample testing, floor to list and list to floor.*
- b. Requesting NSBs to report quarterly on all PP&E items added to their accounts.*
- c. Seeking assurance and evidence from SHAPE J4, NCIA (CSSC) and NSPA that they perform the deletion from NSBs NDSS accounts of all NSBs PP&E items subject to write-offs and/or transfer to other NATO entities, for those items that they are responsible for executing such action (mainly all those assets procured with NATO Security Investment Programme (NSIP) funds).*

16. *The Board refers on its report to five specific cases where the number of items disclosed was higher than the actual number of assets physically present in one Signal Battalion. NCISG agrees that items disposed of had not been properly deleted from asset registers, but instead of three, there were only two of such cases.*

- a. *Mobile cranes, 3x: these are centrally managed assets, uploaded directly by NAMSA/NSPA into NDSS prior to 2013. 2NSB is able to prove that one out of 3 cranes recorded in NDSS is on stock, received in 2012. The presence of the other 2 items is under investigation.*
- b. *ACO2 UIE Shelter, 9x: Existing documents show that 4 out of 9 shelters have been moved to CLD/CSSC in 2007. The other 5 physically exist at 2NSB.*
 - (1) *ACO agrees that those 4 items should have been deleted from the NCISG NDSS accounts and Fixed Assets Register lists. Actions are being undertaken to correct such inaccuracies, in coordination with CSSC and SHAPE J4, since they are responsible for executing such activity in NDSS.*
 - (2) *Moreover, the Board may wish to note that, in ACO's opinion, these shelters and all other assets that are an integral part of Deployable CIS (DCIS) systems should be considered as deployable CIS assets and therefore owned and reported by NCIA. This approach was already discussed with the HFRP team and common definitions will be part of the NATO PP&E Accounting Policy.*
- c. *ACO2 WKSP Shelter, 1x: item is physically present at 2NSB and has not been written off.*
- d. *TSGT T2 SHERPA, 4x: All items were delivered to and accepted by ACO prior to 2013. Three of them were delivered to 2NSB in 2014, and are physically present at different 2NSB DCM locations: 1x at DCM-D (co-located with 2NSB); 1x at DCD-E Bucharest, Romania; and 1x at DCM-F Gorna Malina, Bulgaria (currently under Corrective Maintenance Intervention at CSSC). The fourth asset was moved to NCISS Latina in 2015 for training purposes and is still there.*
- e. *PGS BRUNO 18KVA, 9x: 2NSB is physically accounting only for 3 items. They are currently at CSSC Forward Support Point (FSP) South in Lago Patria for refurbishment, so that they can be used with UTSGT in the future.*
 - (1) *The other 6 assets were handed over to different NATO entities in 2007, 4 to CLD/CSSC and 2 to ISAF. ACO has the necessary documentation supporting the asset transfer to the CLD/CSSC and for one of the two transfers to ISAF/Resolute Support.*

- (2) *ACO agrees that those 6 items should have been deleted from the NCISG NDSS accounts and Fixed Assets Register lists. Actions are being undertaken to correct such inaccuracies, in coordination with CSSC, Resolute Support and SHAPE J4 since they are responsible for executing such activity in NDSS.*

17. *The Board also found three cases in which the number of items disclosed was lower than the actual number of assets present. For the assets not recorded in NDSS accounts and Fixed Assets Register lists, NSPA has been requested to provide any relevant documentation about the delivery of those assets to 2NSB. With this information the assets are being and will be properly registered in NDSS. The most updated information on each of those three cases is hereby provided for IBAN awareness:*

- a. Electric Pallet, 7x: Actually there are 8 items instead of 7, all on 2NSB stock. Assets were purchased by NSPA and delivered to 2NSB in 2014; they have already been properly registered in NDSS and will be soon reflected in the Fixed Assets Register list.*
- b. Lifting system (6 pillars), 2x: NCISG already received confirmation that these items were not purchased by NSPA, and will now try to investigate their origin with NCIA. As soon as documentation about their acquisition and delivery is found, ACO will record these assets in NDSS and afterwards reflect them in the Fixed Assets Register list of the NCISG. Although exact date of delivery to 2NSB is unknown, there is clear evidence that such happened prior to 2013.*
- c. Tents, 10x + 7x: ACO confirms the physical existence of 17 tents at 2NSB. More specifically, 7 of them belong to CIS assets as part of different DCIS systems, mainly LINC-E and, therefore, are recorded by NCIA in its Oracle-based Order and Inventory Management tool. The remaining 10 tents, which were procured from 2012 until 2015 by NCIA and NCISG (5 each), are general purpose tents and therefore considered non-CIS assets; 4 of them were recorded in NDSS in 2015 but none of them were included in the Fixed Assets Register lists. Correction is going on to properly register all 10 tents in NDSS and the Fixed Assets Register lists.*

**OBSERVATION 4:
WEAKNESSES IN THE PLANNING PROCESS FOR EXERCISE TRIDENT JUNCTURE
2015 IMPACTED THE PROCUREMENT SOLUTION**

ACO's Formal Comments

18. *The IBAN assessment seems reasonable. Exercise planners and Requirement holders must provide clear requirements and funding in a timely manner to ensure procurement staffs have sufficient time to award contracts on the basis of competition.*

**OBSERVATION 5:
WEAKNESSES IN THE PROCUREMENT PROCESS IN E3A COMPONENT, JFC
NAPLES AND AIRCOM**

ACO's Formal Comments

19. *ACO generally concurs with the Board's observation.*

20. *Regarding the findings in the former E3A procurement area, it has been both timing and filing issues, i.e., based on lack of coordination between Funds Managers and procurement staff. NAEW has taken action for future Funds Manager trainings while the main issues have been overtaken by events since NSPA in the future is responsible for this kind of procurement following NSPA procurement rules (audited by IBAN at NSPA). Regarding the signature of a Contracting Officer on work requests for infrastructure works to the Host Nation, the form will be changed accordingly in order to get this additional contracting officer signature on the document.*

21. *Regarding the procurement of the aviation fuel in NAEW, the NAEW Financial Controller on 08 June 2016 briefed the BC on those procurement procedures in place for more than over the last 34 years based on NATO STANAGS and the relative Memoranda of Agreement (MOAs) with the Host Nation. It was agreed with the IBAN auditors and ACO J8 to try to get a mutual agreement with Germany describing the details of this procedure, in particular for the MOB in Geilenkirchen (GK). To this end, the internal directive of Bundeswehr Logistics Centre for fuel provisions to the NATO at MOB GK, which is already applied by both parties over all the years, will be translated in English and sent to the German authorities in order to get it formalized as a Logistic Service Agreement. The final signature by any German authority is then out of NAEW control and responsibilities and should, hence, be followed up by SHAPE and the German NMR. NAEW FC will include a standing fuel deviation in the 2017 budget book for the Budget Committee review and approval.*

**OBSERVATION 6:
NEED TO PREPARE NEW LOGISTIC SUPPORT AGREEMENTS WITH NSPA**

ACO's Formal Comments

22. *The updating of the NAEW suit of governance documents will start in August 2016 with a kick-off meeting with the NAEW FC. The LSA will have to be submitted for the final NAPMO BoD approval by the end of 2016. The latter is necessary since the LSA will replace several NAPMO documents ("tri-party MoA", "basic texts" etc.), in accordance with the SHAPE-NSPA MoA.*

**OBSERVATION 7:
FURTHER STEPS ARE REQUIRED TO ACHIEVE FULL COMPLIANCE WITH THE
REVISED NATO FINANCIAL REGULATIONS ON INTERNAL CONTROL, INTERNAL
AUDIT AND RISK MANAGEMENT**

ACO's Formal Comments

23. *ACO concurs with the Board's observation and acknowledges the Board's comment on year 2015 as a transition year due to the lack of detailed regulations throughout 2015 based on which the qualification on compliance would not be justified. In light of the transition period to achieve full compliance with article 12 of the NFRs, ACO reiterates the comment made in response to IBAN qualification for the Observation on Weaknesses in asset management for Resolute Support mission.*

24. *ACO is pleased that the Board has recognized the significant efforts already made by ACO in respect to the revised NFRs/FRPs and towards the implementation of an internal control framework. ACO deems that significant work has already been made across ACO to create the foundation for an internal control framework to ensure full compliance with the revised NFRs. Examples include the ACO Strategic Management system as articulated in the ACO Strategic Management Plan (ASMP) and the ACO Risk Management Framework (ARMF). Further steps will be made in the short-term by ACO to complement and unify already existing controls by an overarching internal control framework. SAG ODA has been tasked, by the ACO Audit Advisory Panel, to produce an ACO internal control framework in coordination with JCAP STM, J8, and J8 IAB. A draft of an internal control framework will be presented by the end of 2016 taking into account the IBAN recommendation. The continued engagement between all the actors involved will ensure coherence with the ASMP. ACO also welcomes the Board's comment that recognizes the on-going efforts of the ACO Financial Controller to develop Financial Risk Management and Internal Control procedures within the finance community as mandated by the NFRs. The development of these financial procedures must be consistent with the overarching ACO Strategic Management system. Internal Control Framework for*

Procurement Activities will be shortly distributed for action to the procurement personnel and financial controllers ACO wide and to NATO entities. It will also be provided for information to the Command group and the internal audit at SHAPE HQ. A key input to the overall assessment contained in the final product is the self-assessment matrix which is consistent with existing direction and guidance established within ACO on procurement related activities, policies and directives. Internal Control Framework for Financial Reporting will follow immediately after.

FOLLOW-UP OF THE PREVIOUS YEARS' OBSERVATIONS

(2) ACO FY 2014

IBA-AR(2015)19, paragraph 2

INACCURATE DISCLOSURE OF ASSETS ACQUIRED PRIOR TO 2013

ACO's Formal Comments

25. *For Resolute Support, many missing assets were added to the PP&E list. This is an ongoing exercise that involves ACO, Framework Nations, and NATO Agencies when related to assets procured via CURs. Another problem was the fast rotation of Resolute Support Staff. ICCs were hired in the middle of 2015 as PAOs. This will help by partially solving the problem to guarantee staff continuity.*

26. *NAEW's effort is taking place to eliminate duplications to items acquired prior to 2013. The PILS reports are adequate in the disclosure of the PP&E prior to 2013.*

27. *NCISG J4 has already initiated corrective administrative actions in coordination with 2NSB, SHAPE J4 and NSPA to reconcile the assets' data to their physical counting. Ongoing actions are reported in the reply to the Board observation n. 3.4.*

(6) 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

28. *SHAPE J8 took initiative to develop through 2015 at ACO level in link with JFCBS and J6 a framework agreement named Mission Support Plan - Services Agreement (MSP - SA) for operational context provision of NCIA CIS Services in order to ensure proper control, financial accountability and*

governance related to Agency tasking in support of Resolute Support mission. DCOS CCD requested accordingly to NCIA GM to support on the CIS Mission Support Plan - Services Agreement between JFCBS and NCIA concerning the provision of CIS Services for Resolute Support mission under Ref. SHAPE SH/CCD J6/319/15-311087, dated 30 September 2015. The purpose was not to develop a “SLA” for operations without the flexibility required for a constantly evolitional operational context. The purpose was to set the framework principles that properly govern the relations between clients and the service provider.

29. *DCOS CCD approved this initiative, because this MSP - SA was more flexible than a SLA for static HQs whilst giving an adapted frame for the financial and legal management. NCIA did not to agree on the proposed MSA – SA however it proposes an alternative framework type agreement to work in the future. NCIS GM letter response has been provided under Ref. NCIA/DM/2016/02028, dated 05 February 2016.*

30. *Response is that the proposed ACO document is not best suited to satisfy NCIA’s responsibilities concerning the provision of CIS services for Resolute Support mission.*

31. *A revised document in the form of a Letter of Acceptance (LOA) was further elaborated by NCIA. The document was received on July 2016 and is under ACO revision.*

(7) 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

32. *This is an outstanding issue and an area of major concern. The quality of the information received is improving and ACO will continue to work in coordination with the NATO agencies to make sure that information provided is timely and accurate.*



ALLIED COMMAND OPERATIONS CONSOLIDATED FINANCIAL STATEMENTS 2015



ACO Consolidated Financial Statements 2015

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| Acronyms | |

ACO Consolidated Financial Statements 2015

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Allied Command Operations

Executive Summary

Introduction

1. The Allied Command Operations' (ACO) mission 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.
2. 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.
3. ACO's principal headquarters, the Supreme Headquarters Allied Powers Europe (SHAPE), is located in Casteau, Belgium. The ACO organization includes two Allied Joint Force Commands (JFCs) located in Brunssum, the Netherlands and Naples, Italy. The JFCs currently provide theatre oversight and assistance in the Balkans (Sarajevo, Bosnia Herzegovina; Pristina, Kosovo) and Afghanistan. There are three ACO single service commands: Allied Land Command in Izmir, Turkey; Allied Maritime Command in Northwood, United Kingdom; and Allied Air Command in Ramstein, Germany. The NATO Communications and Information Systems Group (NCISG) is located in Casteau, Belgium and includes three subordinate NATO Signal Battalions located in Wesel, Germany; Grazzanise, Italy; and Bydgoszcz, Poland.
4. There are two NATO Force Structure units with organizational and financial reporting requirements to ACO include the NATO Airborne Early Warning and Control Force (NAEW & CF), and the NATO Alliance Ground Surveillance Force (NAGSF). The NAEW & CF E-3A aircraft are a key element of the Alliance's early warning capability, providing airborne surveillance, warning and control capability over large distances and at low altitude. The NAEW & CF implemented its new force structure on 01 November 2015, with the Force Command Headquarters relocating from SHAPE, Belgium, to the NATO Air Base, Geilenkirchen, Germany. The restructuring included a reduction in the number of wings and squadrons, with the deactivation of the Information Technology Wing, the Training Wing, the Aircraft Maintenance Squadron, the Electronic Maintenance Squadron and Flying Squadron 3 as of 01 November 2015. The Base Support Wing was reactivated and will be, together with the Operation Wing and the Logistics Wing, the backbone of the Control Force operational structure.
5. The NAGSF core capabilities enable the Alliance to perform persistent surveillance over wide areas from High-Altitude Long-Endurance (HALE) aircraft, operating at considerable stand-off distances and in any weather or light conditions. Using advanced radar sensors, these systems will continuously detect and track moving objects within specified operational areas and will provide radar imagery of areas of interest and stationary objects. The NAGSF main operating base is located at Sigonella Air Base, Italy, which serves multiple purposes as a NATO Joint Intelligence, Surveillance and Reconnaissance (JISR) deployment base, and data exploitation and training centre.

Role of ACO

6. ACO's mission is supported by the ACO Strategic Management Plan (ASMP) 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.

7. The ASMP includes 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 and include:

- a. Core tasks: Collective Defence, Crisis Management and Cooperative Security.
- b. Permanent tasks: Strategic Awareness Deterrence; Visible Assurance; Air and Missile Defence; Cyber Defence; Chemical, Biological, Radiological and Nuclear (CBRN) Defence; and Advanced Planning.
- a. Transition to NATO Command Structure (NCS) Full Operational Capability (FOC): ACO Operational Headquarters are now manned, trained and equipped to undertake all missions defined in the Military Committee FOC Criteria. The transition also incorporated mandates from the 2014 Wales Summit, particularly the implementation of the Readiness Action Plan (RAP) and the resultant assurance and adaptation measures within ACO, which are still in progress.

2015 Highlights

8. 2015 marked the first year of the post International Security Assistance Forces mission in Afghanistan, as it transitioned to the Resolute Support Mission effective 01 January 2015. Key to this effort was the transfer of base operating and support functions from NATO to specified Framework Nations and established operating bases. ACO coordinated the required approvals through the NATO Resource Boards and Finance Committees for NATO operational support areas eligible for NATO Common Funding and further negotiated the necessary support agreements between ACO, the respective Framework Nations, and, as required, with NATO Agencies. Planning efforts continued for post Resolute Support Mission operations, and NATO member and partner nations and Allies continue to support the long-term financial sustainment of the Afghan National Army (ANA) via the NATO-ANA Trust Fund, which is financially administered by SHAPE.

9. ACO reached FOC for the implementation of its Enterprise Resource Planning system with the integration of the Financial Services (FinS) system into the NAEW & CF. However, the full integration of automated asset accounting and reporting into FinS will not be achieved until the implementation of the NATO-wide Logistics Functional Services (LOGFS) system, currently scheduled for 2018. Until such time, ACO will continue to coordinate with the NATO Agencies to mitigate risks and ensure timely and accurate reporting of NATO common funded assets.

ACO Military Budget

10. ACO managed approximately €905 Million in allocated NATO common funding within the annual 2015 Military Budget, as well as providing oversight for NATO Security and Investment Programmes (NSIP) funds, Nation Borne Costs (NBC), Trust Funds, and Morale and Welfare Activity (MWA) Funds.

11. The initial 2015 annual funding allocated to the Military Budget amounted to €901 Million, reflecting a decrease of €208 Million over 2014. The final budgets in the ACO budget group [NATO Command Structure Entities and Programmes (NCSEP), Allied Operations and Missions (AOM), NAEW & CF, and NAGSF] were, on average, committed at a rate of 99.31% (including expenditures, regular and special carry forwards). The special carry forward of 2014 and 2015 credits authorised by the North Atlantic Council (NAC) amounted to €100.3 Million for the entire ACO budget group.

Policies

12. The approval of the new NATO Financial Regulations (NFRs) effective 01 May 2015 marked the first major revision of NATO financial policies in over 30 years. The associated revisions to the Financial Rules and Procedures (FRP) were placed into effect on 01 January 2016, and any necessary policy revisions will be captured in subsequent annual financial statements. The revised NFRs and FRPs capture, among others, the new NATO Command Structure, Agency Reform initiatives, the adoption of International Public Sector Accounting Standards (IPSAS), the introduction of the NATO Accounting Framework (NAF), and address the demands by the Nations for transparency and strengthened accountability for sound financial management.

13. Accordingly, ACO has undertaken compliance efforts in several notable areas. The ACO Audit Advisory Panel (AAP) was established as a means of providing oversight for Internal Control systems, governing the annual ACO Internal Audit Plan and associated functions, and monitoring the results and corresponding corrective measures for Internal and External audits conducted throughout ACO. Risk Management functions were bolstered to encompass strategic objectives outlined in the ASMP, as well as the implementation of an ACO Financial Risk Management program. The Supreme Commander and ACO Financial Controller have embraced their responsibility and accountability functions prescribed in Article 3.1 of the NFRs, through their joint signing of the annual Statement of Internal Controls and the Annual Financial Statements.

14. The revised NFRs have also condensed the timelines for annual financial reporting by one month, and now require NATO bodies to submit annual financial statements by 31 March of the following year. It should also be noted that the recruitment and term limit policies for NATO Financial Controllers has been modified to allow for open recruitment and selection of Financial Controllers from all member Nations, as well to limit the period of appointment to two, 3-year terms only.

15. ACO Directive 80-102 was issued in November 2015, in order to provide the necessary guidance and instruction for the management and disposition of NATO Funded Equipment and Infrastructure (NFE/NFI) in preparation for an eventual transition to a post-Resolute Support NATO presence in Afghanistan. Transition planning efforts must include the final disposition of NATO and Partner Troop Contributing Nations (TCNs) capabilities and resources, including contractors, not required for the post Resolute Support NATO presence. In addition to the redeployment of capabilities and resources to national peacetime locations, NATO and Partner TCNs must also coordinate the proper disposal of remaining equipment to ensure optimisation of resources, facilities and infrastructure, with due respect for the people and the environment of Afghanistan by leaving sites in a clean and safe condition including the proper disposal of any hazards and waste generated as a result of NATO military operations.

ACO Relations with NATO Agencies

16. ACO has continued to work with the NATO Support and Procurement Agency (NSPA) and NATO Communications and Information Agency (NCIA) throughout 2015 to implement the necessary agreements and contractual arrangements resulting from the new NATO Command Structure and Agency Reform initiatives.

17. A formal Memorandum of Agreement (MOA) with NSPA, which defines the Agency service provider responsibilities and financial data reporting requirements, was signed in 2015. The MOA is supplemented by individual Logistics Support Arrangements (LSA) for each major programme, which is intended to resolve a systemic problem in obtaining relevant and reliable financial data from NSPA. Existing LSAs include the provision of Integrated Logistics Support Services (ILSS) for the Resolute Support Mission, and the provision of support and maintenance for the Deployable non-CIS Capability Packages. A LSA for the provision of contractor integrator capability was in progress in 2015 and is awaiting final approval by the NATO Budget Committee at the time of this report. ACO and NSPA have also committed resources towards the development of key quality indicators and key performance indicators as part of the customer funded relationship between the two organizations. Also, starting in 2015, the NSPA Director of Finance provided an official financial certification of the reliability of the financial data and controls executed by the service provider, which allows ACO to properly assess the control criteria and reliability of financial data for the services provided by NSPA. This is an on-going process where ACO will continue to invest efforts to guarantee improvements on the levels of quality control for services provided.

18. 2015 proved successful in finalising the standard Service Level Agreements (SLA) with NCIA, which serve to provide consistent Communication and Information Systems (CIS) service funding and control mechanisms throughout ACO. However, the more complex SLAs related to NCISG and its NATO Signal Battalions deployability, and NCIA support to ACO operations and missions, will likely require hybrid solutions due to NCIA's new Property Accounting structure, and are still in development. The Hand Over/Take Over of Resolute Support CIS NFE was finalized in August 2015, thus completing the final ownership transfer of CIS assets from ACO to NCIA, as per the 2012 NAC mandate.

IBAN Observations on Previous ACO Financial Statements

19. ACO has maintained a positive trend of improving the accuracy and reliability of financial data reporting, with the most recent 2014 IBAN audit resulting in 4 observations, 2 of which led to qualification of the 2014 ACO financial statements. In comparison, the 2013 IBAN audit resulted in 9 observations, but the same 2 observations related to Property, Plant and Equipment (PP&E) also resulted in a qualified audit opinion and continue to present challenges in achieving the goal of an unqualified opinion on subsequent financial statements.

20. With the NAC mandate for full IPSAS implementation and the subsequent 2013 approval of the NAF, ACO has made continuous progress in developing comprehensive property accounting records in order to address PP&E observations. The success of this endeavour will require continued cooperation with NSPA, NCIA and other third parties, as well as the implementation of best practises within theatres of operation. However, the disparity between the various NATO reporting and inventory management systems prevents proper consolidation and centralisation of information, including those for financial accounting, inventory and reporting, and highlights the need to better align the various processes, systems and policies.

21. With regard to previous years' audits, 7 observations remain open, with 2 partially settled and 5 outstanding. ACO has committed to resolving the outstanding observations throughout

2015; however some issues reflect structural or cross organisational challenges, which are outside the remit of ACO and require collaboration with other NATO entities. A recurring observation related to the reconciliation of United States System Programme Office and Foreign Military Sales assets remains unsettled despite the continued efforts by NATO bodies and the United States authorities to provide detailed and thorough information. This is a systemic issue which has been addressed by the Resource Policy and Planning Board and the Head of Financial Reporting Policies, and is beyond ACO's span of control to correct.

Responsibility

22. The attached, unaudited fiscal year 2015 ACO consolidated financial statements for the period starting 01 January 2015 and ending 31 December 2015 have been prepared in accordance with the NFRs, NAF and IPSAS standards. In accordance with NFR Article 3.2, they are jointly signed by the ACO Strategic Commander and the ACO Financial Controller, conform to the responsibility and accountability principles prescribed in NFR Article 3.1, and are submitted to the IBAN in accordance with NFR Article 35.

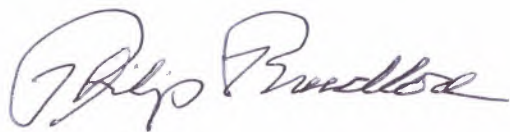
23. In preparing these accounts, ACO has:

- a. Observed the relevant accounting and disclosure requirements, and applied suitable accounting policies on a consistent basis;
- b. Made judgements and estimates on a reasonable basis;
- c. Stated whether applicable accounting standards approved by the NAC have been followed and disclosed, and explained any material departures; and
- d. Prepared the accounts on a going concern basis.

24. We hereby certify that to the best of our knowledge, we 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 2015. We are confident that the revised format adopted for the 2015 ACO Financial Statements, as recommended by the Resource Policy and Planning Board and Head of Financial Reporting Policy for all NATO entities, will facilitate the readability of the financial data and enhance financial transparency and accountability in accordance with the requests of the Nations during the Wales Summit.



Mr Christophe Rappe
Financial Controller
Allied Command Operations



Philip M. Breedlove
General, U.S. Air Force
Supreme Allied Commander Europe

ACO Consolidated Financial Statements 2015

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STATEMENT OF INTERNAL CONTROL

Scope of Responsibility

1. As Supreme Allied Commander Europe, I am responsible and accountable for maintaining a sound system of internal control that supports the achievement of ACO's goals, objectives, and priority of efforts and resources. These are detailed in the ACO Strategic Management Plan (ASMP), which establishes an objective, evidence-based management system to determine ACO's capacity and ability to undertake its current and future functions and activities, as well as align activities, track organizational progress and manage risk.
2. As ACO Financial Controller, I have responsibility for safeguarding the Nations' common funds and assets that have been entrusted to ACO, in accordance with the responsibilities assigned to me in the NATO Financial Regulations (NFR).

Purpose of the System of Internal Control

3. At the organisational level, Internal Control is broadly defined as a process carried out by the entity's management and other personnel in order to minimize risks and to provide reasonable assurance that the objectives of the organisation are achieved, specifically with regards to the efficiency and effectiveness of operations; accuracy and reliability of financial reporting; and compliance with laws and regulations. Internal Control is designed to manage, rather than to eliminate risk, and therefore it can only provide reasonable and not absolute assurance of effectiveness.
4. ACO's Internal Control system is an on-going process designed, within a risk management framework, to identify the principal tasks necessary for achieving the organisation's aims and objectives, to evaluate the nature and extent of those risks, and to manage them efficiently, effectively and economically.

Capacity to Handle Risk

5. The Command's ability to respond to the demands of a complex and resource constrained strategic environment is paramount. The agility required to realign priority of efforts and resources relies on fundamental knowledge of the operating environment, clear understanding of objectives, and proper risk management and performance management in key areas. As such, risk and performance management are at the core of ACO's strategic management functions. ACO Strategic Risk Management is conducted at all levels of the organisation, requiring stakeholders to identify, assess and respond to risks and opportunities within their area of responsibility.
6. Nevertheless, some risks and issues with significant operational impact remain beyond ACO's capacity to handle, and are usually dependent upon the Nations in the areas of manning, capability delivery, and common funded resources. For example, the short-term goal of 100% ACO manning is still pending provision by the Nations, and the implementation of the NATO Communications and Information Systems Group (NCISG) is delayed due to deferred delivery of the requisite deployable capabilities and manning, and requirements are taken at risk owing to insufficient resources. Such deficiencies and the associated risks and issues will continue to be monitored through our normal procedures of the ASMP, and reported to the Military Committee.

7. Within the ACO Strategic Risk Management construct, the ACO Financial Controller manages risk under a Financial Risk Management framework, which was introduced in 2015 for initial implementation throughout the ACO financial community in 2016. Identified risks that are beyond the remit of the ACO Financial Controller, will be reported through the ASMP and further to the appropriate NATO authority as necessary.

Risk and Control Framework

8. The ACO Risk Management Framework (ARMF), contained within Annex D of the ASMP, describes the overall risk management structure, roles and responsibilities, objectives and activities required to successfully conduct Strategic Risk Management. The aim of ARMF is to ensure a directed, deliberate approach to risk management, through the acknowledgement of ACO's risk environment and the identification, assessment, prioritisation and effective, efficient management of risks impacting the achievement of objectives.

9. ACO has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve the Command's objectives. Lines of responsibility and delegations of authority are documented, and key elements of the internal control system include, but are not limited to:

- a. NATO Code of Conduct;
- b. NATO Financial Regulations (NFR) and Financial Rules and Procedures (FRP);
- c. NATO Civilian Personnel Regulations;
- d. 2015-2020 Military Budget Medium Term Financial Plan;
- e. Annual Military Budget Guidance;
- f. ACO Strategic Management Plan;
- g. ACO Risk Management Framework;
- h. Bi-SC Directives, ACO Directives and standard operating procedures and policies;
- i. An ACO Internal Audit function and an associated ACO Audit Advisory Panel;
- j. A clear delineation of responsibilities in line with the NFRs as well as an effective delegation system compliant with the FRPs; and
- k. Proper and effective segregation of duties between Budget Officers, Authorising Officers, Accounting Officers and Treasurer, and between requirement holders and Purchasing and Contracting Officers.

10. The ACO centralised Financial System (FinS) provides a technical platform for improved business processes, which enhances the accuracy and reliability of financial data reporting, while also serving as a financial internal control framework. The latter includes control procedures designed to ensure complete and accurate accounting for financial transactions and to limit potential exposure to fraud or loss of assets. These procedures are relevant across

ACO and provide for incremental approvals and monitoring at increasingly higher levels of management.

Review of Effectiveness

11. The current ASMP format was established in 2014 as a mechanism to track ACO's progress in achieving Full Operating Capability (FOC). While the initial risks and issues reported from all ACO Headquarters were against progress to FOC, the scope was broadened in 2015 to include all strategic-level risks. The current Risk & Issue Database (Risk Register) is available ACO-wide, and the revised ARMF was included in the new 2016-2020 ASMP, which was approved in 2015. The ARMF is intended to operate on a continuum by revising or creating new objectives, and the associated risks and issues, as they arise in ACO's dynamic strategic environment.

12. The ACO Internal Audit function is designed to provide management with reasonable assurances regarding risk exposures and the effectiveness of internal controls in managing risk within ACO's governance, operations and information systems. The annual Internal Audit Plan is developed in accordance with the criteria set forth in the NFRs, is further supplemented by ACO-centric risks and issues from the ARMF, and is approved by the ACO Audit Advisory Panel (AAP). ACO Internal Audit findings, recommendations, and corrective actions are maintained in a centralized database and an annual Internal Audit Report is also presented to the AAP for review.

13. The ACO AAP was established in 2015 with a charge to provide ACO strategic leadership oversight to ACO Internal Audit functions, ACO-related IBAN audit observations, and to monitor the effectiveness of existing internal control systems and proper implementation of necessary corrective actions for identified deficiencies.

14. Past Internal Control deficiencies in the area of procurement, particularly regarding contract support to operations, have been addressed via the effective implementation of corrective measures as recommended by the ACO Board of Inquiry Implementation Board:

- a. Establishment of Solicitation Review Boards;
- b. Reinforcement of the Contract Award Committees;
- c. Creation of an ACO Contract Information Hub;
- d. ACO Procurement Staff Assistance Visits conducted by the ACO Head of Contracts; and
- e. Creation of a NATO accredited ACO Contingency Contracting Course.

15. ACO financial operations undergo periodic strategic reviews, which include consideration of long-term financial projections and the evaluation of possible alternatives. The consolidated ACO annual budget and three-year strategic plans are actively monitored, with performance objectives reviewed internally by the ACO Management Board, and externally at various NATO oversight Boards and Committees.

16. The reliability of ACO's financial reporting is dependent upon sound internal control systems to include an effective Enterprise Resource Planning (ERP) financial system. The ACO FinS system utilizes a corporate model for centralised financial transactions and reporting,

which have enhanced internal business processes and improved the accuracy and reliability of financial data.

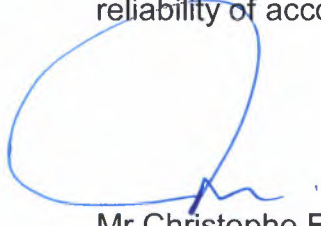
Areas of Improvement or Concern

17. 2015 was marked by a simultaneous increase in ACO operational planning efforts and a decrease in resource allocations for the 2016 ACO budget. The global strategic environment will continue to influence NATO's political and military objectives, just as it will influence the member Nations' individual resource capabilities. As such, ACO must continue to focus on the efficient, effective and economic management of available resources.

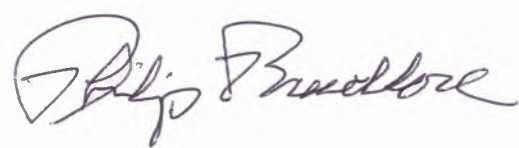
18. ACO continues to face challenges with third party asset management and reporting, particularly with organizations that utilize disparate Information Technology (IT) systems that are not compatible with FinS for transactional reporting. The NATO Logistics Functional Services (LOGFS) IT system will ultimately provide a common reporting platform to resolve this issue, but is not scheduled for implementation until 2018. In the interim, ACO in conjunction with NATO Agencies and assisted by the Head of Financial Reporting Policy and the International Board of Auditors for NATO (IBAN), will continue to identify mitigation measures necessary to resolve property accounting discrepancies. ACO will also continue to participate in the development and implementation of the LOGFS system in order to ensure the final capability enables full reporting compliance for ACO assets. Enduring efforts are also being applied towards the improved accountability of assets in ACO theatres of operation, specifically within the Resolute Support Mission. Proper asset management and reporting in the Resolute Support Mission is an on-going process and requires continuous oversight and monitoring of asset registers due to the high rotation of staff in key accountability positions, as well as a very dynamic operational environment and high rate of asset turnover.

19. The ASMP, ARMF and Financial Risk Management initiative will all require continuous monitoring and refinement in order to ensure the efficient and effective use of scarce resources and the achievement of ACO's strategic objectives. In addition, an ACO Internal Control Framework Directive is in development for implementation by the end of 2016. We are confident that we can optimize our existing business processes, and are committed to instilling a strong risk and performance management culture throughout ACO.

20. We will therefore, continue to ensure that the necessary internal management functions are in place to support effective internal control and provide reasonable assurance that assets are properly safeguarded; that established managerial and command policies are adhered to; that the Command operates in an efficient manner; that a system of internal financial and budgetary controls are in place, which embrace all aspects of financial management for appropriated and non-appropriated funds within our jurisdiction; and that the accuracy and reliability of accounting data and records are verified.



Mr Christophe Rappe
Financial Controller
Allied Command Operations



Philip M. Breedlove
General, U.S. Air Force
Supreme Allied Commander Europe

ACO Consolidated Financial Statements 2015

STATEMENT 1: ACO CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2015
in EUR

Notes

2015

Restated
2014 (II)

Reclassified
2014 (III)

ASSETS**Current Assets**

| | | | | |
|---------------------------|-----|-------------|-------------|-------------|
| Cash and Cash Equivalents | B.2 | 873,029,369 | 860,977,108 | 860,977,108 |
| Short Term Investments | B.3 | 230,000,000 | 80,000,000 | 80,000,000 |
| Receivables | B.4 | 135,150,946 | 139,170,396 | 139,170,396 |
| Prepayments | B.5 | 29,365,867 | 22,316,524 | 18,678,359 |
| Other Current Assets | B.6 | 21,560,979 | 8,447,457 | 23,827,457 |
| Inventories | B.7 | 27,721,714 | 27,806,223 | 26,069,445 |

Total Current Assets

1,316,828,875

1,138,717,708

1,148,722,764

Non-current Assets

| | | | | |
|-----------------------------|-----|-------------|------------|------------|
| Receivables | | 1,777 | 1,777 | 1,777 |
| Property, Plant & Equipment | B.8 | 109,469,300 | 83,629,502 | 72,619,400 |
| Other Non-current Assets | B.9 | 4,208,214 | 3,352,885 | 3,352,885 |

Total Non-current Assets

113,679,291

86,984,164

75,974,062

Total ASSETS

1,430,508,166

1,225,701,872

1,224,696,826

LIABILITIES**Current Liabilities**

| | | | | |
|---------------------------|------|---------------|---------------|---------------|
| Payables | B.10 | (248,207,693) | (236,726,685) | (236,751,574) |
| Deferred Revenue | B.11 | (734,964,984) | (538,986,438) | (548,966,606) |
| Advances | B.12 | (309,019,416) | (338,738,659) | (338,738,659) |
| Short Term Provisions | B.13 | (24,638,559) | (24,267,703) | (24,267,703) |
| Other Current Liabilities | B.14 | (31,436) | - | - |

Total Current Liabilities

(1,316,862,088)

(1,138,719,485)

(1,148,724,542)

Non-current Liabilities

| | | | | |
|-------------------------------|------|---------------|--------------|--------------|
| Long Term Provisions | B.15 | (4,208,214) | (3,352,885) | (3,352,885) |
| Non-current Deferred Revenue | B.16 | (109,353,193) | (83,629,502) | (72,619,400) |
| Other Non-current Liabilities | B.17 | (84,670) | - | - |

Total Non-current Liabilities

(113,646,078)

(86,982,387)

(75,972,285)

Total LIABILITIES

(1,430,508,166)

(1,225,701,872)

(1,224,696,827)

NET ASSETS

C.22

-

-

-

(I) 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.

(II) Restatement mainly concerns inventory and PP&E. More information can be found in the relevant note disclosure

(III) Reclassified based on the recommended common layout structure. Ref: AC/335N(2015)-0088

(IV) Not all balances provided are reported on accrual basis. More information can be found in the Note B5. Ref. ACO Accounting Policy, Note A.

ACO Consolidated Financial Statements 2015

STATEMENT 2: ACO CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE*For the year ended 31 December 2015
in EUR**Notes***2015***Restated
2014 (II)**Reclassified
2014 (III)***Revenue**

| | | | |
|-------------------------------------|---------------|-----------------|-----------------|
| Revenue | (891,665,389) | (1,089,448,104) | (1,075,811,516) |
| Other Revenue | (3,559,099) | (3,423,290) | (3,180,516) |
| Financial Revenue | (10,055,241) | (7,397,069) | (7,397,069) |
| Total to be returned to the Nations | 9,947,565 | 10,015,535 | 9,772,761 |

Total Revenue

C.20

(895,332,164)**(1,090,252,927)****(1,076,616,340)****Expenses**

| | | | |
|-----------------------------------|-------------|-------------|-------------|
| Personnel | 191,734,179 | 213,475,073 | 213,475,073 |
| Contractual Supplies and Services | 623,553,098 | 820,365,622 | 821,299,527 |
| Foreign Military Sales (FMS) (IV) | 36,228,169 | - | - |
| Depreciation and Amortization | 38,982,871 | 39,407,585 | 24,837,094 |
| Provisions | 1,168,363 | 16,197,351 | 16,197,351 |
| Other Expenses | 15,985 | 10,027 | 10,027 |
| Financial Costs | 3,649,499 | 797,268 | 797,268 |

Total Expenses

C.21

895,332,164**1,090,252,927****1,076,616,340****Result of the year**

-

-

-

(I) 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.

(II) Restatement mainly concerns inventory and PP&E. More information can be found in the relevant note disclosure

(III) Reclassified based on the recommended common layout structure. Ref: AC/335N(2015)-0088

(IV) The amount for FMS is on cash rather than accrual basis. Ref: ACO Accounting Policy, Note A.

ACO Consolidated Financial Statements 2015

STATEMENT 3: ACO CONSOLIDATED STATEMENT OF CASH FLOWS

| <i>As at 31 December 2015 in EUR</i> | <i>2015</i> | <i>Restated 2014 (II)</i> | <i>Reclassified 2014 (III)</i> |
|--|-------------------|-------------------------------|------------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Result of the year | - | - | - |
| Non-cash movements | | | |
| Depreciation | 38,982,871 | 39,407,585 | 24,837,094 |
| Increase (Decrease) in payables | 11,481,011 | 1,097,466 | 1,122,358 |
| Increase (Decrease) in other current liabilities | 166,830,156 | 36,256,280 | 46,236,445 |
| Increase (Decrease) in other non-current liabilities | 855,329 | 3,352,885 | 3,352,885 |
| Increase (Decrease) in deferred revenue for PP&E | 25,723,691 | 51,699,829 | 40,689,727 |
| (IV) Property, plant and equipment, received from NSIP | (54,355,884) | (81,139,150) | (55,206,785) |
| (Increase) Decrease in other current assets | (20,362,865) | 44,229,826 | 32,487,991 |
| (Increase) Decrease in other non-current assets | (855,329) | (3,354,662) | (3,354,662) |
| (Increase) Decrease in receivables | 4,019,450 | (52,797,375) | (52,797,375) |
| (Increase) Decrease in Inventories | 84,509 | (3,828,380) | (2,091,602) |
| Net cash flows from operating activities | 172,402,939 | 34,924,304 | 35,276,076 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment and WIP | (10,466,784) | (9,968,264) | (10,320,036) |
| Proceeds from sale of plant and equipment | - | - | - |
| Proceeds from sale of investments | - | - | - |
| Short term investment | (150,000,000) | (80,000,000) | (80,000,000) |
| Net cash flows from investing activities | (160,466,784) | (89,968,264) | (90,320,036) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from borrowings | 139,900 | - | - |
| Repayment of borrowings | (23,794) | - | - |
| Distribution/dividend to Nations | - | - | - |
| Net cash flows from financing activities | 116,106 | - | - |
| Change in cash flow | 12,052,261 | (55,043,960) | (55,043,960) |
| Cash and cash equivalents at beginning of period | 860,977,108 | 916,021,068 | 916,021,068 |
| Cash and cash equivalents at end of period | 873,029,369 | 860,977,108 | 860,977,108 |
| Net increase/(decrease) in cash and cash equivalents | 12,052,261 | (55,043,960) | (55,043,960) |

(I) 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.

(II) Restatement mainly concerns inventory and PP&E. More information can be found in the relevant note disclosure

(III) Reclassified based on the recommended common layout structure. Ref: AC/335N(2015)-0088

(IV) Other funding refers to assets funded through NSIP where other entities and SHAPE are acting as Host Nation. This did not require any cash outflow from ACO

ACO Consolidated Financial Statements 2015

STATEMENT 4: ACO CONSOLIDATED STATEMENT OF CHANGES IN NET EQUITY

| <i>For the year ended 31 December 2015</i> <i>in EUR</i> | <i>Notes</i> | <i>2015</i> | <i>Restated</i> <i>2014</i> | <i>Reclassified</i> <i>2014</i> |
|---|--------------|-------------|--------------------------------|------------------------------------|
| Equity at beginning of year | | - | - | - |
| Result of for the year | | - | - | - |
| <i>Net recognized revenue and expenses</i> <i>for the year</i> | | - | - | - |
| Equity at End of year | | - | - | - |

ACO Consolidated Financial Statements 2015

STATEMENT 5/1: ACO BC BUDGET EXECUTION REPORT

(Note H)

EUR

| | Initial budget | Transfers | BA2 | Transfers | BA3 | Transfers | Final Budget | Commitments | Expenses | Total spent | Carry-forward | Lapsed |
|--|--------------------|-----------------|--------------------|------------------|--------------------|------------------|--------------------|--------------------|--------------------|--------------------|--------------------|------------------|
| 2015 NCSEP at 28 | | | | | | | | | | | | |
| | 365,927,256 | 20,750 | 365,948,007 | 17,013 | 365,965,019 | 4,851,018 | 370,816,037 | 30,707,293 | 338,193,698 | 368,900,991 | 30,707,293 | 1,915,045 |
| Budget 101 SHAPE | 61,926,428 | (280,869) | 61,645,559 | 71,187 | 61,716,746 | - | 61,716,746 | 4,512,167 | 56,710,202 | 61,222,369 | 4,512,167 | 494,377 |
| Budget 103 JFC HQ BRUNSSUM | 23,768,575 | - | 23,768,575 | (658,645) | 23,109,930 | - | 23,109,930 | 348,724 | 22,232,616 | 22,581,340 | 348,724 | 528,590 |
| Budget 104 JFC HQ NAPLES | 28,635,265 | - | 28,635,265 | (200,000) | 28,435,265 | (1,134,000) | 27,301,265 | 816,309 | 26,480,225 | 27,296,535 | 816,309 | 4,730 |
| Budget 105 HQ AC RAMSTEIN | 17,660,235 | - | 17,660,235 | (50,000) | 17,610,235 | (526,219) | 17,084,016 | 975,225 | 15,740,422 | 16,715,647 | 975,225 | 368,369 |
| Budget 111 HQ LC IZMIR | 11,880,982 | 306,000 | 12,186,982 | 83,000 | 12,269,982 | (3,000) | 12,266,982 | 1,126,217 | 11,116,775 | 12,242,992 | 1,126,217 | 23,990 |
| Budget 118 HQ MC NORTHWOOD | 7,879,449 | (4,381) | 7,875,068 | (175,000) | 7,700,068 | (8,910) | 7,691,157 | 420,331 | 7,270,826 | 7,691,157 | 420,331 | - |
| Budget 122 ACO TRANSITION BUDGET | 846,445 | - | 846,445 | - | 846,445 | 8,644,963 | 9,491,408 | 8,944,168 | 547,240 | 9,491,408 | 8,944,168 | - |
| Budget 131 DEPLOYABLE ASSETS | 10,643,086 | - | 10,643,086 | (224,086) | 10,419,000 | - | 10,419,000 | 1,386,750 | 9,029,245 | 10,415,995 | 1,386,750 | 3,005 |
| Budget 164 AIR DEFENCE (GROUND) | 28,992,785 | - | 28,992,785 | 1,664,987 | 30,657,772 | - | 30,657,771 | 9,871,756 | 20,759,809 | 30,631,566 | 9,871,756 | 26,206 |
| Budget 166 ACCS Support | 24,393,024 | - | 24,393,024 | (614,430) | 23,778,594 | - | 23,778,594 | 1,067,239 | 22,679,729 | 23,746,968 | 1,067,239 | 31,626 |
| Budget 177 NCCB | 122,779,925 | - | 122,779,925 | - | 122,779,925 | (604,231) | 122,175,694 | 1,054,197 | 120,783,244 | 121,837,441 | 1,054,197 | 338,253 |
| Budget 178 NATO CIS GROUP (NCISG) | 22,681,058 | - | 22,681,058 | - | 22,681,058 | (1,424,958) | 21,256,100 | 50,738 | 21,175,130 | 21,225,867 | 50,738 | 30,233 |
| Budget 502 PFP ACO | 3,016,000 | - | 3,016,000 | 50,000 | 3,066,000 | (50,000) | 3,016,000 | 110,767 | 2,857,641 | 2,968,408 | 110,767 | 47,592 |
| Budget 506 MEDITERRANEAN DIALOGUE (ACO) | 800,000 | - | 800,000 | 70,000 | 870,000 | (30,000) | 840,000 | 22,704 | 799,221 | 821,925 | 22,704 | 18,075 |
| Budget 512 ICI Activity (ACO) | 24,000 | - | 24,000 | - | 24,000 | (12,626) | 11,374 | - | 11,374 | 11,374 | - | - |
| 2015 AGS at 26 | | | | | | | | | | | | |
| | 2,923,528 | - | 2,923,528 | - | 2,923,528 | - | 2,923,528 | 51,045 | 1,066,832 | 1,117,877 | 51,045 | 1,805,651 |
| Budget 167 AGS | 2,923,528 | - | 2,923,528 | - | 2,923,528 | - | 2,923,528 | 51,045 | 1,066,832 | 1,117,877 | 51,045 | 1,805,651 |
| 2015 AGS at 28 | | | | | | | | | | | | |
| | 875,000 | - | 875,000 | - | 875,000 | (457,286) | 417,714 | 9,374 | 408,059 | 417,433 | 9,374 | 281 |
| Budget 168 AGS CIS | 875,000 | - | 875,000 | - | 875,000 | (457,286) | 417,714 | 9,374 | 408,059 | 417,433 | 9,374 | 281 |
| 2015 NAEW at 16 | | | | | | | | | | | | |
| | 254,967,203 | - | 254,967,203 | - | 254,967,203 | - | 254,967,203 | 33,293,964 | 221,464,711 | 254,758,674 | 33,293,964 | 208,529 |
| Budget 162 NAEW&CF | 252,567,203 | - | 252,567,203 | - | 252,567,203 | - | 252,567,203 | 31,558,798 | 221,008,405 | 252,567,203 | 31,558,798 | - |
| Budget 123 NAEW Reorganisation | 2,400,000 | - | 2,400,000 | - | 2,400,000 | - | 2,400,000 | 1,735,165 | 456,306 | 2,191,471 | 1,735,165 | 208,529 |
| 2015 NAEW at 17 | | | | | | | | | | | | |
| | 1,432,797 | - | 1,432,797 | - | 1,432,797 | - | 1,432,797 | 24,432 | 1,219,700 | 1,244,132 | 24,432 | 188,665 |
| Budget 112 NAEW&C FC | 1,432,797 | - | 1,432,797 | - | 1,432,797 | - | 1,432,797 | 24,432 | 1,219,700 | 1,244,132 | 24,432 | 188,665 |
| 2015 AOM at 28 | | | | | | | | | | | | |
| | 274,998,463 | (91,840) | 274,906,623 | (335,600) | 274,571,023 | - | 274,571,023 | 49,991,225 | 222,446,188 | 272,437,414 | 49,991,225 | 2,133,609 |
| Budget 183 Balkans Operations | 23,778,057 | - | 23,778,057 | (263,000) | 23,515,057 | - | 23,515,057 | 3,912,080 | 17,947,735 | 21,859,815 | 3,912,080 | 1,655,242 |
| Budget 187 NATO Support to the African Union | 270,805 | 102,740 | 373,545 | - | 373,545 | - | 373,545 | 1,821 | 319,873 | 321,694 | 1,821 | 51,851 |
| Budget 189 Operation Active Endeavour | 373,480 | (112,655) | 260,825 | (58,080) | 202,745 | - | 202,745 | 56,322 | 137,837 | 194,159 | 56,322 | 8,586 |
| Budget 191 Operation Ocean Shield | 336,847 | (81,925) | 254,922 | (14,520) | 240,402 | - | 240,402 | 5,648 | 205,588 | 211,236 | 5,648 | 29,165 |
| Budget 194 RSM | 250,239,274 | - | 250,239,274 | - | 250,239,275 | - | 250,239,274 | 46,015,353 | 203,835,155 | 249,850,509 | 46,015,353 | 388,765 |
| Total | 901,124,247 | | 901,053,157 | | 900,734,571 | 4,393,732 | 905,128,301 | 114,077,333 | 784,799,188 | 898,876,522 | 114,077,333 | 6,251,780 |

EUR

| | Initial budget | Transfers | BA2 | Transfers | BA3 | Transfers | Final Budget | Commitments | Expenses | Total spent | Carry-forward | Lapsed |
|--|--------------------|-----------|--------------------|-----------|--------------------|------------------|--------------------|-------------------|-------------------|--------------------|-------------------|-------------------|
| 2014 NCSEP at 28 | | | | | | | | | | | | |
| | 26,162,365 | - | 26,162,365 | - | 26,162,365 | 755,000 | 26,917,365 | 6,396,290 | 19,534,576 | 25,930,866 | 6,396,290 | 986,499 |
| Budget 101 SHAPE | 6,746,452 | - | 6,746,452 | - | 6,746,452 | (99,883) | 6,646,569 | 738,374 | 5,908,195 | 6,646,569 | 738,374 | - |
| Budget 103 JFC HQ BRUNSSUM | 1,765,597 | - | 1,765,597 | - | 1,765,597 | (238,541) | 1,527,056 | - | 1,515,556 | 1,515,556 | - | 11,500 |
| Budget 104 JFC HQ NAPLES | 503,685 | - | 503,685 | - | 503,685 | (55,113) | 448,571 | 24,552 | 424,020 | 448,571 | 24,552 | - |
| Budget 105 HQ AC RAMSTEIN | 815,238 | - | 815,238 | - | 815,238 | (51,709) | 763,528 | 249,799 | 480,954 | 730,753 | 249,799 | 32,775 |
| Budget 111 HQ LC IZMIR | 481,053 | - | 481,053 | - | 481,053 | (102,644) | 378,409 | - | 376,309 | 376,309 | - | 2,100 |
| Budget 118 HQ MC NORTHWOOD | 549,987 | - | 549,987 | - | 549,987 | (12,414) | 537,573 | 20,000 | 517,573 | 537,573 | 20,000 | - |
| Budget 122 ACO TRANSITION BUDGET | 352,065 | - | 352,065 | - | 352,065 | 809,465 | 1,161,530 | 810,579 | 346,191 | 1,156,770 | 810,579 | 4,760 |
| Budget 131 DEPLOYABLE ASSETS | 440,581 | - | 440,581 | - | 440,581 | 744,000 | 1,184,581 | 25,754 | 807,581 | 833,334 | 25,754 | 351,247 |
| Budget 164 AIR DEFENCE (GROUND) | 9,504,517 | - | 9,504,517 | - | 9,504,517 | - | 9,504,517 | 2,411,678 | 6,629,278 | 9,040,955 | 2,411,678 | 463,562 |
| Budget 166 ACCS Support | 3,499,895 | - | 3,499,895 | - | 3,499,895 | - | 3,499,895 | 2,115,554 | 1,384,341 | 3,499,895 | 2,115,554 | - |
| Budget 177 NCCB | 678,000 | - | 678,000 | - | 678,000 | (402) | 677,598 | - | 677,598 | 677,598 | - | - |
| Budget 178 NATO CIS GROUP (NCISG) | 457,880 | - | 457,880 | - | 457,880 | (75,564) | 382,315 | - | 379,928 | 379,928 | - | 2,387 |
| Budget 502 PFP ACO | 255,727 | - | 255,727 | - | 255,727 | (147,189) | 108,538 | - | 19,644 | 19,644 | - | 88,894 |
| Budget 506 MEDITERRANEAN DIALOGUE (ACO) | 111,690 | - | 111,690 | - | 111,690 | (15,006) | 96,684 | - | 67,410 | 67,410 | - | 29,274 |
| 2014 AGS at 26 | | | | | | | | | | | | |
| | 18,646 | - | 18,646 | - | 18,646 | - | 18,646 | 7,521 | 9,507 | 17,028 | 7,521 | 1,618 |
| Budget 167 AGS | 18,646 | - | 18,646 | - | 18,646 | - | 18,646 | 7,521 | 9,507 | 17,028 | 7,521 | 1,618 |
| 2014 NAEW at 16 | | | | | | | | | | | | |
| | 43,322,917 | - | 43,322,917 | - | 43,322,917 | - | 43,322,917 | 6,800,692 | 36,253,699 | 43,054,390 | 6,800,692 | 268,527 |
| Budget 162 NAEW&CF | 43,322,917 | - | 43,322,917 | - | 43,322,917 | - | 43,322,917 | 6,800,692 | 36,253,699 | 43,054,390 | 6,800,692 | 268,527 |
| 2014 NAEW at 17 | | | | | | | | | | | | |
| | 39,647 | - | 39,647 | - | 39,647 | - | 39,647 | - | 39,452 | 39,452 | - | 195 |
| Budget 112 NAEW&C FC | 39,647 | - | 39,647 | - | 39,647 | - | 39,647 | - | 39,452 | 39,452 | - | 195 |
| 2014 NAEW at 26 | | | | | | | | | | | | |
| | - | - | - | - | - | 2,330,226 | 2,330,226 | 2,330,226 | - | 2,330,226 | 2,330,226 | - |
| Budget 161 NAEW&C Reassurance Measures | - | - | - | - | - | 2,330,226 | 2,330,226 | 2,330,226 | - | 2,330,226 | 2,330,226 | - |
| 2014 AOM at 28 | | | | | | | | | | | | |
| | 71,393,701 | - | 71,393,701 | - | 71,393,701 | - | 71,393,701 | 37,492,309 | 7,372,880 | 44,865,189 | 37,492,309 | 26,528,512 |
| Budget 183 Balkans Operations | 2,960,896 | - | 2,960,896 | - | 2,960,896 | - | 2,960,896 | 62,769 | 2,752,597 | 2,815,366 | 62,769 | 145,531 |
| Budget 185 ISAF | 68,305,735 | - | 68,305,735 | - | 68,305,735 | - | 68,305,735 | 37,370,555 | 4,556,765 | 41,927,320 | 37,370,555 | 26,378,414 |
| Budget 187 NATO Support to the African Union | 8,354 | - | 8,354 | - | 8,354 | - | 8,354 | 244 | 7,622 | 7,866 | 244 | 488 |
| Budget 189 Operation Active Endeavour | 106,830 | - | 106,830 | - | 106,830 | - | 106,830 | 54,774 | 48,516 | 103,290 | 54,774 | 3,540 |
| Budget 191 Operation Ocean Shield | 11,886 | - | 11,886 | - | 11,886 | - | 11,886 | 3,967 | 7,380 | 11,347 | 3,967 | 538 |
| Total | 140,937,276 | | 140,937,276 | | 140,937,276 | 3,085,226 | 144,022,502 | 53,027,037 | 63,210,113 | 116,237,150 | 53,027,037 | 27,785,352 |

EUR

| | Initial budget | Transfers | BA2 | Transfers | BA3 | Transfers | Final Budget | Commitments | Expenses | Total spent | Carry-forward | Lapsed |
|--|----------------------|-----------|----------------------|-----------|----------------------|--------------------|----------------------|--------------------|--------------------|----------------------|--------------------|-------------------|
| 2013 NCSEP at 28 | | | | | | | | | | | | |
| | 21,278,183 | - | 21,278,183 | - | 21,278,183 | (8,348,120) | 12,930,063 | 6,595,247 | 5,537,396 | 12,132,643 | 6,595,247 | 797,420 |
| Budget 101 SHAPE | 2,686,370 | - | 2,686,370 | - | 2,686,370 | (218,561) | 2,467,809 | - | 2,467,809 | 2,467,809 | - | - |
| Budget 103 JFC HQ BRUNSSUM | 790,943 | - | 790,943 | - | 790,943 | (353,471) | 437,472 | - | 419,779 | 419,779 | - | 17,693 |
| Budget 104 JFC HQ NAPLES | 300,931 | - | 300,931 | - | 300,931 | (56,092) | 244,839 | - | 159,694 | 159,694 | - | 85,145 |
| Budget 105 HQ AC RAMSTEIN | 18,660 | - | 18,660 | - | 18,660 | (8,162) | 10,498 | - | 1,857 | 1,857 | - | 8,640 |
| Budget 118 HQ MC NORTHWOOD | 87,346 | - | 87,346 | - | 87,346 | (5,956) | 81,390 | - | 81,216 | 81,216 | - | 174 |
| Budget 122 ACO TRANSITION BUDGET | 10,184,883 | - | 10,184,883 | - | 10,184,883 | (3,404,753) | 6,780,131 | 6,595,247 | 159,460 | 6,754,707 | 6,595,247 | 25,424 |
| Budget 131 DEPLOYABLE ASSETS | 110,960 | - | 110,960 | - | 110,960 | (34,558) | 76,402 | - | 76,402 | 76,402 | - | - |
| Budget 164 AIR DEFENCE (GROUND) | 1,540,134 | - | 1,540,134 | - | 1,540,134 | - | 1,540,134 | - | 1,129,978 | 1,129,978 | - | 410,155 |
| Budget 166 ACCS Support | 27,552 | - | 27,552 | - | 27,552 | - | 27,552 | - | 13,869 | 13,869 | - | 13,683 |
| Budget 177 NCCB | 5,370,283 | - | 5,370,283 | - | 5,370,283 | (4,170,257) | 1,200,026 | - | 979,804 | 979,804 | - | 220,222 |
| Budget 178 NATO CIS GROUP (NCISG) | 87,608 | - | 87,608 | - | 87,608 | (68,001) | 19,607 | - | 19,607 | 19,607 | - | - |
| Budget 502 PFP ACO | 47,776 | - | 47,776 | - | 47,776 | (26,850) | 20,926 | - | 4,647 | 4,647 | - | 16,278 |
| Budget 506 MEDITERRANEAN DIALOGUE (ACO) | 24,737 | - | 24,737 | - | 24,737 | (1,458) | 23,278 | - | 23,272 | 23,272 | - | 6 |
| 2013 NAEW at 16 | | | | | | | | | | | | |
| | 13,656,679 | - | 13,656,679 | - | 13,656,679 | - | 13,656,679 | - | 13,656,679 | 13,656,679 | - | - |
| Budget 162 NAEW&CF | 13,656,679 | - | 13,656,679 | - | 13,656,679 | - | 13,656,679 | - | 13,656,679 | 13,656,679 | - | - |
| 2013 AOM at 28 | | | | | | | | | | | | |
| | 277,235 | - | 277,235 | - | 277,235 | - | 277,235 | - | 103,091 | 103,091 | - | 174,144 |
| Budget 183 Balkans Operations | 192,486 | - | 192,486 | - | 192,486 | - | 192,486 | - | 67,274 | 67,274 | - | 125,211 |
| Budget 185 ISAF | 77,344 | - | 77,344 | - | 77,344 | - | 77,344 | - | 35,817 | 35,817 | - | 41,528 |
| Budget 187 NATO Support to the African Union | 4,684 | - | 4,684 | - | 4,684 | - | 4,684 | - | - | - | - | 4,684 |
| Budget 189 Operation Active Endeavour | 2,721 | - | 2,721 | - | 2,721 | - | 2,721 | - | - | - | - | 2,721 |
| Total | 35,212,096 | | 35,212,096 | | 35,212,096 | (8,348,120) | 26,863,977 | 6,595,247 | 19,297,166 | 25,892,413 | 6,595,247 | 971,564 |
| Total for all MB Cost Shares, Years and Budgets | 1,077,273,620 | - | 1,077,202,530 | - | 1,076,883,943 | (869,162) | 1,076,014,781 | 173,699,618 | 867,306,467 | 1,041,006,085 | 173,699,618 | 35,008,695 |

ACO Consolidated Financial Statements 2015
ACO BC CONTRACT AUTHORITIES

EUR

| | <i>Initial budget</i> | <i>Transfers</i> | <i>BA2</i> | <i>Transfers</i> | <i>BA3</i> | <i>Transfers</i> | <i>Final Budget</i> | <i>Net Commitment</i> |
|--|-----------------------|-------------------|--------------------|--------------------|--------------------|-------------------|---------------------|-----------------------|
| NCSEP at 28 | | | | | | | | |
| | 64,594,607 | 82,222,295 | 146,816,902 | 47,858,507 | 194,675,409 | 20,973,342 | 215,648,752 | 163,186,718 |
| 101 SHAPE | 8,549,032 | 13,315,902 | 21,864,934 | - | 21,864,934 | - | 21,864,934 | 1,154,034 |
| 103 JFC HQ BRUNSSUM | 1,703,359 | - | 1,703,359 | 4,021,680 | 5,725,039 | - | 5,725,040 | 5,894 |
| 104 JFC HQ NAPLES | 7,511,107 | (1,033,482) | 6,477,625 | - | 6,477,625 | - | 6,477,625 | 4,152,823 |
| 105 HQ AC RAMSTEIN | - | - | - | 170,000 | 170,000 | - | 170,000 | 65,816 |
| 164 AIR DEFENCE GROUND (ADG) | 16,195,000 | - | 16,195,000 | - | 16,195,000 | - | 16,195,000 | - |
| 166 ACCS Support | 7,408,000 | - | 7,408,000 | - | 7,408,000 | - | 7,408,000 | - |
| 177 NCCB | 23,228,109 | 69,939,875 | 93,167,984 | 43,666,827 | 136,834,811 | 20,973,342 | 157,808,153 | 157,808,152 |
| AGS at 26 | | | | | | | | |
| | 4,000,000 | - | 4,000,000 | - | 4,000,000 | - | 4,000,000 | - |
| 167 AGS | 4,000,000 | - | 4,000,000 | - | 4,000,000 | - | 4,000,000 | - |
| NAEW at 18 | | | | | | | | |
| | 43,950 | - | 43,950 | - | 43,950 | - | 43,950 | - |
| 112 NAEW&C FC | 43,950 | - | 43,950 | - | 43,950 | - | 43,950 | - |
| NAEW at 16+1 | | | | | | | | |
| | 123,742,820 | 3,734,654 | 127,477,474 | 39,425,000 | 166,902,474 | - | 166,902,474 | 110,996,141 |
| 162 E3A Component | 96,681,320 | 3,734,654 | 100,415,974 | 39,425,000 | 139,840,974 | - | 139,840,974 | 109,063,541 |
| NAEW at 16 | | | | | | | | |
| | 27,061,500 | - | 27,061,500 | - | 27,061,500 | - | 27,061,500 | 1,932,600 |
| 123 NAEW Reorganisation | 27,061,500 | - | 27,061,500 | - | 27,061,500 | - | 27,061,500 | 1,932,600 |
| AOM at 28 | | | | | | | | |
| | 6,493,005 | 749,000 | 7,242,005 | 53,377,554 | 60,619,559 | 7,422,833 | 68,042,392 | 1,623,837 |
| 183 Balkans Operations | 6,493,005 | - | 6,493,005 | (236,446) | 6,256,559 | - | 6,256,559 | 967,837 |
| 194 Resolute Support Mission | - | 749,000 | 749,000 | 53,614,000 | 54,363,000 | 7,422,833 | 61,785,833 | 656,000 |
| Total for all MBC Cost Shares, Years and Budget | 198,874,381 | 86,705,949 | 285,580,330 | 140,661,061 | 426,241,392 | 28,396,175 | 454,637,568 | 275,806,696 |

ACO Consolidated Financial Statements 2015
STATEMENT 5/2: SUMMARY BUDGET EXECUTION REPORT - OTHER

EUR

| | <i>Expenditure Ceiling</i> | <i>Net Commitment</i> | <i>Actual Expenses</i> | <i>Total Spend</i> |
|------------------------------|----------------------------|-----------------------|------------------------|--------------------|
| | 20,153,042 | 567,335 | 16,548,167 | 17,115,502 |
| 2015 | 18,040,318 | 558,845 | 15,065,798 | 15,624,644 |
| 259 ACT EXERCISES & TRAINING | 18,040,318 | 558,845 | 15,065,798 | 15,624,644 |
| 2014 | 645,796 | 8,490 | 460,078 | 468,567 |
| 259 ACT EXERCISES & TRAINING | 645,796 | 8,490 | 460,078 | 468,567 |
| 2013 | 1,466,928 | - | 1,022,291 | 1,022,291 |
| 259 ACT EXERCISES & TRAINING | 1,466,928 | - | 1,022,291 | 1,022,291 |

ACO Consolidated Financial Statements 2015

Notes to the ACO Consolidated Financial Statements 2015

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ACO Consolidated Financial Statements 2015

NOTES to the ACO Consolidated financial statements at 31 December 2015

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A. Significant accounting Policies**Statement of accounting policies**

The consolidated financial statements (FS) of the Allied Command Operation (ACO) have been prepared in accordance with the International Public Sector Accounting Standards (IPSAS) and are based on International Financial Reporting Standards (IFRS/IAS), as adopted by the North Atlantic Council (NAC) in 2002. In 2013, the NAC adopted an adaptation to IPSAS to better suit the specific requirements of the Alliance and an associated NATO Accounting Framework (NAF), applicable for financial reporting periods beginning on 1 January 2013.

The FS comply with the accounting requirements of the NATO Financial Regulations (NFRs) and the relevant ACO directives and policies. Where the NAF permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the ACO for the purpose of giving a true and fair view has been selected. The specific policies adopted by ACO are described below. They have been applied consistently in dealing with items that are considered material to the financial statements. Any exception to this principle is disclosed in the notes.

Basis of preparation

The FS 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 FS. 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.

The FS have been prepared on the historical cost basis except for financial instruments that are measured at fair value at the end of each reporting period. The principal accounting policies are set out below. They have been applied consistently to all periods presented. The accounting principles deemed 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. There is one exception related to the Foreign Military Sales acquired from the US Defence Department where the financial data on accrual basis are not available and are therefore reflected on a modified cash basis. Details are disclosed in the relevant notes.

In accordance with Article 2.1 of the NFRs, the financial year of ACO begins on 1 January 2015 and ends on 31 December 2015.

Impending application of newly issued accounting standards not yet effective

ACO discloses whenever it has not yet applied a new accounting standard, and provides any information relevant to assessing the possible impact that the initial application of the new standard would have on the FS. There were no new standards issued at the date of reporting that ACO is required to apply.

Accounting estimates and judgments

In accordance with IPSAS and generally accepted accounting principles, the FS necessarily include amounts based on estimates and assumptions made by the management and based on historical experience as well as on the most reliable information available. A degree of caution was included in the estimations in light of the principle of 'prudence' required by IPSAS in order not to overstate assets or revenue or understate liabilities or expenses.

Specifically, when precise information was not available for measuring the value of Property Plant & Equipment (PP&E) to be recognised in the statement of financial position some estimates have been applied by reference to the buying price of similar assets in an active and liquid market or to the historical cost trend of similar acquisitions occurred over the last 3 - 5 years. Moreover, the percentage of the acquisition costs of the infrastructure handed over by territorial host nations versus its installed equipment derived from official project authorisation has been applied for determining the value of the fixed assets and the installed equipment where the project authorisation breakdown was not available.

The estimates and underlying assumptions are reviewed on an on-going basis. These estimates and assumptions affect the amounts of assets, liabilities, revenue and expenses reported. By their nature, these estimates are subject to measurement uncertainty. The effect of changes to such estimates and assumptions in future periods could be significant to the FS.

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Changes in Accounting Policy and Standards

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 2015 FS, the accounting policies have been applied consistently throughout the reporting period.

The main change derives from the in-depth analysis performed during 2015 within each ACO Command in order to consistently implement the classification of the assets and the control criteria reflected in the NAF. The categories of Buildings, Other Infrastructure and Installed Equipment have been reassessed and broken down in sub-categories.

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

Reclassification

A reclassification of some ACO accounting classes was required to adopt the recommended common layout structure¹ proposed by the Head of Financial Reporting Policy. Details are reflected in the relevant notes.

Restatements

ACO has restated a number of balances in the FS. They mainly relate to PP&E, Inventory and proper assessment of previous years' audit observations. Further details are shown in the relevant notes.

Foreign currency

These FS are presented in Euro, which is the ACO functional and reporting currency. All entities included in the consolidated FS adopt Euro as functional currency. Data from ACO budgets approved in different currency is converted and reported in Euro using a fixed rate. The fixed rate applied for GBP for 2015 is equal to 0.7989 EUR.

Foreign currency transactions are translated into Euro at the NATO exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at year-end are translated into Euro using the NATO exchange rates applicable at 31 December 2015. Resulting realised and unrealised gains and losses are recognised in the Statement of Financial Performance.

Consolidation

The ACO Consolidated FS include the financial results of ACO as the controlling entity exercising control over the controlled entities listed below.

| ACO HQ NAME | LOCATION |
|---|------------------------------|
| SHAPE HQ | Casteau, Belgium |
| JFC Brunssum HQ | Brunssum, Netherlands |
| Resolute Support Mission HQ | Kabul, Afghanistan |
| NAEW&C Force GK HQ | Geilenkirchen, Germany |
| JFC Naples HQ | Naples, Italy |
| AIRCOM Ramstein ² HQ | Ramstein, Germany |
| MARCOM Northwood HQ | Northwood, UK |
| NCIS Group HQ ³ | Casteau, Belgium |
| KFOR HQ | Pristina, Kosovo |
| NHQSa HQ | Sarajevo, Bosnia Herzegovina |
| LANDCOM Izmir HQ | Izmir, Turkey |
| ACO Corporate Accounting and Control Office | Casteau, Belgium |

¹ Ref. AC/335-N(2015)0088, Improvement to layout of Financial Statements, dated 11 Dec. 2015.

² It includes data related to AIRCOM HQ, Ramstein, Germany, Deployable Air Command and Control Centre, Poggio Renatico (DACC), Italy, Combined Air Operations Centre (CAOC), Uedem, Germany, Combined Air Operations Centre (CAOC), Torrejon, Spain

³ It includes data related to the NCISG HQ, SHAPE, Belgium, 1st NSB, Wesel, Germany, 2nd NSB, Grazianise, Italy, 3rd NSB, Bydgoszcz, Poland

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Inter-entity balances and transactions have been eliminated in consolidation. 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 of the data reported to ACO CAC for further analysis and consolidation in the ACO FS.

The ACO MWA financial data are not consolidated into the primary ACO FS in accordance with the adapted IPSAS 6 included in the NAF which prescribes that the NATO reporting entities shall not consolidate the Morale and Welfare Activities and/or Staff Association activities into their respective FS even when they are considered to be under the control, from a financial reporting perspective, of the NATO Reporting Entity preparing and issuing the FS. Relevant details are reported by way of a disclosure note (Note M).

Services in-kind

In these consolidated FS, services in kind are not recognised.

Financial Instruments disclosure/presentation

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument.

ACO uses only non-derivative financial instruments as part of its normal operations. These financial instruments include cash and cash equivalents, short-term investments, accounts receivable, liabilities. They are recognised in the statement of financial position at fair value.

Financial risk factors

ACO has no powers to borrow money or to invest surplus funds. Other than financial assets and liabilities which are generated by day-to-day operational activities, no financial instruments are held.

Credit risk

ACO's clients are mainly NATO Members' Nations or Troop Contributing Nations (TCNs) very often sponsored by NATO's Nations and NATO agencies. ACO is therefore not exposed to material credit risks.

Liquidity risk

ACO is not exposed to any liquidity risk due to the funding mechanisms from the contributing NATO's Member Nations, as well as internal policies and procedure put in place to ensure there are always appropriate resources to meet the financial obligations.

Foreign currency risk

ACO has some exposure to foreign currency because some contracts and activities are denominated in currencies different than Euro, mainly USD and GBP. A constant monitoring of the various activities in foreign currencies is executed to identify the potential exposure to exchange rate variations and to manage the risk accordingly. ACO doesn't maintain significant assets or liabilities in foreign currency, except for minor operational balances related to service provided to the TCNs in theatre.

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.

Interest rate risk

ACO has successfully implemented a centralised Cash Management centre. Therefore, the liquidity is kept and managed at corporate level to guarantee higher interests revenue. Liquidity is invested in saving accounts until 3 months or short term deposits for not more than 12 months to ensure the best possible return on cash holdings considering the current financial market situation. The exposure to interest risk strictly follows the current market for all public and international organisations.

Assets

a. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, petty cash, current bank accounts, deposits held with banks, other short-term investments (with a maturity of three months or less). Any amounts held in a foreign currency are translated into Euro at the exchange rate on the date of reporting.

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b. Short-term investments

These are short-term investments with a maturity of more than 3 and less than 12 months.

c. Receivables

Receivables are stated at net realisable value, after provision for doubtful and uncollectible debts. It also includes amounts due by other NATO entities and nations.

Contribution receivables are recognised when a call for contribution has been issued to the member nations. No allowance for impairment loss is recorded with respect to member nations' assessed contributions receivable except for exceptional and agreed technical reasons.

d. Inventories

In accordance with the adapted IPSAS 12 as approved within the NAF items acquired from 1 January 2013 and held on stock at the reporting date are recorded as inventories 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 |

ACO Inventory items are classified by group classes with the exception of NAEW&C Force GK HQ for which the Tech Degree codes (ERRC) is considered the first filter for categorizing items as inventory⁴. Remaining codes are classified in accordance with the assigned group class.

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 prescribed in the NAF, ACO has applied the approach that all write offs and OUT transactions are first applied to items acquired before the cut-off date being applied to new items. This is done on a general basis for quantities 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. The materiality threshold is 2% of the overall budget executed by the respective ACO Command.

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. ACO is using the data related to the recorded quantities only for all type of transactions and the monetary value only for items received in 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 Fiscal year 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.

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 2015, since only items acquired starting from 1 January 2013 are reported, which means that nothing has been in stock for more than three years.

ACO is also reporting legacy assets (i.e. those acquired before 1 January 2013) by way of a disclosure note to include the approximate number of items per inventory category for each respective location.

No inventory is pledged as security for liabilities.

e. Property, Plant and Equipment

According to the NAF 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 capitalised and recognised as non-current assets in the statement of financial position if acquisition cost exceed the ACO capitalisation thresholds. No PP&E is pledged as security for liabilities.

⁴ For example, items flagged with XB and XF ERRC codes are always categorized as inventory Items items regardless of the group class. Items that are serialised and tracked individually are always classified as PP&E with no regard to the ERRC code.

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Depreciation is recognised to write off the cost of the assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of PP&E is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the disposal or retirement of an item of Pt is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of financial performance.

ACO PP&E categories for static HQs are listed in the table below:

| Category | Threshold | Depreciation life |
|-------------------------------|-----------|-------------------|
| Land | €200,000 | N/A |
| Buildings | €200,000 | 40 years |
| Other infrastructure | €200,000 | 40 years |
| Installed equipment | €30,000 | Dependent on type |
| Machinery | €30,000 | 10 years |
| Vehicles | €10,000 | 5 years |
| Aircraft (& Spare parts) | €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 above categories and thresholds are valid also for the ACO AOM operations assets physically located in a theatre of operation. However, according to the NAF each of the AOM PP&E asset categories has a useful life of one year to reflect the intensive nature of the operations.

PP&E items have been identified based on the groups and classes identified by the US Federal Supply Classification which classifies items of supply identified under the Federal Cataloguing Program. This approach is in place within all the ACO Commands with the exception of NAEW&C Force GK HQ where the primary criterion is related to the serialisation of the item.

During 2015 SHAPE has continued to work with the subordinate Commands in order to consistently implement the classification of the assets in accordance with the categories established for PP&E by the NAF. In this regard the categories provided for in the NAF of Building, Other infrastructures and Installed Equipment have been broken down into sub-categories which provide a more precise list of assets to be reported under each of the three aforementioned asset categories. In particular the definition as installed equipment of elevators, Heating, Ventilation and Air Condition (HVAC) installations, generators/UPS and access control and surveillance systems such as alarm systems, finger print systems, badge readers etc. or others such as water treatment plants, gates and barriers ensures a consistent accounting treatment of these assets across the ACO Commands. It also ensures that they are clearly distinguished from other assets qualified as buildings and other infrastructure such as road networks, parking areas, runway, helipad, fences. Accordingly, the useful life of the assets qualified as installed equipment has been further tailored to reflect the period over which the asset is expected to be available for use by ACO.

Due to these changes in the PP&E accounting policy for ACO, the data for PP&E previously recognised in the ACO FS or reported as acquired before 2013 have been reviewed for restatement during on-site visits made in 2015 by ACO CAC Staff in coordination with each ACO site in order to validate the data in terms of correct quantity, asset category and control criteria.

The CIS assets (Communication and Automated Information System) reported in the 2015 ACO FS relate to KFOR, NHQSa and NAEW&C Force GK HQ. In all those 3 ACO sites the CIS assets are not under the control of the NCIA but of ACO. For the latter the CIS assets were not part of the NAC decision to transfer the ownership of the CIS assets from ACO to the NCIA. Whilst at NHQSa and KFOR CIS services are provided through, respectively, EUFOR and NSPA. Consequently, ACO has decided to report the CIS assets held by the NHQSa and KFOR, in addition to its own CIS assets of the NAEW&C Force GK HQ for transparency and accountability.

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The category of 'work in progress' (WIP) refers to NSIP projects expenses occurred after 1 January 2013 for ACO requirements and implemented by SHAPE as HN; WIP is reported by ACO until the project is accepted by the users (completed) and put in service by the receiving HQ. It also includes infrastructure projects managed by local HQs via annual budgets mainly related to NAEW&C Force GK HQ.

Assets acquired through other NATO entities and handed-over at the reporting date to ACO or managed by third parties on behalf of ACO, such as the deployable non-CIS assets stored in the NSPA Depot in Taranto (ITA) are included in the ACO FS.

As far as the PP&E data of RS are concerned, they include the NATO assets located at HQ RS plus the four regional airports of KAF, MeS, Herat and HKIA where USA, Germany, Italy and Turkey respectively assumed responsibilities as Framework Nations (FWN). The Memorandum Of Understanding (MOUs) for the RS Mission airfield services refer to Technical Agreements (TA) to be signed between SHAPE and the FWNs to determine the responsibilities for the use of the NATO-funded assets by the FWN. So far only the KAF TA with USA has been signed and the one with TUR for HKIA is in progress. Nonetheless, the SHAPE CMRB decision dated 8 September 2014 clarified that the NATO Chain of Command remains accountable for all the NATO funded assets through the end of the RS. To this extent the transfer of NATO assets from ISAF to RS Mission following the procedures set forth by the ACO Directive 80-100⁵ has been considered under the on-going concern principle.

The data related to NATO assets in use in RS were initially analysed during 2015 to allow SHAPE to report to the BC on the status of the NATO Funded Equipment (NFE) in Afghanistan. The data reported to the BC in November 2015 were collected by SHAPE J8 from the Theatre's Property Accounting Officers through an on-site visit made in September 2015 by SHAPE and validated afterwards through coordination efforts amongst the various stakeholders, namely the logistic and engineer Divisions of SHAPE, JFCBS and RS. The RS assets recognised in 2013/2014 for RS have been reconciled with write-offs and RS additions occurred during 2015 and further assessed with the NFE reported to the BC in November 2015 in order to identify the assets to be recognised at the reporting date in the ACO FS vis-à-vis those to be disclosed as legacy assets.

Building and infrastructure facilities in use across the ACO static Commands have been analysed in light of the control criteria set forth by the NAF and the Garrison Support Agreements as well as the Host Nation Support Policy and Standards⁶, the Base Support Concept⁷ and the NSIP regulations, to determine whether they are under the control of ACO or the HNs. Although the analysis highlighted that the HN, besides being the owners maintain also a certain level of control over the infrastructure, these buildings and infrastructure have been reported in the ACO FS even when for some criteria the control over the infrastructure has resulted to be either of ACO or shared between ACO and the HNs. The HQ facilities in Sarajevo for NHQSa are not reported as they are under the control and responsibility of EUFOR based on the Berlin Plus Agreement.

ACO does not report assets of the Alliance Defence Ground (ADG) and Air Command and Control System (ACCS) either, as they are under National control and responsibility.

ACO is reporting also the legacy assets (i.e. those acquired before -1 January 2013) by way of a disclosure note to include the approximate number of items per asset category for each respective location.

Leases

Leases are classified as finance leases whenever the terms of the lease substantially transfer all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Rental payable under lease contract are recognised as an expense in the statement of financial performance on a straight line basis over the lease term.

In these FS ACO is reporting assets and liabilities related to finance lease for SHAPE HQ.

f. Intangible Assets

ACO does not hold intangible assets at the reporting date.

Impairment of tangible and intangible assets

At the end of each accounting period, ACO reviews the carrying amounts of its tangible and intangible to

⁵ The ACO DIR 80-100 REV 3(5 May 2014) for ISAF has been revised in the context of RS and under the new Reference ACO DIR 80-102 (23 November 2015).

⁶ PO(2011)0020 dated 8 February 2011

⁷ CM-128-2011 dated 16 November 2011

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determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated, being the greater of the asset's fair value minus costs to sell and value in use. Impairment losses, if any, are recognised in the statement of financial performance.

Liabilities**a. Payables**

Payables (including amounts due to other NATO entities) are amounts due to third parties for goods and services received that remain unpaid as of the reporting date. They are recognised at their fair value. This includes estimates of accrued obligations for goods and services received at year-end but not yet invoiced.

b. Deferred Revenue

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

c. Advances

Advances are income/contributions from member nations/third parties called or received related to future years' budgets.

d. Employee benefits

The ACO's employees participate in one of the three NATO pensions funds: the Provident Fund, the Coordinated Pension Scheme or the Defined Contribution Pension Scheme (DCPS) administered by NATO and RMCF. The assets and liabilities for these pension schemes are accounted for centrally at NATO Headquarters and therefore are not recognised in these FS.

DCPS and Provident Fund:

ACO contributes a specified percentage of payroll costs to the DCPS and to the Provident Fund to fund the benefits. In addition to the employer's contribution, a portion of the employees' salaries is deducted and contributed to the annual financing of the DCPS, or provident fund. These contributions are recognised as an expense during the year the services are rendered and represent the total pension obligation of the ACO HQs.

Coordinated Pension Scheme:

Employees who have joined NATO before 1 July 2005 are members of the NATO Coordinated Pension Scheme which is a funded defined benefit plan. Under the plans and upon completion of 10 years employment with NATO, the employees are entitled to retirement benefits of 2% per year of service of final basic salary on attainment of a retirement age of 60. No other post-retirement benefits are provided to these employees. Staff members whose length of service is not sufficient to entitle them to a retirement pension are eligible for a leaving allowance.

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 Note D.

e. Provisions

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

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 income from other customers to fund ACO's requirements through the Military Budget (MB) and the NATO Security Investment Programme (NSIP). It is recognised in the year when these contributions are used for their intended purpose. 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. Unused contributions and other revenue that relate to future periods are deferred accordingly.

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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 2015, exchange rate revenue due to transactions in foreign currency and realised exchange rate revenue in accordance with the entity 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 transactions in foreign currency and realised/unrealised exchange rate losses are recognised as finance costs

Result of the year

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

Trust Funds

ACO manages a number of trust funds on behalf of other entities. 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 NSIP.

Trust Funds are not considered core activities of ACO. 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 does not recognise any expenditure or revenue in relation to the Trust Funds in its statement of financial performance which it does not control with the only exception of the remaining KSF project related to KFOR, if required. Further details are shown in Note K.

Cash-flow statement

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

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B. Notes to Statement of Financial Position**1. Statement of Financial Position - Reclassification**

| <i>As at 31 December 2014</i> | | <i>Reclassified</i> | |
|--------------------------------|--------------------------------------|------------------------|------------------------|
| <i>in EUR</i> | | <i>2014</i> | <i>2014</i> |
| ASSETS | | | |
| Current Assets | | | |
| | Cash and Cash Equivalents | 860,977,108 | 940,977,108 |
| | Short Term Investments | 80,000,000 | - |
| | Receivables | 139,170,396 | 132,975,170 |
| | Prepayments | 18,678,359 | 25,888,099 |
| | Other Current Assets | 23,827,457 | - |
| | Inventories | 26,069,445 | 26,069,445 |
| | Total Current Assets | 1,148,722,764 | 1,125,909,822 |
| Non-current Assets | | | |
| | Financial Assets | | 26,167,605 |
| | Receivables | 1,777 | - |
| | Property, Plant & Equipment | 72,619,400 | 72,619,400 |
| | Other Non-current Assets | 3,352,885 | - |
| | Total Non-current Assets | 75,974,062 | 98,787,005 |
| | Total ASSETS | 1,224,696,826 | 1,224,696,827 |
| LIABILITIES | | | |
| Current Liabilities | | | |
| | Payables | (236,751,574) | (236,751,574) |
| | Deferred Revenue | (548,966,606) | (887,705,265) |
| | Advances | (338,738,659) | - |
| | Short Term Provisions | (24,267,703) | (27,620,588) |
| | Other Current Liabilities | - | - |
| | Total Current Liabilities | (1,148,724,542) | (1,152,077,427) |
| Non-current Liabilities | | | |
| | Long Term Provisions | (3,352,885) | - |
| | Non-current Deferred Revenue | (72,619,400) | (72,619,400) |
| | Other Non-current Liabilities | - | - |
| | Total Non-current Liabilities | (75,972,285) | (72,619,400) |
| | Total LIABILITIES | (1,224,696,827) | (1,224,696,827) |
| | NET ASSETS | - | - |

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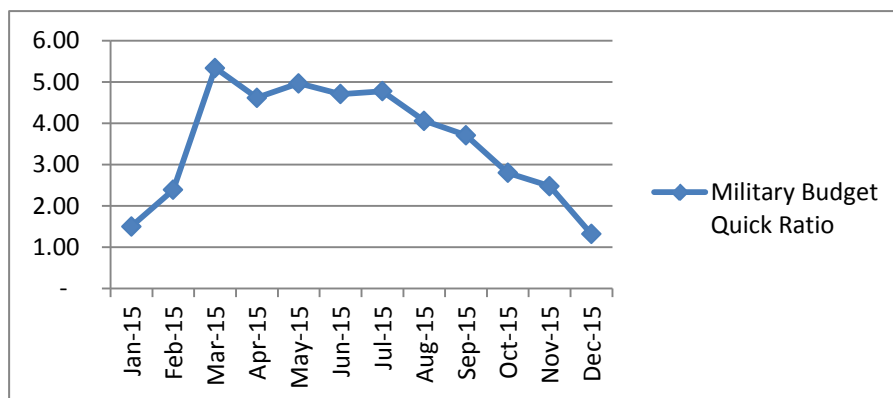
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Assets – Current Assets**2. Cash and cash equivalents**

| Cash and cash equivalents | 2015 | 2014 Restated | 2014 Reclassified |
|---------------------------|--------------------|--------------------|--------------------|
| Cash accounts | 234,612 | 167,545 | 167,545 |
| Petty Cash and Advances | 320,129 | 316,949 | 316,949 |
| Current Bank Accounts | 872,476,863 | 860,492,668 | 860,492,668 |
| Clearing-Bank accounts | (2,235) | (54) | (54) |
| Total | 873,029,369 | 860,977,108 | 860,977,108 |

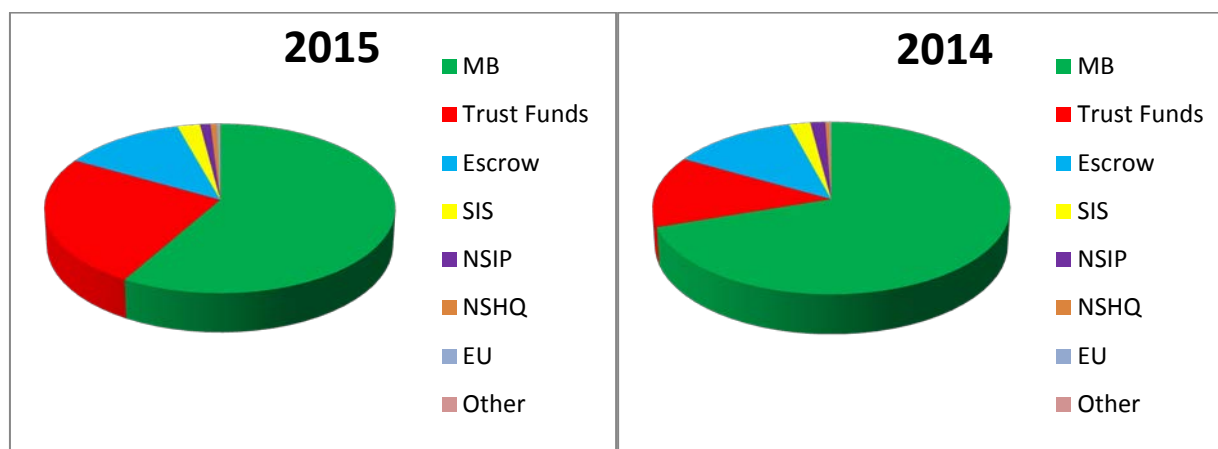
Cash and cash equivalents balances tend to increase towards the end of the financial year due to the cash received upon the final cash call and the request of some nations to liquidate uncalled contributions for the following year. Therefore, the year-end balance is not representative of the average cash holdings during the financial year. The trend continues until March of the following financial year. The cash holdings are shown in the chart 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 2015



At ACO the cash and cash equivalents shown above 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



The total cash and cash equivalents increased in 2015 for all non NATO entities for an overall of 175.5 MEUR mainly due to an increase in the ANA TF Cash holdings. The NSIP overall cash holdings decreased for 2.4 MEUR. The MB cash holding was managed differently reflecting an increase of the STI reported in Note B3.

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The local cash and cash equivalents balances are kept as low as possible to ensure liquidity for all scheduled payments within the year. 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.

Funds categorized as cash equivalent are invested in saving accounts for a period not exceeding 3 months. They are convertible to known amounts of cash and subject to no risk of changes in value.

3. Short Term Investments

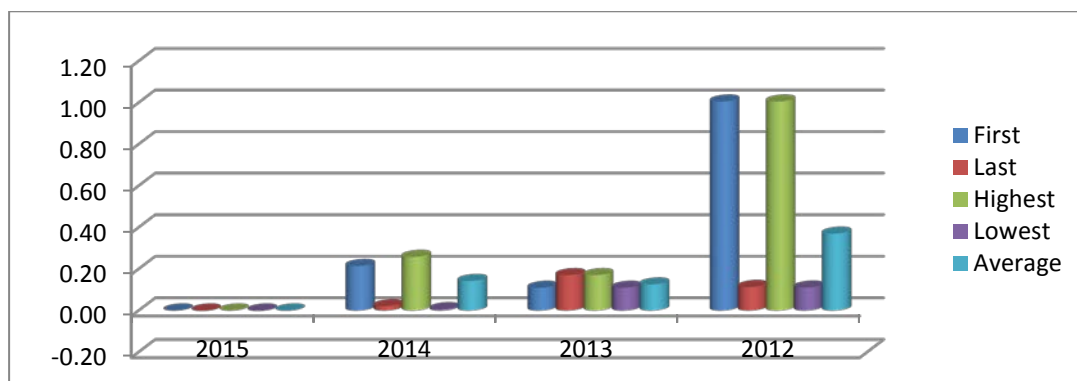
| Short Term Investments | 2015 | 2014 Restated | 2014 Reclassified |
|------------------------|--------------------|-------------------|-------------------|
| Short Term Investments | 230,000,000 | 80,000,000 | 80,000,000 |
| Total | 230,000,000 | 80,000,000 | 80,000,000 |

Short-term investments include ACO investments if their maturity is within a period of 12 months or less. All investments are managed centrally by ACO CAC branch.

Interest rates

During the last few years, financial markets all over the world crashed and some of the largest economies in the world plunged into recession. When an economy is struggling, it is standard practice for a central bank to cut interest rates. That makes saving less attractive and borrowing more so, boosting the amount of money being spent and kick-starting an economic recovery. In June 2014, the European Central Bank (ECB) became the first major central bank to adopt negative rates when it cut the interest rate on its deposit lending facility below zero. A second cut followed a few months later, and a third in December 2015 when the ECB cut the interest again to its current level (minus 0.3%). That explains our decreasing interest revenue since 2014.

Table 3 –EURIBOR – 2012-2015



The tendency to think in nominal terms has prevented most commercial banks from passing on negative rates to customers (in real term the interests have been negative for quite some time now). However, in early 2016 some banks have started charging negative interests to customers holding deposits of above 5 million euro in their bank account.

Moreover, negative interests could also have some adverse consequences for financial stability. Negative rates might send investors in search of better returns in other currencies, leading to depreciation of the currency. This is what we experienced with the lowering value of the euro currency during 2014 and 2015 which in turn increased ACO's realized exchange rate loss.

However, it is worth noting that this situation is not affecting ACO with any of the banks in use and it is constantly monitored. It is also worth mentioning that interest revenue is only one part of the relationship ACO has with banks. ACO pays almost no fees taking into account the volume of the transactions managed in all currencies and countries (involving corresponding banks and potential extra costs). In addition, ACO regularly analyses and considers the most valuable approach regarding foreign currencies.

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4. Receivables

| Receivables | 2015 | 2014 Restated | 2014 Reclassified |
|--|--------------------|--------------------|----------------------|
| Receivables Contribution from Member Nations | 40,268,428 | 77,710,096 | 77,710,096 |
| Receivables from Troop Contributing Nations | 40,622,009 | 28,203,026 | 28,203,026 |
| Receivables from Other NATO bodies | 17,291,247 | 7,663,032 | 7,663,032 |
| Receivables from Staff Members | 470,003 | 549,790 | 549,790 |
| Receivables from Nations | 6,059,392 | 6,720,169 | 6,720,169 |
| Other Receivables/Recoverable | 12,497,831 | 12,129,056 | 12,129,056 |
| Receivables > 12 months | 17,942,036 | 6,195,226 | 6,195,226 |
| Total | 135,150,946 | 139,170,396 | 139,170,396 |

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.

Receivables Contribution from Member Nations

| YEAR | MILITARY BUDGET OUTSTANDING CONTRIBUTIONS BALANCE (EURO) | | | | |
|-----------------|--|---------------|---------------|----------------|----------------------------------|
| | NAEW | AOM | NCSEP | AGS O&S | TOTAL (EUR) |
| 2014 | 9,409,167.69 | 35,940,322.64 | 32,096,324.82 | 80,536.68 | 77,526,351.83⁸ |
| 2015 | 14,079,702.31 | 4,053,535.00 | 21,830,602.19 | 304,588.82 | 40,268,428.32 |
| variance | 149.64% | 11.28% | 68.02% | 378.20% | 51.94% |

In 2015 there is a decrease in receivables contributions outstanding for less than within 12 months mainly because:

- the second call for contribution was issued a month earlier in 2015 than in 2014 therefore the Nations had more time to pay their contribution in 2015
- the AOM budget has significantly decreased in 2014, 2015 and 2016

| YEAR | BUDGET (MEUR) | | | | | variance |
|------|---------------|--------|--------|---------|-----------------|---------------------------|
| | NAEW | AOM | NCSEP | AGS O&S | TOTAL (MEUR) | |
| 2014 | 250.00 | 493.62 | 363.34 | 2.27 | 1,109.23 | |
| 2015 | 256.40 | 274.96 | 366.39 | 2.92 | 900.67 | 81.20% (2015/2014) |
| 2016 | 278.00 | 204.08 | 400.76 | 12.90 | 895.74 | 99.45% (2016/2015) |

Receivable from TCNs

| Receivable from TCNs | 2015 | 2014 Restated | 2014 Reclassified |
|----------------------|-------------------|-------------------|----------------------|
| NHQSa NBC | 50,163 | 53,796 | 53,796 |
| KFOR NBC | 1,740,432 | 1,890,578 | 1,890,578 |
| ISAF/RSM NBC | 38,831,414 | 26,258,652 | 26,258,652 |
| Total | 40,622,009 | 28,203,026 | 28,203,026 |

These credits are for NBC outstanding for less than 12 months from Nations participating in the AOM activities and for which ACO is providing all services related to their troops.

⁸ The balance includes only MB outstanding calls.

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The outstanding credits are closely monitored; dunning letters are sent quarterly, with additional exceptional reminders for a few Nations. NBC workload continues to be work intensive with much liaison between ACO and the Nations to ensure payments are met.

The ending receivable balances for 2015 is showing a significant amount of uncollected NBC items. A major amount of the outstanding NBC credits is mainly accrued from long outstanding NBC payments. Despite ACO efforts to collect the outstanding amounts receivable, some nations changed the way they are paying NBC and delayed their payments. All actions were already performed to fix the issue. Therefore, ACO assess the recovery of these amounts as low risk since most of them are related to NATO nations or to TCNs sponsored by some of them.

Receivable from other NATO bodies

These are receivables for other NATO entities for services provided to them. The balance includes approx. 10 MEUR for NATO Special Operations HQ (NSHQ), approx. 3,4 MEUR for ACT, 1,4 MEUR for NCIA and 350 KEUR for NSPA.

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 > 12 months

This category includes ACO outstanding credits for more than 12 months. The main balance of 17 MEUR is related to long outstanding credits for NBC and Calls for Contributions, both managed at central level.

5. Prepayments

| Prepayments | 2015 | 2014 Restated | 2014 Reclassified |
|--------------------------|-------------------|----------------------|------------------------------|
| Advances and Prepayments | 29,365,867 | 22,316,524 | 18,678,359 |
| Total | 29,365,867 | 22,316,524 | 18,678,359 |

Prepayments are net of related accruals previously recorded and associated expenses. Advances entered in foreign currency were accrued in that currency. The reported amounts are mainly advances and prepayments to other NATO entities and LWR Severance Pay (TFR) for JFC Naples. It should be noted that the prepayments related to NAEW&C Force GK HQ reflects mainly advances done for FMS for which financial data on accrual basis are not available.

This prepayment balance includes also approx. 12, 9 MEUR to NSPA (that is also the reason of the increase between 2015 and 2014 Fiscal Year) and 2MEUR to NCIA.

6. Other current assets

| Other current assets | 2015 | 2014 Restated | 2014 Reclassified |
|-----------------------------|-------------------|----------------------|------------------------------|
| Bank Interest Accrued | 679,929 | 1,014,514 | 1,014,514 |
| Receivable for Provisions | 20,881,050 | 7,432,943 | 22,812,943 |
| Total | 21,560,979 | 8,447,457 | 23,827,457 |

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

The Receivable for Provisions reflects the amount of Short-term Provision for which there is no Special Carry Forward approved and no other budget credits available as of 31 December 2015.

The restated balance for 2014 of 7,432,943 reflects the correction made for receivable against provisions where funds were already called⁹.

⁹ IBA-AR(2015)0019, dated 25 Sep. 2015

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7. Inventories

| Inventories | 2015 | 2014 Restated | 2014 Reclassified |
|--------------------|-------------------|----------------------|------------------------------|
| Consumable | 12,496,574 | 13,299,081 | 12,568,800 |
| Spare parts | 15,225,140 | 14,507,142 | 13,500,645 |
| Ammunition | - | - | - |
| Total | 27,721,714 | 27,806,223 | 26,069,445 |

ACO is reporting inventory as established in the ACO accounting policy.

Restatement of the 2014 inventories

The restatement of the 2014 closing balance for inventories is due mainly to the inclusion of CIS inventory for KFOR HQ and NHQSa.

Assets - Non-current Assets**8. Property, Plant and Equipment**

| Property, Plant & Equipment | 2015 | 2014 Restated | 2014 Reclassified |
|--|--------------------|----------------------|------------------------------|
| Land | - | - | - |
| Buildings | 14,270,159 | 14,939,228 | 16,758,367 |
| Other infrastructure | 16,425,203 | 21,931,447 | 14,334,117 |
| Installed Equipment | 7,917,099 | 5,051,143 | 3,202,723 |
| Machinery | 617,755 | 765,774 | 1,411,176 |
| Vehicles | 8,271,712 | 5,938,102 | 1,587,920 |
| Airplanes (& Spare Parts) | 3,345,816 | 2,125,741 | 2,125,741 |
| Mission Equipment | 50,124,648 | 27,683,125 | 27,781,287 |
| Furniture | 688,960 | 628,830 | 628,830 |
| Communication | 1,841,006 | 1,752,006 | 1,384,673 |
| Automated Information Systems | 1,328,159 | 1,289,828 | 1,560,952 |
| WIP | 4,638,782 | 1,524,278 | 1,843,614 |
| Total for Property, Plant and Equipment | 109,469,300 | 83,629,502 | 72,619,400 |

According to the NAF all assets qualified as PP&E 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.

The CIS assets relate to CIS assets at NAEW&C Force GK HQ, KFOR HQ and NHQSa HQ.

Restatement 2014

WIP for NAEW&C Force GK reported in 2014 were reassessed showing a decrease in the restated balance.

PP&E, other infrastructure, and vehicles balances changed due to information received from NSPA related to former ISAF HQ and to NCISG HQ for CP149.

2015 data

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 NAEW&C Force GK HQ where all serialised items are also always recorded as PP&E and for which the Tech Degree codes (ERRC) is considered the next filter for categorizing items as inventory or PP&E as described in the accounting policy for inventory. Remaining items are categorised based on the assigned group class (e.g. Valves, powered reflected as Installed Equipment versus the Inventory category in use for all the other ACO HQs.

The biggest increase in PP&E for 2015 is in the Mission Equipment asset category, mainly due to delivery of deployable assets in Taranto for CP 156 and CP 109.

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

| Property, Plant and Equipment | Land | Buildings | Other infrastructure | Installed Equipment | Machinery | Vehicles | | |
|---|----------|-------------------|----------------------|---------------------|----------------|------------------|--|--|
| Acquisition cost as of 1 January 2014 | - | 27,526,788 | 2,319,256 | 2,447,096 | 811,593 | 3,677,162 | | |
| Adjustment to opening balance | - | 269,000 | 15,488,512 | (25,791) | (693,579) | 6,052,218 | | |
| | - | 27,795,788 | 17,807,768 | 2,421,305 | 118,014 | 9,729,380 | | |
| + Additions | - | 21,836,644 | 15,635,493 | 1,519,899 | 1,821,693 | 1,815,306 | | |
| Adjustment to additions 2014 | - | (2,102,952) | 11,681,301 | 2,495,669 | (32,842) | 60,000 | | |
| - Disposals/retirements | - | - | - | - | - | - | | |
| - Capitalized/Exensed WIP | - | - | - | - | - | - | | |
| + Revaluations | - | - | - | - | - | - | | |
| - Impairments | - | 19,733,692 | 27,316,794 | 4,015,568 | 1,788,852 | 1,875,306 | | |
| | - | 47,529,480 | 45,124,562 | 6,436,873 | 1,906,866 | 11,604,686 | | |
| - Accumulated depreciation | - | (24,779,175) | (193,271) | (430,908) | (30,874) | (1,286,597) | | |
| Adjustment to opening balance | - | (6,725) | (6,453,547) | (198,466) | 22,660 | (550,532) | | |
| | - | (24,785,900) | (6,646,818) | (629,374) | (8,214) | (1,837,128) | | |
| + Disposals/retirements | - | - | - | - | - | - | | |
| - Depreciation 2014 | - | (7,825,890) | (3,427,360) | (333,364) | (1,191,237) | (2,617,951) | | |
| Adjustment to depreciation 2014 | - | 21,538 | (13,118,936) | (422,992) | 58,358 | (1,211,504) | | |
| | - | (32,590,253) | (23,193,114) | (1,385,730) | (1,141,092) | (5,666,583) | | |
| Ending balance as of 31 December 2014 | - | 14,939,228 | 21,931,447 | 5,051,143 | 765,774 | 5,938,102 | | |
| Acquisition cost as of 1 January 2015 | - | 47,529,480 | 45,124,562 | 6,436,873 | 1,906,866 | 11,604,686 | | |
| Adjustment to opening balance | - | - | 1 | - | - | (730,487) | | |
| | - | 47,529,480 | 45,124,562 | 6,436,873 | 1,906,866 | 10,874,198 | | |
| + Additions | - | - | 9,583,934 | 2,969,844 | 305,334 | 5,819,338 | | |
| - Disposals/retirements | - | - | (0) | 384,068 | 0 | 0 | | |
| - Capitalized/Exensed WIP | - | - | - | - | - | - | | |
| + Revaluations | - | - | - | - | - | - | | |
| - Impairments | - | - | 9,583,934 | 3,353,912 | 305,334 | 5,819,338 | | |
| Accumulated acquisition cost | - | 47,529,480 | 54,708,496 | 9,790,786 | 2,212,200 | 16,693,536 | | |
| - Accumulated depreciation as of 1 January 2015 | - | (32,590,253) | (23,193,114) | (1,385,730) | (1,141,092) | (5,666,583) | | |
| Adjustment to opening balance | - | - | 0 | (36,964) | - | 730,487 | | |
| | - | (32,590,253) | (23,193,114) | (1,422,694) | (1,141,092) | (4,936,096) | | |
| + Disposals/retirements | - | - | - | - | - | - | | |
| - Depreciation 2015 | - | (669,068) | (15,090,179) | (450,993) | (453,353) | (3,485,728) | | |
| Adjustment to depreciation 2015 | - | (33,259,321) | (38,283,293) | (1,873,687) | (1,594,445) | (8,421,824) | | |
| Ending balance as of 31 December 2015 | - | 14,270,159 | 16,425,203 | 7,917,099 | 617,755 | 8,271,712 | | |

| | Airplanes Components | Mission Equipment | Furniture | Communications | AIS | WIP | Total |
|---|----------------------|-------------------|----------------|------------------|------------------|------------------|--------------------|
| Acquisition cost as of 1 January 2014 | 698,514 | 15,621,595 | 311,105 | 1,337,015 | 775,516 | 4,703,103 | 60,228,744 |
| Adjustment to opening balance | - | (415,641) | - | 60,860 | - | - | 20,735,579 |
| | 698,514 | 15,205,955 | 311,105 | 1,397,875 | 775,516 | 4,703,103 | 80,964,323 |
| + Additions | 1,491,397 | 22,667,429 | 391,256 | 105,574 | 1,101,618 | 1,794,969 | 70,181,268 |
| Adjustment to additions 2014 | - | (9,614) | - | 435,000 | (274,360) | (319,337) | 11,932,865 |
| - Disposals/retirements | (0) | (65,586) | (0) | - | - | - | (65,586) |
| - Capitalized/Exensed WIP | - | - | - | - | - | (4,654,447) | (4,654,447) |
| + Revaluations | - | - | - | - | - | - | - |
| - Impairments | 1,491,397 | 22,592,228 | 391,256 | 540,574 | 827,258 | (3,178,825) | 77,394,100 |
| | 2,189,911 | 37,798,183 | 702,361 | 1,938,449 | 1,602,774 | 1,524,278 | 158,358,423 |
| - Accumulated depreciation | (5,347) | (1,449,420) | (20,566) | (11,583) | (91,328) | - | (28,299,070) |
| Adjustment to opening balance | - | 113,262 | - | (15,215) | 711 | - | (7,087,850) |
| | (5,347) | (1,336,157) | (20,566) | (26,798) | (90,617) | - | (35,386,921) |
| + Disposals/retirements | - | 21,863 | - | - | - | - | 21,863 |
| - Depreciation 2014 | (58,822) | (9,014,594) | (52,964) | (46,333) | (224,854.17) | - | (24,793,370) |
| Adjustment to depreciation 2014 | (64,170) | (10,115,058) | (73,531) | (186,443) | (312,945) | - | (14,570,491) |
| Ending balance as of 31 December 2014 | 2,125,741 | 27,683,125 | 628,830 | 1,752,006 | 1,289,829 | 1,524,278 | 83,629,503 |
| Acquisition cost as of 1 January 2015 | 2,189,911 | 37,798,183 | 702,361 | 1,938,449 | 1,602,774 | 1,524,278 | 158,358,423 |
| Adjustment to opening balance | - | (159,366) | - | - | - | - | (889,853) |
| | 2,189,911 | 37,638,817 | 702,361 | 1,938,449 | 1,602,774 | 1,524,278 | 157,468,569 |
| + Additions | 1,297,613 | 40,660,694 | 139,308 | 261,000 | 571,982 | 3,879,493 | 65,488,540 |
| - Disposals/retirements | (0) | (168,300) | - | - | 0 | - | 215,768 |
| - Capitalized/Exensed WIP | - | - | - | - | - | (764,988) | (764,988) |
| + Revaluations | - | - | - | - | - | - | - |
| - Impairments | 1,297,613 | 40,492,394 | 139,308 | 261,000 | 571,982 | 3,114,505 | 64,939,320 |
| Accumulated acquisition cost | 3,487,524 | 78,131,210 | 841,669 | 2,199,449 | 2,174,756 | 4,638,783 | 222,407,889 |
| - Accumulated depreciation as of 1 January 2015 | (64,170) | (10,115,058) | (73,531) | (186,443) | (312,946) | - | (74,728,920) |
| Adjustment to opening balance | - | 79,683 | - | - | (5) | - | 773,202 |
| | (64,170) | (10,035,375) | (73,531) | (186,443) | (312,951) | - | (73,955,718) |
| + Disposals/retirements | - | - | - | - | - | - | - |
| - Depreciation 2015 | (77,538) | (17,971,187) | (28,006,562) | (172,000) | (533,646) | (846,597) | (38,982,871) |
| Adjustment to depreciation 2015 | (141,708) | (28,006,562) | (152,710) | (358,443) | (846,597) | - | (112,938,589) |
| Ending balance as of 31 December 2015 | 3,345,816 | 50,124,648 | 688,960 | 1,841,006 | 1,328,159 | 4,638,783 | 109,469,300 |

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9. Other Non-Current Assets

| Other Non-Current Assets | 2015 | 2014 Restated | 2014 Reclassified |
|--------------------------------------|------------------|------------------|----------------------|
| Long Term Receivables for Provisions | 4,208,214 | 3,352,885 | 3,352,885 |
| Other Non-Current Assets | - | - | - |
| Total | 4,208,214 | 3,352,885 | 3,352,885 |

The accounts Long Term Receivable for Provisions cover amounts reported as Provisions for which there is no Special Carry Forward approved and no other budget credits available as of 31 Dec. 2015. The 2 cases are related to the Pension contribution gap for NHQSa (855,329 EUR) and the Company's claim for electricity arrears at former JFC Naples HQ compound (3,352,885 EUR). Details can be found in Note D.

Liabilities – Current Liabilities**10. Payables**

| Payables | 2015 | 2014 Restated | 2014 Reclassified |
|---------------------------|----------------------|----------------------|----------------------|
| Payables to Suppliers | (237,662,423) | (223,897,742) | (223,897,741) |
| Payables to Staff members | (98,069) | (290,618) | (290,618) |
| Payables to Nations | (715,471) | (460,488) | (485,376) |
| Other Payables | (9,731,730) | (12,077,837) | (12,077,837) |
| Total | (248,207,693) | (236,726,685) | (236,751,574) |

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:

- 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.

Foreign Military Sales (FMS) cases. This category represents payables due to goods and services acquired for NAEW&C Force GK HQ through NSPA including those related to FMS cases acquired from the US Defence Department through the Agency. The NAEW&C Force GK HQ 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. Therefore, the financial information related to FMS is reflected in the ACO FS on a modified cash basis and not on accrual basis.

- NATO Agencies providing services to ACO Commands. The accrued and open payable balances include approx. 4, 2 MEUR for ACT, 39, 6 MEUR for NSPA and 105, 3 MEUR for NCIA.

Other payables

Following IBAN recommendation¹⁰ 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 EUR.

NSIP accounts at SHAPE were maintained on BUDCOM and at the time of migration to NAFS, on 31 December 2003, unrealised currency fluctuations amounted to 7,622,095 EUR.

Since there is no revaluation of the intercompany accounts, the balance is also reported at the end of 2015, adjusted for any other identified currency differences.

¹⁰ See (IBA-IR (2002)86)

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11. Deferred Revenue

| Deferred Revenue | 2015 | 2014 Restated | 2014 Reclassified |
|--|----------------------|----------------------|------------------------------|
| Deferred Revenue MB | (177,968,248) | (160,769,373) | (176,149,373) |
| Liabilities from MB Lapse | (55,417,157) | (60,094,712) | (60,094,712) |
| Liabilities from MB Result of the year | (8,112,360) | (7,231,865) | (7,231,865) |
| Liability from unrealised exchange rate differences | (5,067,746) | (3,275,087) | (3,032,313) |
| Deferred Revenue NSIP | (12) | (789,319) | (789,319) |
| Liabilities from NSIP Cash Call | 504,919 | (1,014,063) | (1,014,063) |
| Liabilities from NSIP Accumulated result of the year | (1,257,547) | (1,215,001) | (1,215,001) |
| Other Deferred Revenue | (459,925,119) | (276,790,795) | (273,370,515) |
| Deferred Revenue Inventory | (27,721,714) | (27,806,223) | (26,069,445) |
| Total | (734,964,984) | (538,986,438) | (548,966,606) |

Deferred Revenue MB

Deferred revenue for MB budgets corresponds to contributions for each budget/cost share under ACO responsibility eligible for call to NATO members' Nations 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 MB Lapse

| MB Lapse | 2015 | 2014 Restated | 2014 Reclassified |
|------------------------|---------------------|----------------------|------------------------------|
| Budgetary lapses | (35,008,695) | (38,125,376) | (38,125,376) |
| Overestimated accruals | (20,280,035) | (22,071,672) | (22,071,672) |
| Other adjustments | (128,427) | 102,336 | 102,336 |
| Total | (55,417,157) | (60,094,712) | (60,094,712) |

These liabilities are used to record unused budget credits authorized as of end of year 2015. The lapse is an amount owed back to the Nations. The balance will be included in the 2nd Assessment call for 2016 and will be distributed by type and cost share as per below table.

| Cost share | 16N NAEW | 17N NAEW | 28N NCSEP | 26N AGS | 28N AGS | 28N AOM |
|--------------|----------------|----------------|------------------|------------------|------------|-------------------|
| TOTAL | 477,054 | 221,634 | 8,818,627 | 1,807,269 | 281 | 44,092,292 |

Liabilities from Result of the year

| Distribution of Result of the year | 2015 | 2014 Restated | 2014 Reclassified |
|--|--------------------|----------------------|------------------------------|
| Result of the year MB | (9,947,565) | (9,772,761) | (9,772,761) |
| Unrealised exchange rate gain/loss | 1,792,659 | 2,497,282 | 2,497,282 |
| Result of the year NSIP | 42,546 | 43,614 | 43,614 |
| Liabilities from Result of the year | (8,112,360) | (7,231,865) | (7,231,865) |

The net amount of miscellaneous income, interest revenue, bank charges, realised gain/losses to be returned to the Nations is summarised at ACO consolidation level, apportioned by type, cost share and mission and reflected as a liability.

The balance will be included in the 2nd Assessment call for 2016 and will be distributed by type and cost share as per below table.

| Cost share | 16N NAEW | 17N NAEW | 28N NCSEP | 26N AGS | 28N AGS | 28N AOM |
|--------------|------------------|--------------|------------------|--------------|--------------|------------------|
| TOTAL | 2,977,461 | 5,121 | 3,537,956 | 9,564 | 3,043 | 1,579,215 |

The unrealised gain/loss for exchange rate is not part of the redistribution.

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Deferred Revenue NSIP

On a quarterly basis, expenses, forecasts and status of the projects are updated in the CIRIS system tracking the NSIP projects for all the HN's. The quarterly revision is the basis for the calculations of the NSIP calls for contributions. Calls not expensed in the year are Deferred Revenue. Any difference is normally returned with the following cash calls.

Liabilities from NSIP Cash Call

The difference between forecasted expenses and the actual expenses is returned with the cash calls for the following period. The balance represents the forecasted amounts for 3rd and 4th quarter 2015 less actual expenses. The call for 2015 represented the actual expense.

Liabilities Result of the year NSIP

| Result of the year NSIP | 2015 | 2014 Restated | 2014 Reclassified |
|--|--------------------|--------------------|--------------------|
| Cumulated result of previous years | (1,215,001) | (1,171,387) | (1,171,387) |
| Result of the year | (42,546) | (43,614) | (43,614) |
| Liabilities Result of the year NSIP | (1,257,547) | (1,215,001) | (1,215,001) |

Interest and results, distributed by cost share, have been reported on a recurring basis. However, the accumulated result from 2008 to 2015 still needs to be redistributed to the Nations. This is the responsibility of the NOR.

Other Deferred 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 EUFOR and the Escrow account.

Deferred Revenue Inventory

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

12. Advances

| Advances | 2015 | 2014 Restated | 2014 Reclassified |
|--------------------------|----------------------|----------------------|----------------------|
| Advance MB Contributions | (308,707,154) | (338,454,675) | (338,454,675) |
| Other Advance | (312,262) | (283,984) | (283,984) |
| Total | (309,019,416) | (338,738,659) | (338,738,659) |

Advance MB Contributions

The amount is related to:

- Advance contribution called on the 2nd call 2015 for an amount of EUR 225,676,583 (NAEW/AGS/NCSEP/AOM cost share) and related to budget authorization for 2016. These advances are recorded using appropriate account code by type/year/cost share. The amount is lower than 2014 due to the decrease in the 2016 budget authorisation.
- Advances for an amount of EUR 83,030,571 made by some member Nations, mainly in coordination with the NATO IS Treasury for non ACO called advances.

13. Short Term Provisions

| Short Term Provisions | 2015 | 2014 Restated | 2014 Reclassified |
|-----------------------|---------------------|---------------------|---------------------|
| Short Term Provisions | (24,638,559) | (24,267,703) | (24,267,703) |
| Total | (24,638,559) | (24,267,703) | (24,267,703) |

Provisions are valued with best accounting estimate available. The amounts of the provisions reported in the ACO 2015 statement of financial position are shown in more detail in Note D, Table. All of them are recognised as Short Term with the exception of 2 legal Provisions totalling 4,208,214 EUR reported as Long Term.

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14. Other Current Liabilities

| Other Current Liabilities | 2015 | 2014 Restated | 2014 Reclassified |
|----------------------------------|-----------------|----------------------|------------------------------|
| Short Term Loans | (31,436) | - | - |
| Total | (31,436) | - | - |

The short term loan reported above is the part of the finance leases recorded for SHAPE HQ to be paid in 2016.

Liabilities – Non-Current Liabilities**15. Long Term Provisions**

| Long Term Provisions | 2015 | 2014 Restated | 2014 Reclassified |
|-----------------------------|--------------------|----------------------|------------------------------|
| Long Term Provisions | (4,208,214) | (3,352,885) | (3,352,885) |
| Total | (4,208,214) | (3,352,885) | (3,352,885) |

See Note B9

16. Non-current Deferred Revenue

| Deferred Revenue | 2015 | 2014 Restated | 2014 Reclassified |
|-----------------------------------|----------------------|----------------------|------------------------------|
| Deferred Revenue for PP&E and WIP | (109,353,193) | (83,629,502) | (72,619,400) |
| Total | (109,353,193) | (83,629,502) | (72,619,400) |

In accordance with the NATO IPSAS Manual, option 1 has been applied in the ACO Consolidated FS. 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 Deferred Revenue is the counterpart of the PP&E Net Value net of the amount recorded as liability for finance lease.

17. Other Non-Current Liabilities

| Other Non-Current Liabilities | 2015 | 2014 Restated | 2014 Reclassified |
|--------------------------------------|-----------------|----------------------|------------------------------|
| Long Term Loans | (84,670) | - | - |
| Non-Current Liabilities | - | - | - |
| Total | (84,670) | - | - |

The long term loan represents the liability related to the finance lease reported for SHAPE HQ.

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C. Notes to Statement of Financial Performance

18. Statement of Financial Performance - Reclassification

| <i>For the year ended 31 December 2014</i> | | <i>Reclassified</i> | |
|--|-------------------------------------|------------------------|------------------------|
| <i>in EUR</i> | | <i>2014</i> | <i>2014</i> |
| Revenue | | | |
| | ACO BC | | (1,068,542,133) |
| | ACO NSIP | | (534,463) |
| | Non-Consolidated BC | | (6,734,920) |
| | Miscellaneous ACO Income | | (3,180,516) |
| | Revenue | (1,075,811,516) | |
| | Other Revenue | (3,180,516) | |
| | Financial Revenue | (7,397,069) | (7,397,069) |
| | Total to be returned to the Nations | 9,772,761 | 9,772,761 |
| Total Revenue | | (1,076,616,340) | (1,076,616,340) |
| Expenses | | | |
| | ACO BC | | 1,043,705,040 |
| | Personnel | | 212,597,020 |
| | Contractual Supplies and Services | | 827,883,911 |
| | Capital and Investment | | 3,224,109 |
| | ACO NSIP | | 534,463 |
| | Capital and Investment | | 534,463 |
| | Non-Consolidated BC | | 6,734,920 |
| | Personnel | | 94,466 |
| | Contractual Supplies and Services | | 6,640,454 |
| | Capital and Investment | | - |
| | Personnel | 213,475,073 | |
| | Contractual Supplies and Services | 821,299,527 | |
| | Depreciation and Amortization | 24,837,094 | 24,837,094 |
| | Provisions | 16,197,351 | - |
| | Other Expenses | 10,027 | 10,027 |
| | Financial Costs | 797,268 | 794,796 |
| Total Expenses | | 1,076,616,340 | 1,076,616,340 |
| Result of the year | | - | - |

19. Revenue

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

20. 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.

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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 FS. Contributions to the plans are expensed when occurred. The total amount paid for 2015 is 3,170,500 EUR (which shows a slight increase as compared to 2,848,703 EUR paid in 2014) for NIC staff. Accurate data is not available for locally hired staff, LWR and LCH, but based on available data the total expense is estimated to be 1.7 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 Note D.

Termination benefits are applicable if PE positions are deleted and replacement of an employee is not possible. This change requires approval at high level and budget credits must be approved by the BC. Termination benefits are recorded as a liability when employees have been notified of termination, as described under Note D 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.

Table C20 – ACO Personnel

| ACO Position | Approved PE/CE | Filled Positions PE/CE |
|------------------------|-----------------------|-------------------------------|
| Civilian (PE) | 1,136 | 1,026 |
| Civilian (CE) | 57 | 56 |
| Military | 6,783 | 5,943 |
| LWR | 803 | 727 |
| VNC | 12 | 48 |
| Others | 69 | 58 |
| ICC | 165 | 154 |
| LCH | 263 | 245 |
| ACO Grand Total | 9,288 | 8,257 |

b) Contractual Supplies and Services

| Contractual Suppliers and Services | 2015 | 2014 Restated | 2014 Reclassified |
|---|--------------------|----------------------|--------------------------|
| Total | 623,553,098 | 820,365,623 | 821,299,527 |

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 expenses reflected in this area are also related to budget credits nominally labelled '*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.

This expense category includes a considerable amount for the maintenance of the NAEW 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

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Maintenance (DLM). The third level is typically performed by Industry and contractually governed by the DLM Contract MG2012 between NSPA and IAMCO. 2014 amount was lower than average even with only 2 DLM events with no reduction of the overall maintenance costs due to the unchanged number of aircrafts. The 2015 Fiscal Year represents a return to a more linear funding for DLM events also reflecting the retirement of one of the aircraft.

During 2015 NAEW&C Force GK HQ provided support to the reassurance measures for an amount of 2.4 MEUR in excess of the annual budget. This amount was covered through lapses from previous year's funding as authorised by the BC¹¹.

The expense occurred during 2015 for Foreign Military Sales totalling 36,228,169 EUR are reported in a separate line as it reflects cash based amount versus accrual basis. This is in line with the ACO Accounting Policy reflected in Note A.

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/year, 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 2015 (€) | Amount to pay in 2016 (€) | Amount to pay in 2017-2020 (€) | Renewal or purchase options/restrictions |
|---------|---------------------|--------------------------|-------------------------|---------------------------|--------------------------------|--|
| JFCBS | Transport Equipment | Civilian lease-fleet | 158,327 | 151,761 | 241,000 | - |
| NAEW&CF | AIS | Servers | 289,623 | 289,623 | 579,246 | Expires 2018 |
| NAEW&CF | AIS | Copiers | 61,485 | 61,485 | 61,485 | Expires 2017 |
| JFCNP | Structures | NS2AU Villa Addis Ababa | 137,074 | 143,928 | 394,575 | - |
| JFCNP | Transport Equipment | NS2AU car rental | 56,607 | 54,830 | 150,314 | - |
| JFCNP | AIS | Multi-Functional Devices | 131,573 | 163,325 | 484,579 | Expires 2020 |

d) Depreciation

| Depreciation and Amortization | 2015 | 2014 Restated | 2014 Reclassified |
|-------------------------------|-------------------|-------------------|-------------------|
| Total | 38,982,871 | 39,407,585 | 24,837,094 |

The increase on the 2014 restated amount is mainly due to changes in the depreciation for PP&E, other infrastructure, and vehicles balances reported in Note B8. The assessment of the asset categories (Buildings, Other Infrastructure and Installed Equipment) has also an impact due to the difference in the useful life.

Reimbursable activities

ACO manages a number of reimbursable activities on behalf of other entities. The total expenses made by ACO for reimbursable activities in 2015 amount to 60.9 MEUR which reflects an increase of 3 MEUR compared to 2014. The reimbursable costs relate to a variety of services financially administered by ACO, as follows:

- An amount of 4.4 MEUR relates to reimbursable costs made by HQ NAEW&C Force GK HQ for the provision of aviation fuel for national use.
- An amount of 3.2 MEUR corresponds to travel services and administration of payrolls provided to the NCIA mainly by LANDCOM HQ and JFC Naples HQ, plus few other ACO entities.
- A total amount of approximately 23 MEUR corresponds to real life support services provided by KFOR and RS HQs to the TCNs, such as messing, water, billeting, laundry, fuel whose costs are not eligible for common funding and, therefore, shall be borne by the Nations (NBC). The NBC costs are, therefore, pre-financed by ACO and afterwards recovered from the TCNs through an established cost recovery mechanism.

¹¹ Ref. nr. BC-DS(2015)0081 dated Dec. 2015

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- Expenses for the remaining amount were made mainly by the ACO static HQs on behalf of local NMRs, MWAs, Host Nations and other co-located entities in accordance with Memorandum of Understanding or other ad-hoc agreements. This includes but is not limited to, advance payments made by ACO for shared utilities, maintenance and cleaning services, etc. which is recovered from the customers through charges calculated on a pro-rata basis.

21. Total to be returned

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 2016.

D. Contingent Assets, Contingent Liabilities and Provisions**Contingent Assets**

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

Contingent Liabilities

Based on IPSAS 19.101 and the nature of the items identified for the 2015 reporting period, ACO has aggregated the contingent liabilities reported by the ACO consolidated entities in the following two classes:

A. Those related to employment issues and to third party liabilities. This class includes all kind of employment issues which could give rise to an outflow of resource for ACO to settle the liabilities, such as litigations pending before the local Labour Courts or the NATO Administrative Tribunal; as well as claims made against ACO in accordance with the NATO SOFA (art. VIII) for damages to any property owned by the Host Nation caused by a NATO staff member or employee in the execution of his/her duties or arose from the use of any vehicle, vessel or aircraft owned by the NATO forces¹²;

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, as well as claims for alleged breaks of contractual clauses.

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 occurred during the preparation of the ACO FS between SHAPE, the local sites and the NATO agencies when involved in the business.

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

A. Contingent liabilities related to employment issues and to third party liabilities.

With regard to the first class of contingent liabilities the overall aggregated total for this class of contingent liabilities has been estimated at approximately 38.4 MEUR. The amount for this class of contingencies has slightly increased in 2015 as compared to 2014 where the same class was estimated at 36.5 MEUR. The overall increase of 1.9 MEUR is mainly due to the review of the Belgian security clearance issue with the most up to date information at the reporting date which is partially off-set by the reclassification from class A to B of the claim for accommodation rental services at KFOR. A breakdown of the above mentioned amount of contingent liabilities reported in the 2015 FS is provided in the following paragraphs¹³:

A.1. SHAPE – Belgian NATO International Civilians (NICs) and Local Wage Rates (LWRs) – Security clearance (37.4 MEUR)

This case was also reported in 2014. It relates to the new procedure provided by the Belgian law with the Royal Decree of 4 September 2013 that requires the payment of a fee by NATO International

¹² With regard to NHQSa, the claims process in the BiH theatre of operations is governed by the GFAP SOFA and Claims Annex to the Technical Arrangement between the Republic of BiH Ministry of Justice and Implementation forces, not by article VIII of NATO SOFA.

¹³ Figures in brackets have been rounded

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Civilians of Belgian nationality who request a new or the renewal of the security clearance BEL National Security Authority (NSA). SHAPE's view 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 potential costs associated with the notice period and the LOJI should the employment contracts be terminated were reported by SHAPE to the BC on 1 December 2014¹⁴. The average cost to be paid by SHAPE to a NIC or a LWR in such an event was calculated as 123 KEUR and 165 KEUR, respectively, which include the six months' notice period plus the LOJI. The overall amount is estimated based on the number of SHAPE Peace Establishment (PE) positions filled in at the end of 2015. By applying the two above mentioned average costs to the existing Belgian NICs and LWRs as at the end of 2015 the overall amount to settle the liability increases to 37,389,000 EUR.

The issue was discussed in January 2015 by the Budget Committee who considered that it was not within its remit to take any action and recommended SHAPE to bring the issue to the attention of the Deputies Committee (DPRC). It was subsequently discussed at the 19 March 2015 meeting of the NATO Advisory Panel on Administration where the Panel considered that it was not the responsibility of the Organization to pay the costs associated with the security clearances and noted the possible discussions at the DPRC. Following the recommendation of the Budget Committee SHAPE brought to the attention of the DPRC on 30 September 2015¹⁵ the issue of the potential financial impact resulting from the initial decision taken by Belgium to impose a charge for the production of security clearances, and the subsequent decision taken by ACO that such charge should be paid by the individuals concerned and not by the Organization. Until now the issue has not been discussed by the DPRC and any decision on where these financial charges should lie is still pending.

A.2. NHQSa Pension contribution of Local Civilian Hire (LCH) Staff (838.6 KEUR)

A contingent liability of 838,584 EUR is disclosed in relation to the social contribution underpaid by the Military Budget and NSIP in the period from January 1996 to March 2006 to local civilian hires (LCH) employed at NHQSa. During the above mentioned period NATO directly paid the contributions 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. This case was also reported in the 2014 ACO FS and the estimated amount due by NATO to the pension fund was fully disclosed as a contingent liability due to the uncertainties surrounding the calculation of the precise amount required by NATO to settle its liability. The calculation prepared by JFCNP/NHQSa has been recently audited by SHAPE Internal Audit¹⁶ to quantify the employer's liability; the result of the internal audit has highlighted that the amount of 774,657 EUR plus 80,672 EUR corresponds to the share of the liability for the MB and the NSIP, respectively and they have been recognised as a provision in the 2015 ACO FS. However, the aforementioned amounts are net of the member's share of the total contribution. Had NATO been requested to assume the entire cost of the required contribution the share of the liability for the MB and the NSIP would increase to the amount of 1,515,276 EUR and 178,637 EUR, respectively. The difference between the total amount of the liability for both the MB and the NSIP (1,693,913 EUR) and the amount recognised as a provision (855,329 EUR) is therefore considered as a contingent liability for 2015.

A.3. Various HQs – Claims under NATO SOFA Article VIII (31.7 KEUR). An overall amount of 31,792

EUR is considered reliable and potentially required to settle various ACO 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. Compared to 2014 the amount of contingent liabilities related to the 'ex gratia claims' has reduced as no contingent liability is disclosed in the 2015 FS in relation to Glamoc Range claims for which a provision has been recognised as further explained in the paragraph related to the legal provisions.

A.4. Various HQs – labour and employment issues (106 KEUR). An overall amount of 106,070 EUR is

reported by SHAPE and LANDCOM as possibly required settling various liabilities related to employment cases pending at the reporting date before the respective HN's labour courts. At this time,

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

¹⁵ SH/RESJ1/PER/15-310923 dated 30 September 2015

¹⁶ SH/J8IA/ML/16-11 dated 24 March 2016

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ACO cannot provide an estimate as to the outcome of the above lawsuits nor can it determine the likelihood or the final amount of loss or legal costs associated with the outcome.

- A.5. **Various HQs – liabilities with no reliable amount.** It should be noted that contingent liabilities in this class include various cases for which it is not possible at this stage to estimate reliably the amount necessary to settle the liability. Within this group it is worth noting the following case:
- **NHQSa – Request for conversion of International Civilian Consultants (ICCs) at NHQSa to NICs.** Nine ICCs at NHQSa who are represented by the Omnia Strategy LLP have requested NATO to convert their posts into NICs. Although the ICC they have a contractual relationship with NHQSa they have decided to bring their claims against SHAPE and went before the NATO Administrative Tribunal (NAT) to request to be granted the status of NATO civilians with retroactive effective to when they were recruited by NHQSa as ICCs. JFCNP J1 has estimated that the potential overall annual cost increase for NHQSa in the event that the ICCs were 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 conversion¹⁷. Overall the nine ICCs have in fact requested a payment ranging between 12 to 20 MEUR. However, this is not considered a reliable amount as many of the allowances they claim do not have a retroactive effect. Against the request made by the ICC before the NAT SHAPE has so far raised a question of jurisdiction contesting the competency of the NAT to discuss the case as the Tribunal has only jurisdiction upon NATO Bodies and NHQSa does not hold this status. Nevertheless, the Tribunal may want to hear the merit of the case. Although SHAPE does not expect a decision by the NAT in favour of the claimants this case is relevant due to the potential impact on other ICCs ACO-wide who may decide to follow the example of the ICCs of the NHQSa.

B. Contingent liabilities of a legislative/contractual nature

With regard to the second class of contingent liabilities the overall aggregated total amount is equal to an estimated value of 418 MEUR. The significant increase in value of this class of contingent liabilities compared to 2014 where the same class amounted to 27.9 MEUR is due to the decision to disclose as a potential liability the share of the TCNs for 3 contractors' claim related to ISAF/RS, i.e. Supreme Fuel and Food claims and the claim for the Container Storage Fees at Karachi Port. It should be noted that many of the costs associated to the liabilities reported herein are covered by a special carry forward of credits into 2016 approved by BC. A reconciliation of the special carry forward approved in 2015 by the BC with the associated contingent liabilities and legal provisions is provided in the relevant table included in the notes to the FS. More detailed information about the liabilities disclosed under the above mentioned class is provided in the following paragraphs:

B.1. ISAF closure - Contractual claim by the Supreme Group against JFCBS and SHAPE - Fuel Contracts KAF and Herat (394.7 MEUR)

On 1 December 2015 the former contractor for NATO fuel services in ISAF issued, via a NLD law firm, a claim form (summons) against SHAPE and JFCBS via a NLD court for claims relating to the KAF and Herat Fuel BOAs (ISAF legacy). A total amount of 431,897,895 USD has been reported by JFCBS in relation to issues related to the provision of fuel in ISAF with Supreme Group. The amount has been converted in 394,679,608 EUR using the exchange rate as at 31 December 2015 and the liability includes the amount of 42,159,156 EUR corresponding to the NATO share, plus liability attributable to the TCNs at 352,520,452 EUR. It should be noted that JFCBS is analysing whether there are elements to justify filing a defence and counterclaim due to possible systemic overcharging of BOA customers by the contractor between 2009 and 2014. "SHAPE updated the RPPB on 15 February 2016 on the current status of the fuel contracts and claims. Additionally, the RPPB, through an official report, informed the NAC of the current situation.

B.2. JFC BRUNSSUM/SHAPE – ISAF closure – Various short-term liabilities (14.1 MEUR)

For the liabilities listed below the BC has approved a total special carry forward of credits of 27,163,910 EUR to cover potential ISAF related liabilities and has agreed that this amount should be frozen until required¹⁸. Of this total, 14.1 MEUR represents specific liabilities which are expected to mature in the near future, as follows:

- **Container storage cost (2.3 MEUR).** This relates to the possible claim from the Pakistan authorities regarding ISAF containers stored at the Karachi port for which relevant fees have not been paid since 2011 pending validation of ownership and liability, which has to be determined by the US for containers clearly marked as US and for NATO for those containers marked as a

¹⁷ Reference to JFCNP/SPT/J1/OJSHRX/2540/TT13028-14 dated 18 November 2014

¹⁸ BC-DS(2015)0081 dated 20 January 2016

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consignee of ISAF/NAMSA. A special carry forward of credit was approved by the BC amounting to 6,879,500 EUR, based on the estimate of the potential liability of 427 containers at €150 per day, until the end of 2014. Any liability in 2015 or beyond would further increase the liability. A review of the container list however shows quite clearly that the majority are ISAF/NAMSA containers mainly linked to Sodexho, and therefore JFCBS has recently undertaken a further assessment responsibility, estimating that the amount of 61,000 USD (55,743 EUR) corresponds to the NATO share of the liability with the remaining amount of 2,231,451 EUR attributable to the TCNs.

- **Food Claim (9.1 MEUR):** on 24 October 2014 the former contractor for NATO food services in ISAF expressed its intent to submit a claim at the end of the ISAF catering contract. The claim is currently under JFCBS Legal revision as the contractor has only recently submitted an initial set of supporting documents necessary to evaluate how the claim process should proceed. It should be noted that this initial set of documentation may lead to a need for a full document analysis for which additional staff and legal advice may be required. The current estimated NATO liability amounts to 913,826 EUR with the amount of 8,224,436 EUR identified as the TCN share of the liability. A special carry forward of 1.7 MEUR from the 2014 ISAF budget into 2016 has been approved by the BC for this liability.
- **NAEW delegation (175 KEUR).** NAEW expects 175,000 EUR shortfalls in 2014/ISAF delegation to cover overtime costs. The current amount is an estimated amount primarily to manage currency fluctuations for fuel deliveries yet to be billed from the period of NAEW support to ISAF in 2014. Where the final amounts would further exceed the estimated 175 KEUR, these will be charged to the potential long-term future liabilities. A special carry forward of the same amount of the liability has been approved by the BC from the 2014 ISAF budget into 2016.
- **JFC BRUNSSUM/SHAPE – ISAF closure – NSPA employees LOJI (2.6 MEUR).** Due to the termination of the ISAF mission on 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. The total at 2.6 MEUR includes an amount of 2.3 MEUR identified as a potential liability at the ISAF closure on 31 December 2014 for which funds have been ring-fenced within the ISAF 2014 Budget plus an amount of 299 KEUR related to NSPA personnel who transferred between ISAF and Resolute Support with the associated potential LOJI to be funded by the RS 2015 budget. A special carry forward of credits of 1,410,300 EUR was approved by the BC to cover this liability.

B.3 JFC BRUNSSUM/SHAPE ISAF closure Dining Facility (2.2 MEUR)

In the special report C-M(2015)0052 dated 17 July 2015 the IBAN recommended that ACO use all available means to recoup money related to overpayments to the HQ ISAF catering contractor for costs related to the amortization of the dining facility. These overpayments totalled €2.2 million, which the contractor acknowledged. The RPPB recommended [AC/335-N(2015)0006-REV1, dated 3 March 2015] that JFCBS resolve the issue of overpayments no later than mid-August 2015. Subsequently, €2.2 million was unilaterally withheld from the final monthly invoices and remains secured in the ACO Treasury pending final closure of all the contractual claims with the HQ ISAF catering contractor. However, this could lead to litigation with the contractor that may request the release of the 2.2 MEUR.

B.4 JFC BRUNSSUM - Trident Juncture 2015 NSPA Project Management Cost (130.6 KEUR)

NSPA has also claimed an amount of 130,637 EUR due to outstanding NSPA Project Management Cost (PMC) in support of the Trident Juncture exercise. The actual cost of the NSPA PMC is 150 KEUR. This cost was to be recaptured within two cost structures: one being a surcharge to the meals delivered by each swipe and the other via a surcharge to the Debit Card sales and MWR/Coffee Tent sales. The amount captured from the meal sales (13 KEUR) was very little in comparison to the expected revenue from meals served. The MWR Tent saw also very little sales compared to the other commercial areas on base and managed to recoup only 6 KEUR. NSPA and JFCBS are currently discussing a way ahead for NSPA to recover the difference of 131 KEUR of the total actual costs sustained.

B.5 HQ NAEW&C Force HQ – NSPA accruals – (512.5 KEUR)

Based on ACO policy on accruals at NAEW in relation to services provided by NSPA in the event that NSPA has provided services in excess to what ordered by NAEW&C Force HQ and the services in excess are not covered by a contract authority approved by the BC, NAEW&C Force HQ may decide not to receive the services and deny payment to NSPA. For this reason NAEW&C Force HQ discloses only a possible liability and does not recognise the provision. The value disclosed above includes an amount of 321.5 KEUR related to services provided in 2014 plus the amount of 191 KEUR of services provided in 2015.

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B.6 Closure of HQ NAEW&C Force GK HQ Airframe DLM contractor's Activities (5.8 MEUR)

As a consequence of the NAEW&C fleet decision to reduce the aircraft Depot Level Maintenance (DLM) from two companies down to one, the contractor that will cease the provision of DLM services to NAEW&C Force GK HQ, provided a Rough Order of Magnitude (ROM) cost amounting to 18 MEUR for closure/deactivation of all activities related to NAEW&C Force GK HQ airframe source of repair (SOR). The ROM was followed in January 2015 by a more precise estimate of 11,200,000 EUR made by the contractor of costs and damages suffered due to the DLM closure at NAEW. NSPA replied in February 2015 to the contractor confirming that some areas of the claim are considered eligible for reimbursement, i.e. material buy back, handling, packaging and support and repair independent activity during the termination period; whereas the areas of contractor's employee relocation, 10 year technical support and loss of profits are not considered eligible. As a result a potential amount of 5,800,000 EUR is considered eligible out of the total amount claimed by the contractor of 11,200,000 EUR. However, the costs related to the eligible areas shall be first documented and substantiated by the contractor and verified through NSPA's procurement and audit in order to establish payable amounts. It should be noted that the BC approved a special carry forward in 2016 of 1,000,000 EUR from the 2015 NAEW&C reorganization budget to cope with this liability. Moreover an amount of 2,000,000 EUR has been ring fenced within the 2016 NAEW&C Force GK HQ reorganization budget out of the overall amount of 5,000,000 EUR so far approved by the BC for contract authority to cover costs for the DLM SOR de-activation. Reconciliation with the special carry forward is provided in the relevant table of the special

B.7 KFOR – Claim for accommodation rental services at KFOR (491.2 KEUR).

In 1999 KFOR/SHAPE contracted with 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 it was discovered that the facilities provided by the company 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 the company never accepted to provide invoices on that basis. In 2001 the company succeeded in obtaining an arbitration award against NATO to pay the amount outstanding including interest of 537.5 KUSD (491,182 EUR). NATO does not consider this award valid because the contractor 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 company until the outstanding amount is settled (491,182 EUR). 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 on-going and it is difficult to predict when those proceedings will be finalized and what the final outcome may be. Although the court procedures are not yet finalised and it is not clear to what extent the outcome of those procedures will affect NATO/KFOR directly, it is deemed it prudent to disclose this issue as a potential liability for KFOR.

B.8 JFC BRUNSSUM/SHAPE – ISAF closure – Long-term liabilities

Contractually NATO has a potential liability for five years after the end of the contract and from a tort perspective three years after the end of the contract. At this time, and based upon recent issues with the food and fuel contracts, it has been determined that there remains an opportunity for contractors to submit claims against ISAF in the future. These future liabilities could include restoration of facilities, pollution claims, site reclamation and environmental clean-up and other contractors' claims. In order to ensure that the Nations avoid additional fund requests for ISAF liabilities, the Budget Committee authorised a special carry forward of 12,146,471 EUR in 2016 from the 2014 ISAF budget. At this time, ACO cannot provide an estimate as to the outcome of these future liabilities nor can it determine the likelihood or the final amount of costs associated with them.

B.9 NAEW&C Force GK HQ – Turkish VAT liability for DLM services

An outstanding issue was reported by NSPA to ACO with regard to Turkish VAT liabilities levied against IAMCO for DLM and services provided to NAEW&C Force GK HQ through NSPA. The last documentation on this subject provided by NSPA to SHAPE was dated April 2012 reflecting an amount of approximately 270,000 EUR with projection for growing of approximately 36,000 EUR per annum only for fixed cost. NATO is normally exempted from VAT liabilities and it is unlikely a contractor or subcontractor would succeed to claim VAT against NATO. For this reason the above

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mentioned amount is not deemed a contingent liability at this stage. SHAPE will continue to monitor the issue with the Turkish authorities through NSPA.

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 April¹⁹. 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 2015 / 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 amount 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 2015.

d. Legal Provisions (7.2 MEUR)

Under this category the following provisions above the materiality threshold of 5,000 EUR have been recognised in the FS for an overall amount of 7,236,145 EUR. The amount for 2015 is 12.9 MEUR lower as compared to 2014 mainly as a result of reviewing some of the 2014 provisions made for the closure of the ISAF mission, such as TCSOR MOU liabilities, remediation, descoping and redeployment activities (Thales containers). These provisions have either materialised during 2015 or were reversed at the reporting date if a transfer of economic benefits or service potential was no longer deemed probable.

1. JFC NAPLES

a) **Company's claim for cleaning contract at Bagnoli Compound (200 KEUR)**

In the second half of 2012, JFC NAPLES started to move to the new compound in Lago Patria. JFC NAPLES P&C issued new contracts for cleaning and ground maintenance services at 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 former contractor.

At that date JFC NAPLES also decided to suspend outstanding payments to the provider mostly related to non-satisfactory contract performance and also because of the contractor's employees claiming that the company had failed to pay salaries, severance pay, pension contributions, etc. In March 2014 the company obtained a payment injunction from the Court of Naples based on the invoices for which payment had been

¹⁹ 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).

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suspended by JFC NAPLES for the reasons above. JFC NAPLES challenged this injunction before the Court of Naples which has so far acknowledged JFCNP's right to make sure that no payments be made to the contractor before the contractor settles its case(s) with its former employees.

The final outcome of this case is likely to depend on JFC NAPLES's ability to prove the company's failure to perform as well its non-fulfilment of contractual obligations. However, according to JFC NAPLES Legal Office the case may make 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.

b) Remediation cost for soil pollution at Bagnoli compound (194.8 KEUR)

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 local authorities. At the end of 2015 a first meeting was held with the IT authorities who by law are to approve the plan for the survey prepared by JFC NAPLES contractor, and to then supervise its implementation. JFC NAPLES has been requested to enlarge the area to be surveyed, which may lead to additional fees to be paid to JFC NAPLES contractor. Furthermore, JFC NAPLES may be requested to apply more restrictive criteria to assess the level of pollution. This item is currently reserved to Italian authorities' decision. It is possible the final cost of the samplings to assess the environmental risk will be higher due to the enlargement of the area surveyed. No additional cost information is available and therefore it is recommended to recognise a provision of the same amount as last year of 194,800 EUR.

c) Company's claim for electricity arrears at Bagnoli Compound (3.3 MEUR)

Former JFC NAPLES energy supplier has claimed the payment of approx. 3.3 MEUR for arrears for the period 2005 – 2008 related to a malfunctioning of the electrical meter in the Bagnoli compound which was discovered in 2012 based on the recalculation of energy consumption by JFC NAPLES after the supplier discovered the malfunctioning of a meter. Fiscal documentation of the amounts claimed by company has been provided to JFC NAPLES and seems consistent with the alleged malfunctioning. JFC NAPLES has hired a technical consultant engineer), who will assess the issue from a technical standpoint (the malfunctioning of the meter). JFC NAPLES has also requested a written legal opinion to an external counsel on possible Court actions - if any - available to better protect JFC NAPLES interests in the matter. The technical consultant has provided a preliminary assessment, according to which the technical aspects of the malfunctioning as alleged by the energy supplier may not be grounded as described. If confirmed, this may lead to a reduction of the amounts possibly due to the company. The technical assessment of the malfunctioning issue by an engineer will constitute the basis for any further legal and financial consideration. With the contribution of the legal counsel JFC NAPLES will evaluate all the possible options in terms of court proceedings to pursue and protect JFC NAPLES interests in this matter. An outflow of resources is still very likely, but it is possible that the final amount to be paid will be lower than the contractor's request amounting to 3,352,885 EUR on which the provision was based. Nevertheless, it is recommended to keep the provision at the same amount as last year.

d) Challenge of termination by two LWRs formerly employed at JFC NAPLES SDNEI Verona (100 KEUR)

After the closure of the Verona site and the Reduction in Force (RIF) of JFCN LWRs, three of LWRs challenged the termination before the local Court. JFC NAPLES won the first degree case. JFC NAPLES settled the case with one of the three former employees, who waived her right to challenge the first degree judgement in exchange of the payment of the gross amount of approximately 10,000 EUR. The remaining two plaintiffs appealed the first degree judgement before the Court of Appeal of Venice. During the hearing held on 28 Jan 16, the Court summoned both parties and strongly urged the parties to find an agreed settlement before a judgment is issued. A proposal to settle the case for an amount equal to 24 salaries each had been submitted by the plaintiffs' counsel and rejected by JFC NAPLES LEGAD prior to the hearing. After the 28 Jan hearing and the clear indication from the Court that the parties should find a settlement, JFC NAPLES will investigate the possibility to start a negotiation with the counterparts based on the maximum amount of 12/14 salaries. The final amount should take into account the amounts that the plaintiffs would have to give back to JFC NAPLES (termination by out, etc.), interests, taxes, pension contributions, legal expenses, etc., Calculations will be complex and an update will be made later on. The Court of Appeals of Venice requested an update by the next hearing, scheduled on 17 Mar ch. Amount indicated of €100.000 is based on a settlement of 12 salaries calculated by JFC NAPLES J1. This is the best estimate at this stage.

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2. JFC BRUNSSUM HQ**a) NCIA invoices (254 KEUR)**

The amount of 253,808 EUR recognised as a provision includes outstanding invoices for: 171 routers of decommissioned POPs, Procurement support for Camp Dogan CISA-11 CIS removal and ICN Base Station Relocation. This amount is covered by the special carry forward in 2016 amounting to 27,163,910 EUR approved by the BC from the 2014 ISAF budget.

3. NAEW&C Force GK HQ**a) Employment case pending before the Court (8KEUR)**

Labour dispute of a LWR pending at the local labour court in Aachen/Heinsberg about lost allowances after re-organization.

b) NAEW&C Force GK HQ – NSPA accruals (61.5 KEUR)

Based on ACO policy on accruals for NAEW budgets in relation to services provided by NSPA, in the event that NSPA has provided services in excess to what ordered by NAEW&C Force HQ and the services in excess are covered by a contract authority approved by the BC, NAEW&C Force HQ has an obligation to receive the services and cannot deny payment to NSPA. For this reason, NAEW&C Force HQ recognises a provision due to lack of funds. The amount of 61,497 EUR recognized as a provision relates to goods and services provided by NSPA to NAEW&C Force HQ in 2015.

4. SHAPE HQ / NCISG HQ**a) Third party responsibility for Article VIII (14.2 KEUR)**

A provision amounting to 8,617 EUR and 5,610 EUR have been reported by SHAPE and the NCISG, respectively, representing 75% of the total amount due by NATO in accordance with article VIII SOFA for damages caused by NATO staff due to car accidents to third parties. For both claims the likelihood of the payment is assessed as virtually certain, thus requiring the recognition of a provision.

5. LANDCOM HQ**a) Labour court cases (27.4 KEUR).**

Two employment cases pending before the Court whose costs amount to 15,486 EUR and 11,922 EUR respectively are both expected to be settled in favour of the claimants.

6. NHQSa HQ**a) Third party responsibility for article VIII NATO SOFA (127.9 KEUR)**

The A total amount of 127,925 EUR has been estimated for various claims for third party liability. NHQSa is confident as to the outcome of those claims in favour of the claimants as well as of the likelihood and the final costs associated with the outcome.

b) Pension contribution gap (855.3 KEUR).

The amount of 855,329 EUR corresponds to the common funding share of the overall employer's liability amounting to 1,562,578 EUR for the social contributions underpaid by NATO in the period from January 1996 to March 2006 to local civilian hires (LCH) employed at NHQSa as explained in Paragraph A.2 above related to the contingent liabilities. The amount of the provision includes 774,657 EUR attributable to the MB and reflected in the NHQSa segment reporting, plus 80,672 EUR to the NSIP, recognised in the NSIP segment reporting.

c) Review of the provision made for Glamoc Range claims (900 KEUR).

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

A settlement plan was implemented in 2013 by NHQSa for the Glamoc Range claims related to damages provoked by NATO, IFOR, SFOR and AF BiH to privately owned land and houses for all manner of live fire training from 1996 to 2005 when the range was handed back to BiH. As at 31 December 2015 NHQSa received a total of 1451 claims. Out of the total number of claims received, 500 claims have been settled for an overall amount of 2,022,727 EUR while 704 claims were denied. A six-month extension of the program to 30 June 2016 was approved in December 2015 with the remaining 247 claims expected to be settled for a total amount of 900 KEUR. Accordingly this amount has been recognised as a provision in the 2015 ACO FS. A special carry forward for the same amount of the liability has been approved by the BC from the 2015 Balkans Operation budget into 2016.

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7. KFOR HQ**a) Claim related to the Gazela Shoe Factory for the outstanding rental costs of the NATO Liaison Office Skopje office location (1 MEUR)**

The amount of the claim is 1,060,214 Euro. Subject to the final legal assessment the Budget Committee has approved a special carry forward in 2016 from the 2015 Balkans Operations budget; the amount has been recently unfrozen subject to a detailed presentation of the claim and the legal position to the Committee following the finalisation of the legal proceedings.

b) VCN Site Antennas - use and damage of land (35 KEUR)

Case related to several VHF Communication Network Antennas that KFOR uses for direct line of sight communication. The Antennas belong to KFOR, however some of these antennas are actually located on private land and these claims represent a one-time agreement with the land owners. The following amount is considered reliable and the claim is expected to be settled in favour of the claimants

c) Forward Assembly Area in Novo Selo (35 KEUR).

The area asphalted by KFOR for Reserve Forces to use in case of need. According to KFOR Legal Claims Advisor, there are portions of this area owned by private owners that have approached KFOR Legal Claims Advisor office for discussions regarding their entitlement for claimed land damages. The following amount is considered reliable and the claim is expected to be settled in favour of the claimants.

8. Resolute Support Mission HQ**a) Third party liability (10 KEUR)**

A provision has been recognised in relation to personal injury suffered by an employee in RS on his way for work. The RS Legal Advisor as estimated the amount of 10,052 EUR shall be paid to the concerned staff.

9. Various HQs – provisions not recognised below the materiality threshold (73.2 KEUR)

ACO Commands reported several 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 mainly relate to the above mentioned Class A with the majority being related to Article VIII SOFA claims and some others to employment issues pending before the respective Labour Courts; whilst one case belongs to the class B of contingent Liabilities and relates to a SHAPE concessionaire who went bankrupt leaving some outstanding debts with SHAPE unpaid. The overall amount of such cases is estimated at 73,232 EUR

Table D-A – Summary ACO provisions (Short Term/Long Term)

| | Untaken Leave | LOJI | TFR (Italy) | Other Provisions | Total | Doubtful and uncollectible AR |
|------------------|------------------|-------------------|------------------|-------------------|-------------------|-------------------------------|
| FS 2014 | 4,169,010 | - | 3,231,575 | 20,220,003 | 27,620,588 | 208,911 |
| Restatement 2014 | - | - | - | - | - | - |
| 31-Dec-14 | 4,169,010 | - | 3,231,575 | 20,220,003 | 27,620,588 | 208,911 |
| Adjustment | - | - | - | - | - | - |
| 1-Jan-15 | 4,169,010 | - | 3,231,575 | 20,220,003 | 27,620,588 | 208,911 |
| Addition | 4,119,885 | 14,365,689 | 181,630 | 7,236,148 | 25,903,352 | 5,659 |
| Used | - | - | (288,154) | - | (288,154) | (128,927) |
| Reversed | (4,169,010) | - | - | (20,220,003) | (24,389,013) | - |
| 31-Dec-15 | 4,119,885 | 14,365,689 | 3,125,051 | 7,236,148 | 28,846,773 | 85,643 |

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.

E. 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 as engaged in providing 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 as 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

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responsible. In the preparation of the ACO 2015 FS the segment reporting has been prepared in conformity with the accounting policies and also reported in the ACO guidance for EOY 2015. The tables presented for the segment reporting are adjusted for balances against other parts/segments within the entity. Where reported, the column 'restated' reflects mainly the changes in inventory, PPE and provision. 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 for which SHAPE is HN.

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

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Segment reporting MB
Statement of Financial Position per HQ

| | SHAPE HQ | | | JFC Brunssum HQ | | | AIRCOM Ramstein HQ | | |
|--------------------------------------|----------------------|---------------------|---------------------|---------------------|----------------------|----------------------|--------------------|--------------------|--------------------|
| | 2015 | 2014 RESTATED | 2014 RECLASSIFIED | 2015 | 2014 RESTATED | 2014 RECLASSIFIED | 2015 | 2014 RESTATED | 2014 RECLASSIFIED |
| ASSETS | | | | | | | | | |
| Current Assets | | | | | | | | | |
| Cash and Cash Equivalents | 15,577 | 14,321 | 14,321 | 194,495 | 226,247 | 226,247 | 52,400 | 344,839 | 344,839 |
| Interentity | 39,054,671 | 27,911,119 | 27,911,119 | 70,039,632 | 141,847,781 | 127,267,781 | 1,063,728 | 925,874 | 925,874 |
| Receivables | 20,826,661 | 16,970,382 | 16,970,382 | 5,416,736 | 3,126,510 | 3,126,510 | 606,351 | 203,139 | 203,139 |
| Prepayments | 4,133,601 | 5,706,091 | 2,285,811 | 34,489 | 296,044 | 296,044 | 1,441,085 | 1,269,468 | 1,269,468 |
| Other Current Assets | 898,747 | 620,203 | 620,203 | 327,942 | 385,279 | 14,965,279 | 162,084 | 171,108 | 171,108 |
| Inventories | 503,536 | 584,961 | 584,961 | 204,131 | 144,667 | 144,667 | 110,875 | 81,721 | 81,721 |
| Total Current Assets | 65,432,792 | 51,807,077 | 48,386,797 | 76,217,425 | 146,026,529 | 146,026,528 | 3,436,523 | 2,996,149 | 2,996,149 |
| Non-current Assets | | | | | | | | | |
| Receivables | 1,777 | 1,777 | 1,777 | - | - | - | - | - | - |
| Property, plant & equipment | 55,227,575 | 30,877,049 | 32,037,644 | 1,195,907 | 1,278,963 | 1,241,289 | 201,882 | - | - |
| Other Non-current Assets | - | - | - | - | - | - | - | - | - |
| Total Non-current Assets | 55,229,352 | 30,878,826 | 32,039,421 | 1,195,907 | 1,278,963 | 1,241,289 | 201,882 | - | - |
| Total ASSETS | 120,662,144 | 82,685,903 | 80,426,218 | 77,413,332 | 147,305,492 | 147,267,817 | 3,638,406 | 2,996,149 | 2,996,149 |
| LIABILITIES | | | | | | | | | |
| Current Liabilities | | | | | | | | | |
| Payables | (55,608,587) | (43,562,552) | (43,562,552) | (58,661,178) | (115,744,251) | (115,744,251) | (2,774,925) | (2,594,885) | (2,594,885) |
| Deferred Revenue | (8,300,766) | (7,060,043) | (3,639,763) | (15,684,130) | (14,756,722) | (14,756,722) | (509,068) | (170,825) | (170,825) |
| Advances | (1,934) | - | - | - | - | - | - | - | - |
| Short Term Provisions | (898,747) | (620,203) | (620,203) | (581,750) | (14,965,279) | (14,965,279) | (162,084) | (171,108) | (171,108) |
| Other Current Liabilities | (31,436) | - | - | - | - | - | - | - | - |
| Surpl./Deficit to be returned | (624,536) | (566,057) | (566,057) | (1,290,368) | (560,277) | (560,277) | 9,554 | (59,331) | (59,331) |
| Total Current Liabilities | (65,466,006) | (51,808,854) | (48,388,575) | (76,217,425) | (146,026,529) | (146,026,529) | (3,436,523) | (2,996,149) | (2,996,149) |
| Non-current Liabilities | | | | | | | | | |
| Payables | - | - | - | - | - | - | - | - | - |
| Long Term Provisions | - | - | - | - | - | - | - | - | - |
| Deferred Revenue | (55,111,468) | (30,877,049) | (32,037,643) | (1,195,907) | (1,278,963) | (1,241,289) | (201,882) | - | - |
| Other Non-current Liabilities | (84,670) | - | - | - | - | - | - | - | - |
| Total Non-current Liabilities | (55,196,138) | (30,877,049) | (32,037,643) | (1,195,907) | (1,278,963) | (1,241,289) | (201,882) | - | - |
| Total LIABILITIES | (120,662,144) | (82,685,903) | (80,426,218) | (77,413,332) | (147,305,492) | (147,267,818) | (3,638,406) | (2,996,149) | (2,996,149) |
| NET ASSETS | - | - | - | - | - | - | - | - | - |

NATO UNCLASSIFIED
ACO Consolidated Financial Statements 2015

| | ISAF HQ | | | NAEW&C Force HQ | | | JFC Naples HQ | | |
|--------------------------------------|---------|---------------------|---------------------|----------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2015 | 2014 RESTATED | 2014 RECLASSIFIED | 2015 | 2014 RESTATED | 2014 RECLASSIFIED | 2015 | 2014 RESTATED | 2014 RECLASSIFIED |
| ASSETS | | | | | | | | | |
| Current Assets | | | | | | | | | |
| Cash and Cash Equivalents | - | 941,346 | 941,346 | 644,841 | 211,205 | 211,205 | 1,154,277 | 650,157 | 650,157 |
| Interentity | - | 19,685,892 | 19,685,892 | 10,068,490 | 29,675,206 | 29,675,206 | 1,769,287 | 2,483,175 | 2,483,175 |
| Receivables | - | 463,902 | 463,902 | 1,940,299 | 2,464,810 | 2,464,810 | 2,027,526 | 2,476,977 | 2,476,977 |
| Prepayments | - | - | - | 15,275,553 | 4,860,508 | 4,860,508 | 1,795,004 | 1,686,677 | 1,468,792 |
| Other Current Assets | - | - | - | 15,631,707 | 2,334,266 | 2,334,266 | 2,873,055 | 2,979,065 | 2,979,065 |
| Inventories | - | 4,178,748 | 4,178,748 | 21,706,641 | 19,271,998 | 19,073,093 | 238,171 | 252,528 | 252,528 |
| Total Current Assets | - | 25,269,889 | 25,269,888 | 65,267,532 | 58,817,993 | 58,619,088 | 9,857,319 | 10,528,578 | 10,310,694 |
| Non-current Assets | | | | | | | | | |
| Receivables | - | - | - | - | - | - | - | - | - |
| Property, plant & equipment | - | 9,806,769 | 3,034,439 | 40,664,250 | 36,266,801 | 35,246,871 | 57,971 | 64,871 | 64,871 |
| Other Non-current Assets | - | - | - | - | - | - | 3,352,885 | 3,352,885 | 3,352,885 |
| Total Non-current Assets | - | 9,806,769 | 3,034,439 | 40,664,250 | 36,266,801 | 35,246,871 | 3,410,856 | 3,417,756 | 3,417,756 |
| Total ASSETS | - | 35,076,658 | 28,304,327 | 105,931,782 | 95,084,794 | 93,865,959 | 13,268,176 | 13,946,334 | 13,728,450 |
| LIABILITIES | | | | | | | | | |
| Current Liabilities | | | | | | | | | |
| Payables | - | (18,274,211) | (18,274,211) | (27,816,408) | (34,086,239) | (34,086,239) | (4,932,444) | (5,079,006) | (5,103,896) |
| Deferred Revenue | - | (7,023,228) | (7,023,228) | (21,706,641) | (20,035,316) | (19,836,410) | (483,561) | (709,914) | (709,914) |
| Advances | - | - | - | - | - | - | - | - | - |
| Short Term Provisions | - | - | - | (15,631,707) | (2,334,266) | (2,334,266) | (4,416,580) | (4,433,786) | (4,433,786) |
| Other Current Liabilities | - | - | - | - | - | - | - | - | - |
| Surpl./Deficit to be returned | - | 27,551 | 27,551 | (112,775) | (2,362,173) | (2,362,173) | (24,734) | (305,872) | (63,098) |
| Total Current Liabilities | - | (25,269,889) | (25,269,888) | (65,267,532) | (58,817,993) | (58,619,088) | (9,857,319) | (10,528,578) | (10,310,694) |
| Non-current Liabilities | | | | | | | | | |
| Payables | - | - | - | - | - | - | - | - | - |
| Long Term Provisions | - | - | - | - | - | - | (3,352,885) | (3,352,885) | (3,352,885) |
| Deferred Revenue | - | (9,806,769) | (3,034,439) | (40,664,250) | (36,266,801) | (35,246,871) | (57,971) | (64,871) | (64,871) |
| Other Non-current Liabilities | - | - | - | - | - | - | - | - | - |
| Total Non-current Liabilities | - | (9,806,769) | (3,034,439) | (40,664,250) | (36,266,801) | (35,246,871) | (3,410,856) | (3,417,756) | (3,417,756) |
| Total LIABILITIES | - | (35,076,658) | (28,304,327) | (105,931,782) | (95,084,794) | (93,865,959) | (13,268,176) | (13,946,334) | (13,728,450) |
| NET ASSETS | - | - | - | - | - | - | - | - | - |

NATO UNCLASSIFIED
ACO Consolidated Financial Statements 2015

| | NHQSa HQ | | | LANDCOM Izmir HQ | | | NCIS Group HQ | | |
|--------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|---------------------|--------------------|--------------------|
| | 2015 | 2014 RESTATED | 2014 RECLASSIFIED | 2015 | 2014 RESTATED | 2014 RECLASSIFIED | 2015 | 2014 RESTATED | 2014 RECLASSIFIED |
| ASSETS | | | | | | | | | |
| Current Assets | | | | | | | | | |
| Cash and Cash Equivalents | 131,045 | 36,427 | 36,427 | 533,121 | 153,217 | 153,217 | 20,403 | 14,267 | 14,267 |
| Interentity | 796,489 | 819,935 | 19,935 | (2,313,833) | (414,798) | (414,798) | 5,133,059 | 1,530,560 | 1,530,560 |
| Receivables | 69,345 | 83,614 | 83,614 | 1,594,085 | 666,689 | 666,690 | 1,710,492 | 410,060 | 410,059 |
| Prepayments | - | - | - | 481,353 | - | - | 170,927 | 52,873 | 52,873 |
| Other Current Assets | 136,562 | 479,640 | 1,279,640 | 97,346 | 80,811 | 80,811 | 272,823 | 232,656 | 232,656 |
| Inventories | 626,248 | 428,452 | 162,959 | 691,951 | 538,073 | 538,073 | 1,218,792 | 854,554 | 854,554 |
| Total Current Assets | 1,759,689 | 1,848,068 | 1,582,575 | 1,084,024 | 1,023,993 | 1,023,993 | 8,526,496 | 3,094,969 | 3,094,969 |
| Non-current Assets | | | | | | | | | |
| Receivables | - | - | - | - | - | - | - | - | - |
| Property, plant & equipment | 52,440 | 69,271 | 69,271 | 136,036 | 58,101 | 57,754 | 7,484,463 | 4,350,291 | - |
| Other Non-current Assets | 774,657 | - | - | - | - | - | - | - | - |
| Total Non-current Assets | 827,097 | 69,271 | 69,271 | 136,036 | 58,101 | 57,754 | 7,484,463 | 4,350,291 | - |
| Total ASSETS | 2,586,786 | 1,917,339 | 1,651,846 | 1,220,059 | 1,082,095 | 1,081,747 | 16,010,958 | 7,445,260 | 3,094,969 |
| LIABILITIES | | | | | | | | | |
| Current Liabilities | | | | | | | | | |
| Payables | (90,070) | (120,395) | (120,395) | (168,976) | (213,718) | (213,718) | (6,976,817) | (2,006,024) | (2,006,024) |
| Deferred Revenue | (627,689) | (441,495) | (176,002) | (691,951) | (772,844) | (772,844) | (1,276,518) | (854,554) | (854,554) |
| Advances | - | - | - | - | - | - | - | - | - |
| Short Term Provisions | (1,036,513) | (1,279,640) | (1,279,640) | (96,062) | (79,234) | (79,234) | (272,816) | (232,656) | (232,656) |
| Other Current Liabilities | - | - | - | - | - | - | - | - | - |
| Surpl./Deficit to be returned | (5,417) | (6,538) | (6,538) | (127,034) | 41,803 | 41,803 | (345) | (1,735) | (1,735) |
| Total Current Liabilities | (1,759,689) | (1,848,068) | (1,582,575) | (1,084,024) | (1,023,993) | (1,023,993) | (8,526,496) | (3,094,969) | (3,094,969) |
| Non-current Liabilities | | | | | | | | | |
| Payables | - | - | - | - | - | - | - | - | - |
| Long Term Provisions | (774,657) | - | - | - | - | - | - | - | - |
| Deferred Revenue | (52,440) | (69,271) | (69,271) | (136,036) | (58,101) | (57,754) | (7,484,463) | (4,350,291) | - |
| Other Non-current Liabilities | - | - | - | - | - | - | - | - | - |
| Total Non-current Liabilities | (827,097) | (69,271) | (69,271) | (136,036) | (58,101) | (57,754) | (7,484,463) | (4,350,291) | - |
| Total LIABILITIES | (2,586,786) | (1,917,339) | (1,651,846) | (1,220,059) | (1,082,095) | (1,081,747) | (16,010,958) | (7,445,260) | (3,094,969) |
| NET ASSETS | - | - | - | - | - | - | - | - | - |

NATO UNCLASSIFIED

ACO Consolidated Financial Statements 2015

| | Resolute Support Mission HQ | | | KFOR HQ | | | MARCOM Northwood HQ | | |
|--------------------------------------|-----------------------------|---------------|-------------------|--------------------|--------------------|--------------------|---------------------|--------------------|--------------------|
| | 2015 | 2014 RESTATED | 2014 RECLASSIFIED | 2015 | 2014 RESTATED | 2014 RECLASSIFIED | 2015 | 2014 RESTATED | 2014 RECLASSIFIED |
| ASSETS | | | | | | | | | |
| Current Assets | | | | | | | | | |
| Cash and Cash Equivalents | 337,994 | - | - | 1,053,791 | 181,062 | 181,062 | 43,028 | 645,793 | 645,793 |
| Interentity | 78,026,058 | - | - | 327,140 | (41,119) | (41,119) | 251,161 | 57,331 | 57,331 |
| Receivables | 443,478 | - | - | 724,112 | 535,267 | 535,267 | 778,590 | 362,900 | 362,900 |
| Prepayments | - | - | - | 458,177 | 568,937 | 568,937 | 871 | 2,567 | 2,567 |
| Other Current Assets | 255,909 | - | - | 152,819 | 91,017 | 91,017 | 73,360 | 60,515 | 60,515 |
| Inventories | 886,700 | - | - | 1,405,983 | 1,380,107 | 107,727 | 128,686 | 90,412 | 90,412 |
| Total Current Assets | 79,950,139 | - | - | 4,122,023 | 2,715,271 | 1,442,891 | 1,275,696 | 1,219,518 | 1,219,518 |
| Non-current Assets | | | | | | | | | |
| Receivables | - | - | - | - | - | - | - | - | - |
| Property, plant & equipment | 3,848,903 | - | - | 81,959 | 163,800 | 173,675 | 116,277 | 84,676 | 84,676 |
| Other Non-current Assets | - | - | - | - | - | - | - | - | - |
| Total Non-current Assets | 3,848,903 | - | - | 81,959 | 163,800 | 173,675 | 116,277 | 84,676 | 84,676 |
| Total ASSETS | 83,799,042 | - | - | 4,203,982 | 2,879,071 | 1,616,566 | 1,391,972 | 1,304,194 | 1,304,194 |
| LIABILITIES | | | | | | | | | |
| Current Liabilities | | | | | | | | | |
| Payables | (78,514,629) | - | - | (1,278,638) | (1,134,695) | (1,134,695) | (892,176) | (863,903) | (863,903) |
| Deferred Revenue | (886,700) | - | - | (1,481,610) | (1,414,558) | (142,178) | (224,663) | (320,201) | (320,201) |
| Advances | - | - | - | - | - | - | - | - | - |
| Short Term Provisions | (255,909) | - | - | (1,213,033) | (91,017) | (91,017) | (73,360) | (60,515) | (60,515) |
| Other Current Liabilities | - | - | - | - | - | - | - | - | - |
| Surpl./Deficit to be returned | (292,901) | - | - | (148,743) | (75,002) | (75,002) | (85,496) | 25,101 | 25,101 |
| Total Current Liabilities | (79,950,139) | - | - | (4,122,023) | (2,715,271) | (1,442,892) | (1,275,696) | (1,219,518) | (1,219,518) |
| Non-current Liabilities | | | | | | | | | |
| Payables | - | - | - | - | - | - | - | - | - |
| Long Term Provisions | - | - | - | - | - | - | - | - | - |
| Deferred Revenue | (3,848,903) | - | - | (81,959) | (163,800) | (173,675) | (116,277) | (84,676) | (84,676) |
| Other Non-current Liabilities | - | - | - | - | - | - | - | - | - |
| Total Non-current Liabilities | (3,848,903) | - | - | (81,959) | (163,800) | (173,675) | (116,277) | (84,676) | (84,676) |
| Total LIABILITIES | (83,799,042) | - | - | (4,203,982) | (2,879,071) | (1,616,567) | (1,391,972) | (1,304,194) | (1,304,194) |
| NET ASSETS | - | - | - | - | - | - | - | - | - |

NATO UNCLASSIFIED

ACO Consolidated Financial Statements 2015

| | ACO Corporate Accounting and Control Office | | | NSIP | | |
|--------------------------------------|---|----------------------|----------------------|---------------------|---------------------|---------------------|
| | 2015 | 2014 RESTATED | 2014 RECLASSIFIED | 2015 | 2014 RESTATED | 2014 RECLASSIFIED |
| ASSETS | | | | | | |
| Current Assets | | | | | | |
| Cash and Cash Equivalents | 857,163,389 | 843,488,333 | 843,488,333 | 11,685,007 | 14,069,894 | 14,069,894 |
| Short Term Investment | 230,000,000 | 80,000,000 | 80,000,000 | - | - | - |
| Interentity | (204,215,881) | (224,480,955) | (209,100,955) | - | - | - |
| Receivables | 98,709,028 | 110,510,520 | 110,510,520 | 304,241 | 895,624 | 895,624 |
| Prepayments | 5,574,807 | 7,873,359 | 7,873,359 | - | - | - |
| Other Current Assets | 678,627 | 1,012,898 | 1,012,898 | - | - | - |
| Inventories | - | - | - | - | - | - |
| Total Current Assets | 987,909,970 | 818,404,155 | 833,784,155 | 11,989,248 | 14,965,518 | 14,965,518 |
| Non-current Assets | | | | | | |
| Receivables | - | - | - | - | - | - |
| Property, plant & equipment | - | - | - | 401,638 | 608,911 | 608,911 |
| Other Non-current Assets | - | - | - | 80,672 | - | - |
| Total Non-current Assets | - | - | - | 482,310 | 608,911 | 608,911 |
| Total ASSETS | 987,909,970 | 818,404,155 | 833,784,155 | 12,471,558 | 15,574,430 | 15,574,429 |
| LIABILITIES | | | | | | |
| Current Liabilities | | | | | | |
| Payables | (1,417,047) | (4,369,946) | (4,369,946) | (9,075,798) | (8,676,861) | (8,676,861) |
| Deferred Revenue | (672,065,877) | (471,906,215) | (487,043,441) | (1,655,903) | (5,073,657) | (5,073,657) |
| Advances | (309,017,482) | (338,738,659) | (338,738,659) | - | - | - |
| Short Term Provisions | - | - | - | - | - | - |
| Other Current Liabilities | - | - | - | - | - | - |
| Surpl./Deficit to be returned | (5,409,564) | (3,389,336) | (3,632,109) | (1,257,547) | (1,215,001) | (1,215,001) |
| Total Current Liabilities | (987,909,970) | (818,404,155) | (833,784,155) | (11,989,248) | (14,965,518) | (14,965,519) |
| Non-current Liabilities | | | | | | |
| Payables | - | - | - | - | - | - |
| Long Term Provisions | - | - | - | (80,672) | - | - |
| Deferred Revenue | - | - | - | (401,638) | (608,911) | (608,911) |
| Other Non-current Liabilities | - | - | - | - | - | - |
| Total Non-current Liabilities | - | - | - | (482,310) | (608,911) | (608,911) |
| Total LIABILITIES | (987,909,970) | (818,404,155) | (833,784,155) | (12,471,558) | (15,574,430) | (15,574,430) |
| NET ASSETS | - | - | - | - | - | - |

NATO UNCLASSIFIED

ACO Consolidated Financial Statements 2015

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

| | TOTAL FOR SEGMENTS | | | ELIMINATIONS | | | CONSOLIDATED | | |
|--------------------------------------|------------------------|------------------------|------------------------|--------------|---------------|-------------------|------------------------|------------------------|------------------------|
| | 2015 | 2014 RESTATED | 2014 RECLASSIFIED | 2015 | 2014 RESTATED | 2014 RECLASSIFIED | 2015 | 2014 RESTATED | 2014 RECLASSIFIED |
| ASSETS | | | | | | | | | |
| Current Assets | | | | | | | | | |
| Cash and Cash Equivalents | 873,029,369 | 860,977,108 | 860,977,108 | - | - | - | 873,029,369 | 860,977,108 | 860,977,108 |
| Short Term Investment | 230,000,000 | 80,000,000 | 80,000,000 | - | - | - | 230,000,000 | 80,000,000 | 80,000,000 |
| Interentity | - | - | - | - | - | - | - | - | - |
| Receivables | 135,150,946 | 139,170,396 | 139,170,394 | - | - | (2) | 135,150,946 | 139,170,396 | 139,170,396 |
| Prepayments | 29,365,867 | 22,316,524 | 18,678,359 | - | - | - | 29,365,867 | 22,316,524 | 18,678,359 |
| Other Current Assets | 21,560,979 | 8,447,457 | 23,827,458 | - | - | 1 | 21,560,979 | 8,447,457 | 23,827,457 |
| Inventories | 27,721,714 | 27,806,223 | 26,069,443 | - | - | (2) | 27,721,714 | 27,806,223 | 26,069,445 |
| Total Current Assets | 1,316,828,875 | 1,138,717,707 | 1,148,722,762 | - | - | (2) | 1,316,828,875 | 1,138,717,708 | 1,148,722,764 |
| Non-current Assets | | | | | | | | | |
| Receivables | 1,777 | 1,777 | 1,777 | - | - | - | 1,777 | 1,777 | 1,777 |
| Property, plant & equipment | 109,469,300 | 83,629,502 | 72,619,401 | - | - | 1 | 109,469,300 | 83,629,502 | 72,619,400 |
| Other Non-current Assets | 4,208,214 | 3,352,885 | 3,352,885 | - | - | - | 4,208,214 | 3,352,885 | 3,352,885 |
| Total Non-current Assets | 113,679,291 | 86,984,164 | 75,974,063 | - | - | 1 | 113,679,291 | 86,984,164 | 75,974,062 |
| Total ASSETS | 1,430,508,166 | 1,225,701,872 | 1,224,696,825 | - | - | (1) | 1,430,508,166 | 1,225,701,872 | 1,224,696,826 |
| LIABILITIES | | | | | | | | | |
| Current Liabilities | | | | | | | | | |
| Payables | (248,207,693) | (236,726,684) | (236,751,576) | - | 1 | (3) | (248,207,693) | (236,726,685) | (236,751,573) |
| Deferred Revenue | (725,595,076) | (530,539,572) | (540,519,739) | 9,369,908 | 8,446,866 | 8,446,867 | (734,964,984) | (538,986,438) | (548,966,606) |
| Advances | (309,019,416) | (338,738,659) | (338,738,659) | - | - | - | (309,019,416) | (338,738,659) | (338,738,659) |
| Short Term Provisions | (24,638,559) | (24,267,703) | (24,267,704) | - | - | (1) | (24,638,559) | (24,267,703) | (24,267,703) |
| Other Current Liabilities | (31,436) | - | - | - | - | - | (31,436) | - | - |
| Surpl./Deficit to be returned | (9,369,907) | (8,446,866) | (8,446,866) | (9,369,907) | (8,446,866) | (8,446,866) | - | - | - |
| Total Current Liabilities | (1,316,862,089) | (1,138,719,484) | (1,148,724,544) | - | - | (3) | (1,316,862,088) | (1,138,719,485) | (1,148,724,541) |
| Non-current Liabilities | | | | | | | | | |
| Payables | - | - | - | - | - | - | - | - | - |
| Long Term Provisions | (4,208,214) | (3,352,885) | (3,352,885) | - | - | - | (4,208,214) | (3,352,885) | (3,352,885) |
| Deferred Revenue | (109,353,193) | (83,629,502) | (72,619,400) | - | - | - | (109,353,193) | (83,629,502) | (72,619,400) |
| Other Non-current Liabilities | (84,670) | - | - | - | - | - | (84,670) | - | - |
| Total Non-current Liabilities | (113,646,078) | (86,982,387) | (75,972,285) | - | - | - | (113,646,078) | (86,982,387) | (75,972,285) |
| Total LIABILITIES | (1,430,508,166) | (1,225,701,872) | (1,224,696,829) | - | - | (3) | (1,430,508,166) | (1,225,701,872) | (1,224,696,826) |
| NET ASSETS | - | - | - | - | - | - | - | - | - |

NATO UNCLASSIFIED

ACO Consolidated Financial Statements 2015

Statement of Financial Performance per HQ

| | SHAPE HQ | | | JFC Brunssum HQ | | | AIRCOM Ramstein HQ | | |
|-------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|---------------------|---------------------|---------------------|
| | 2015 | 2014 RESTATED | 2014 RECLASSIFIED | 2015 | 2014 RESTATED | 2014 RECLASSIFIED | 2015 | 2014 RESTATED | 2014 RECLASSIFIED |
| REVENUE | | | | | | | | | |
| Revenue | (271,097,257) | (265,781,024) | (265,977,150) | (4,237,181) | (333,673,109) | (333,713,356) | (17,271,726) | (18,209,456) | (18,209,456) |
| Other Revenue | (482,925) | (1,015,525) | (1,015,525) | (15,808,276) | (566,747) | (566,747) | (10,619) | (69,387) | (69,386) |
| Financial Revenue | 1,779 | (10,861) | (10,861) | - | - | - | (79) | (349) | (349) |
| Total to be returned to the Nations | 624,536 | 566,057 | 566,057 | 1,290,368 | 560,277 | 560,277 | (9,554) | 59,331 | 59,331 |
| Total REVENUE | (270,953,867) | (266,241,354) | (266,437,479) | (18,755,089) | (333,679,579) | (333,719,826) | (17,291,978) | (18,219,861) | (18,219,860) |
| EXPENSES | | | | | | | | | |
| Expenses | 253,855,980 | 257,813,623 | 257,750,515 | 18,533,716 | 319,869,195 | 319,869,194 | 17,252,639 | 18,219,096 | 18,219,095 |
| Personnel | 31,771,403 | 39,389,988 | 39,389,988 | 9,842,349 | 10,901,453 | 10,901,453 | 5,005,801 | 5,109,018 | 5,109,018 |
| Contractual Supplies and Services | 222,084,576 | 218,423,635 | 218,360,527 | 8,691,367 | 308,967,741 | 308,967,741 | 12,246,838 | 13,110,077 | 13,110,077 |
| Depreciation | 16,958,365 | 8,242,345 | 8,501,578 | 86,994 | 222,315 | 262,562 | 28,111 | - | - |
| Provisions | 284,839 | - | - | - | 13,581,687 | 13,581,687 | - | - | - |
| Other Expenses | - | - | - | 10,475 | - | - | - | - | - |
| Financial Costs | (145,317) | 185,386 | 185,386 | 123,904 | 6,383 | 6,383 | 11,228 | 765 | 765 |
| Total EXPENSES | 270,953,867 | 266,241,354 | 266,437,479 | 18,755,089 | 333,679,579 | 333,719,826 | 17,291,978 | 18,219,861 | 18,219,860 |
| Result of the year | - | - | - | - | - | - | - | - | - |
| | | | | | | | | | |
| | ISAF HQ | | | NAEW&C Force HQ | | | JFC Naples HQ | | |
| | 2015 | 2014 RESTATED | 2014 RECLASSIFIED | 2015 | 2014 RESTATED | 2014 RECLASSIFIED | 2015 | 2014 RESTATED | 2014 RECLASSIFIED |
| REVENUE | | | | | | | | | |
| Revenue | - | (96,949,854) | (83,327,906) | (279,993,458) | (282,166,388) | (282,625,916) | (32,148,955) | (37,959,946) | (37,959,946) |
| Other Revenue | - | 68,965 | 68,965 | (1,230,497) | (1,761,417) | (1,761,417) | (111,494) | (264,294) | (21,521) |
| Financial Revenue | - | (9,034) | (9,034) | (891,573) | (905,030) | (905,030) | (6,124) | (4,254) | (4,254) |
| Total to be returned to the Nations | - | (27,551) | (27,551) | 112,775 | 2,362,173 | 2,362,173 | 24,734 | 305,872 | 63,098 |
| Total REVENUE | - | (96,917,474) | (83,295,526) | (282,002,753) | (282,470,662) | (282,930,190) | (32,241,839) | (37,922,623) | (37,922,623) |
| EXPENSES | | | | | | | | | |
| Expenses | - | 68,567,228 | 68,567,228 | 264,646,028 | 280,629,842 | 281,124,784 | 32,222,800 | 34,849,595 | 34,849,595 |
| Personnel | - | 36,269,121 | 36,269,121 | 82,670,071 | 83,437,648 | 83,437,648 | 13,963,967 | 15,531,117 | 15,531,117 |
| Contractual Supplies and Services | - | 32,298,107 | 32,298,107 | 181,975,957 | 197,192,194 | 197,687,136 | 18,258,833 | 19,318,477 | 19,318,477 |
| Foreign Military Sales (FMS) | - | - | - | 36,228,169 | - | - | - | - | - |
| Depreciation | - | 28,382,625 | 14,760,678 | 2,049,989 | 1,096,911 | 1,061,497 | 6,900 | 3,858 | 3,858 |
| Provisions | - | - | - | 13,298,118 | 441,276 | 441,276 | - | 3,064,766 | 3,064,766 |
| Other Expenses | - | 8,098 | 8,098 | - | 60 | 60 | 3,727 | - | - |
| Financial Costs | - | (40,478) | (40,478) | 2,008,618 | 302,573 | 302,573 | 8,412 | 4,404 | 4,404 |
| Total EXPENSES | - | 96,917,474 | 83,295,526 | 282,002,753 | 282,470,662 | 282,930,190 | 32,241,839 | 37,922,623 | 37,922,623 |
| Result of the year | - | - | - | - | - | - | - | - | - |

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| | NHQSa HQ | | | LANDCOM Izmir HQ | | | NCIS Group HQ | | |
|-------------------------------------|-----------------------------|--------------------|--------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2015 | 2014 RESTATED | 2014 RECLASSIFIED | 2015 | 2014 RESTATED | 2014 RECLASSIFIED | 2015 | 2014 RESTATED | 2014 RECLASSIFIED |
| REVENUE | | | | | | | | | |
| Revenue | (3,957,060) | (3,151,049) | (3,229,914) | (12,376,000) | (14,609,546) | (14,609,893) | (26,960,322) | (13,582,487) | (12,366,042) |
| Other Revenue | (6,604) | (655,719) | (655,719) | (185,781) | (15,483) | (15,483) | (61) | (8,158) | (8,158) |
| Financial Revenue | (83) | (229) | (229) | (30,946) | (11,265) | (11,265) | (849) | (2,445) | (2,445) |
| Total to be returned to the Nations | 5,417 | 6,538 | 6,537 | 127,034 | (41,803) | (41,802) | 345 | 1,735 | 1,735 |
| Total REVENUE | (3,958,329) | (3,800,459) | (3,879,325) | (12,465,693) | (14,678,096) | (14,678,443) | (26,960,888) | (13,591,354) | (12,374,910) |
| EXPENSES | | | | | | | | | |
| Expenses | 3,367,922 | 3,750,106 | 3,828,972 | 12,350,352 | 14,619,126 | 14,619,126 | 24,819,207 | 12,373,920 | 12,373,920 |
| Personnel | 1,962,672 | 1,965,317 | 1,965,317 | 5,315,600 | 7,099,223 | 7,099,223 | 7,250,886 | 6,298,053 | 6,298,053 |
| Contractual Supplies and Services | 1,405,249 | 1,784,790 | 1,863,655 | 7,034,753 | 7,519,903 | 7,519,903 | 17,568,321 | 6,075,867 | 6,075,867 |
| Depreciation | 57,559 | 47,727 | 47,727 | 8,819 | 4,102 | 4,449 | 2,100,948 | 1,216,444 | - |
| Provisions | 531,583 | - | - | 16,828 | - | - | 40,167 | - | - |
| Other Expenses | 140 | 178 | 178 | - | - | - | - | - | - |
| Financial Costs | 1,125 | 2,448 | 2,448 | 89,693 | 54,868 | 54,868 | 565 | 990 | 990 |
| Total EXPENSES | 3,958,329 | 3,800,459 | 3,879,325 | 12,465,693 | 14,678,096 | 14,678,443 | 26,960,888 | 13,591,354 | 12,374,910 |
| Result of the year | - | - | - | - | - | - | - | - | - |
| | | | | | | | | | |
| | Resolute Support Mission HQ | | | KFOR HQ | | | MARCOM Northwood HQ | | |
| | 2015 | 2014 RESTATED | 2014 RECLASSIFIED | 2015 | 2014 RESTATED | 2014 RECLASSIFIED | 2015 | 2014 RESTATED | 2014 RECLASSIFIED |
| REVENUE | | | | | | | | | |
| Revenue | (218,303,583) | - | - | (14,938,651) | (13,049,517) | (13,476,206) | (9,036,901) | (9,781,265) | (9,781,266) |
| Other Revenue | (33,041) | - | - | (158,170) | (85,311) | (85,311) | (4,871) | (407) | (407) |
| Financial Revenue | (301,717) | - | - | (1,652) | (569) | (569) | (120,225) | (3,922) | (3,922) |
| Total to be returned to the Nations | 292,901 | - | - | 148,743 | 75,002 | 75,002 | 85,496 | (25,101) | (25,101) |
| Total REVENUE | (218,345,440) | - | - | (14,949,731) | (13,060,396) | (13,487,084) | (9,076,501) | (9,810,695) | (9,810,696) |
| EXPENSES | | | | | | | | | |
| Expenses | 200,620,429 | - | - | 13,573,144 | 12,914,501 | 13,337,702 | 9,009,607 | 9,700,000 | 9,700,000 |
| Personnel | 26,219,578 | - | - | 5,513,226 | 5,510,542 | 5,510,542 | 2,218,624 | 1,963,592 | 1,963,591 |
| Contractual Supplies and Services | 174,400,851 | - | - | 8,059,917 | 7,403,959 | 7,827,160 | 6,790,983 | 7,736,408 | 7,736,409 |
| Depreciation | 17,427,246 | - | - | 243,492 | 127,545 | 131,032 | 14,449 | 63,713 | 63,713 |
| Provisions | 255,909 | - | - | 1,122,016 | 7,471 | 7,471 | 12,862 | 35,530 | 35,530 |
| Other Expenses | 215 | - | - | - | - | - | 1,428 | 1,691 | 1,691 |
| Financial Costs | 41,641 | - | - | 11,080 | 10,879 | 10,879 | 38,155 | 9,762 | 9,762 |
| Total EXPENSES | 218,345,440 | - | - | 14,949,731 | 13,060,396 | 13,487,084 | 9,076,501 | 9,810,695 | 9,810,696 |
| Result of the year | - | - | - | - | - | - | - | - | - |

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| | ACO Corporate Accounting and Control Office | | | NSIP | | |
|-------------------------------------|---|------------------|-------------------|--------------------|------------------|-------------------|
| | 2015 | 2014 RESTATED | 2014 RECLASSIFIED | 2015 | 2014 RESTATED | 2014 RECLASSIFIED |
| REVENUE | | | | | | |
| Revenue | - | - | - | (1,344,295) | (534,463) | (534,463) |
| Other Revenue | (1,390) | - | - | - | - | - |
| Financial Revenue | (8,660,944) | (6,405,215) | (6,405,215) | (42,829) | (43,895) | (43,895) |
| Total to be returned to the Nations | 7,202,223 | 6,129,392 | 6,129,392 | 42,546 | 43,614 | 43,614 |
| Total REVENUE | (1,460,110) | (275,823) | (275,823) | (1,344,578) | (534,744) | (534,744) |
| EXPENSES | | | | | | |
| Expenses | - | - | - | 1,263,623 | 534,463 | 534,463 |
| Personnel | - | - | - | - | - | - |
| Contractual Supplies and Services | - | - | - | 1,263,623 | 534,463 | 534,463 |
| Depreciation | - | - | - | - | - | - |
| Provisions | - | 16,814 | 16,814 | 80,672 | - | - |
| Other Expenses | - | - | - | - | - | - |
| Financial Costs | 1,460,110 | 259,009 | 259,009 | 283 | 281 | 281 |
| Total EXPENSES | 1,460,110 | 275,823 | 275,823 | 1,344,578 | 534,744 | 534,744 |
| Result of the year | - | - | - | - | - | - |

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²⁰ See note I NSIP Project Execution

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

| | TOTAL FOR SEGMENTS | | | ELIMINATIONS | | | CONSOLIDATED PERFORMANCE | | |
|-------------------------------------|----------------------|------------------------|------------------------|---------------------|------------------|-------------------|--------------------------|------------------------|------------------------|
| | 2015 | 2014 RESTATED | 2014 RECLASSIFIED | 2015 | 2014 RESTATED | 2014 RECLASSIFIED | 2015 | 2014 RESTATED | 2014 RECLASSIFIED |
| REVENUE | | | | | | | | | |
| Revenue | (891,665,389) | (1,089,448,104) | (1,075,811,514) | - | - | 2 | (891,665,389) | (1,089,448,104) | (1,075,811,516) |
| Other Revenue | (18,033,730) | (4,373,482) | (4,130,709) | (14,474,631) | (950,193) | (950,193) | (3,559,099) | (3,423,290) | (3,180,516) |
| Financial Revenue | (10,055,241) | (7,397,069) | (7,397,068) | - | - | 1 | (10,055,241) | (7,397,069) | (7,397,069) |
| Total to be returned to the Nations | 9,947,565 | 10,015,535 | 9,772,762 | - | - | 1 | 9,947,565 | 10,015,535 | 9,772,761 |
| Total REVENUE | (909,806,795) | (1,091,203,120) | (1,077,566,529) | (14,474,631) | (950,193) | (950,189) | (895,332,164) | (1,090,252,927) | (1,076,616,340) |
| EXPENSES | | | | | | | | | |
| Expenses | 851,515,446 | 1,033,840,696 | 1,034,774,593 | | | | 851,515,446 | 1,033,840,695 | 1,034,774,600 |
| Personnel | 191,734,179 | 213,475,073 | 213,475,071 | - | - | (2) | 191,734,179 | 213,475,073 | 213,475,073 |
| Contractual Supplies and Services | 623,553,098 | 820,365,623 | 821,299,522 | - | - | (5) | 623,553,098 | 820,365,622 | 821,299,527 |
| Foreign Military Sales (FMS) | 36,228,169 | - | - | - | - | - | 36,228,169 | - | - |
| Depreciation | 38,982,871 | 39,407,585 | 24,837,094 | - | - | - | 38,982,871 | 39,407,585 | 24,837,094 |
| Provisions | 15,642,994 | 17,147,544 | 17,147,544 | 14,474,631 | 950,193 | 950,193 | 1,168,363 | 16,197,351 | 16,197,351 |
| Other Expenses | 15,985 | 10,027 | 10,027 | - | - | - | 15,985 | 10,027 | 10,027 |
| Financial Costs | 3,649,499 | 797,268 | 797,270 | - | - | 2 | 3,649,499 | 797,268 | 797,268 |
| Total EXPENSES | 909,806,795 | 1,091,203,120 | 1,077,566,528 | 14,474,631 | 950,193 | 950,195 | 895,332,164 | 1,090,252,927 | 1,076,616,340 |
| Result of the year | - | - | 1 | - | - | (6) | - | - | - |

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F. Related Parties Disclosure

IPSAS 20 requires that FS disclose the existence of related party relationships and 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. Under IPSAS 20 related parties are parties that control or have significant influence over the reporting entity. 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..

(1) Identification of ACO related parties.

- (a) **key management personnel.** Key Management Personnel (KMP) includes members of the governing body **who have the greatest responsibility for the government of ACO** and the close members of their family. Based on the definitions provided by IPSAS 20.4 the key management personnel within ACO has been identified as follows²¹:
 - i. **Members of the governing body of the entity: SACEUR'S Commanders' Conference which acts as the ACO Board of Directors.** The members of the SCC considered as ACO KMP for the purpose of IPSAS 20 are those who belong to the ACO Commands which are part of the NATO Command Structure.
 - 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 the members of the SHAPE Management Board/Crisis Operations Board (SMB/COB) are considered as the **key advisors**.
 - iii. **Senior management group of the reporting entity: the ACO Management Board is the main 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.
- (b) **Consolidated entities:** the ACO consolidated entities are considered entities controlled by SHAPE and as such they meet the definition of related party in accordance with IPSAS 20. A list of those entities have been listed in Note A;
- (c) **Other NATO entities:** this includes the NATO agencies which provide goods and services to ACO at an agreed price.

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

- (a) **ACO and the Key management personnel.** Since the remuneration of 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 3 NATO International Civilians (NICs) identified within this category, i.e. the ACO Financial Controller, the SHAPE Legal Advisor and the SHAPE Chief of the Strategic & International Affairs. The net salary received during the reporting year by these 3 NICs amounts to 490,991 EUR (corresponding to 114,864 EUR plus 150,206 EUR plus 225,921 EUR for the three mentioned NICs respectively). The remunerations of 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 of any related party transaction between them, their close family members and ACO that shall be disclosed in accordance with IPSAS 20.. 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.

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

²¹ The composition and Job titles have been updated in accordance with the AD 015-004, ACO High level Business Processes, dated 31 October 2013.

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(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

A first revision of the AD 60-52 on Official Representation and Hospitality Funds was made in 2013 to cater for the guidelines on Representation Allowance issued in the same year by the NATO Secretary General²², which was followed by a second revision in 2015 to establish a more flexible approach in the use of the Funds by the ACO Commanders, whilst ensuring consistency and compliance with the new NFRs. The latest revision aimed at reducing the bureaucracy in the application of the AD; distinguishing Representation versus Hospitality and aligning the type of expenditures eligible for both Funds as well as the ratio to be used between guest(s) and host(s).

Administrative procedures for the payments and reimbursements of costs related to the use of the Representation and Hospitality Funds have been laid down in the ACO Standard Operating Procedure issued in December 2015 in order to ensure consistency in the administration of the Funds across the ACO Commands.

Within ACO Representation and Hospitality funds are provided to high officials of the ACO Headquarters, primarily the Commanders who may make sub-allocations to their most senior staff and deputy Commanders.

During 2015 the total expenditure made by ACO for Representation amounted to 226.7 KEUR which represents 85% of the overall authorised budget of 265.6 KEUR. Of the above total expenditure, the amount of 56.6 KEUR (approximately 25%) is the total cost sustained for Representation by the Chiefs of Staff and their deputies through sub allocations made by the respective ACO Commanders.

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 FS are authorized for issue by the SACEUR and the ACO Financial Controller. 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).

ACO is not aware of any events categorized under the two categories that need to be reported.

H. MB Budget Execution

According to article 34.4 of the NFRs ACO has included the ACO Budget execution report in its FS.

For 2015 ACO is not required, nor does it elect, to make its approved budgets publically available and hence IPSAS 24, Presentation of Budget Information in FS, is not applicable. Until the release of this FS, there is still no consensus amongst the Nations to make the ACO military budgets publicly available due to the sensitiveness of the information included therein.

However, it is worth noting that although ACO deems that the ACO budgets and the actual amounts in its FS are prepared on a comparable basis- albeit with some differences-, the reconciliation of the budget amounts with the actual amounts would not be required in accordance with IPSAS 24. The ACO budgets are in fact mainly driven by recurring requirements whose costs are estimated according to actual expenditures occurred in the past years and whose amounts include estimated accruals. It is true that the budgets in the year concerned do include a commitment-based component carried over from the past two years; however, excluding the special carry forwards which are approved by the BC under exceptional circumstances, the percentage in the ACO budgets of amounts estimated on a commitment basis versus those prepared on actual and accrual basis is significantly lower and it can be considered not material.

²² PO(2013)0154 dated 27 March 2013

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Table H-A Budget Authorizations and final budget credit by cost share (EUR amount).

| Budget/ Year/Cost Share | (A) BA1 | (B) BA2 | (C) BA3 | (D) FINAL | (E)=D-C Diff. |
|----------------------------|--------------------|--------------------|--------------------|--------------------|------------------|
| 2015 - NCSEP 28N | 365,927,256 | 365,948,007 | 365,965,019 | 370,816,037 | 4,851,018 |
| 2015 - AGS 26N | 2,923,528 | 2,923,528 | 2,923,528 | 2,923,528 | 0 |
| 2015 - AGS 28N | 875,000 | 875,000 | 875,000 | 417,714 | (457,286) |
| 2015 - NAEW 16N | 254,967,203 | 254,967,203 | 254,967,203 | 254,967,203 | 0 |
| 2015 - NAEW 17N | 1,432,797 | 1,432,797 | 1,432,797 | 1,432,797 | 0 |
| 2015 - AOM 28N | 274,998,463 | 274,906,623 | 274,571,023 | 274,571,023 | 0 |
| TOTAL | 901,124,247 | 901,053,157 | 900,734,571 | 905,128,301 | 4,393,732 |

The average commitment rate in 2015 was 99.48% and 99, 22% for the NCSEP and the AOM budget group, respectively; whilst for the NAEW was 99.92% and 86.83% at, respectively, 16 and 17 Nations cost share.

Statement of transfers

In accordance with the NFRs, Art. 26, transfers of appropriations approved by the relevant finance committee or the Financial Controller within his/her delegated authority shall be recorded in the annual FS. Based on the new FRPs approved by the BC on 29 February 2016 the only transfers to be reported in the annual FS are the inter-budget transfers between NATO bodies. ACO received the following amounts:

- 428,000 EUR from IMS into the ACO Reorganization Budget (BC 122);
- 3,965,732 EUR from ACT into the ACO Reorganization Budget (BC 122).

The changes between the initial and the final budget which were due to reallocations either authorised by the BC or by the ACO Financial Controller are presented in the Budget Execution Report. The ACO Budget Execution Report also includes the contract authority already committed.

No transfers were made for budgets carried forward from previous years unless not authorised by the BC for Budget 122. No major variances occurred during the reporting year.

Statement of Credits Carried forward

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 Deferred Revenue.

Special Carry Forward

The total special carry forward of funds authorized by NAC into 2016 from the ACO budgets of the past three years amounted to a total of 100,347,134 EUR. 79.3 MEUR was carried forward from the AOM 2014/2015 budgets mainly to cover potential ISAF/RS liabilities such as for NSPA LOJI, for redeployment and disposal activities and for on-going litigations with the former ISAF provider for fuel and catering services as well as for other NATO liabilities in the Balkans due to property damages in the area of Glamoc Range and due to unpaid rental services of the Gazela Shoe Factory for the NATO Liaison Office in Skopje. An amount of 17.6 MEUR was carried forward from the ACO Reorganization Budget to cover emerging high-priority Alliance requirements; a total amount of 3.3 MEUR from the 2014/2015 NAEW&C Force GK related budgets was carried forward to cover Reassurance Measures requirements and ACO contractual liabilities due to the closure of one of the two aircraft Depot Level Maintenance (DLM).

The table below provides the summary of the approved 2016 special carry forward reconciled with the related contingent liabilities or legal provisions as further disclosed in Note D and the final amounts reported for the Special Carry Forward based on the availability of the credits.

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Table H-B – ACO Special Carry Forward/Contingent Liabilities and Provisions

| 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(2015)0210-REV4 | Breakdown | | | |
| 2015 RSM (BC 194) | 40,600,000 | 40,600,000 | - | - | 2016 Resolute Support Mission continuation of Phase 1 in 2016, including MEUR 39.4 related to Airfield Services extension and MEUR 10 to Train, Advise and Assist Commands (TAACs) CIS services |
| 2014 ISAF (BC 185) | 9,400,000 | 9,400,000 | - | - | |
| 2014 ISAF (BC 185) | 27,163,910 | 394,884 | - | 2,628,000 | Potential future ISAF related NSPA loss of job indemnity liability for KAF and KAIA, respectively |
| | | 1,015,416 | - | - | |
| | | 2,287,935 | - | - | Remediation and descopeing - Remediation cost and expected engineering investment and O&M costs |
| | | 1,192,235 | - | - | Redeployment of Approx. 80 containers (Thales) at a cost of 12KEUR each and residual disposal of NFE |
| | | 253,808 | 253,808 | - | NCIA invoices |
| | | 326 | - | - | Repair and shipment of ESS camera |
| | | 6,879,500 | - | 55,743.00 | Container stoorage cost |
| | | | - | 2,231,451 | Container stoorage cost |
| | | 1,700,000 | - | 913,826 | Food claim Supreme (HQ ISAF) |
| | | | - | 8,224,436 | Food claim Supreme (HQ ISAF) |
| | | 175,000 | - | 175,000 | E3A shortfall in 2014 ISAF delegation |
| | | 1,118,335 | - | - | Temporary hires for ISAF archiving |
| | | 12,146,471 | - | - | Future potential liabilities - Potential ISAF Liability for NSPA LOJI to be charged to the ISAF Special Carry forward. |
| 2015 Balkans Operations (BC 183) | 1,060,214 | 1,060,214 | 1,060,214 | - | Gazela Shoe Factory Claim - outstanding rental costs of the NATO Liaison Office Skopje |
| | 900,000 | 900,000 | 900,000 | - | Glamoc Range claims |
| | 250,000 | 250,000 | - | - | Replacement of 11 KFOR vehicles |
| AOM sub-total | 79,374,124 | 79,374,124 | 2,214,022 | 14,228,456 | |
| 2013 ACO Reorganization Budget (BC 122) | 6,991,259 | 6,991,259 | - | - | To be allocated, subject to RPPB endorsement, to emerging high-priority Alliance requirements which have been validated by the MC |
| 2014 ACO Reorganization Budget (BC 122) | 1,609,434 | 1,609,434 | - | - | |
| 2015 ACO Reorganization Budget (BC 122) | 9,042,091 | 9,042,091 | - | - | |
| Other @28N sub-total* | 17,642,784 | 17,642,784 | - | - | * See table below for difference between the approve CFW vs. the amout included in the FS |
| 2014 NAEW Reassurance (BC 161) | 2,330,226 | 2,330,226 | - | - | 2016 NAEW Assurance Measures |
| 2015 NAEW Reorganisation Budget (BC 123) | 1,000,000 | 1,000,000 | - | 4,100,000.00 | Closure of NE-3A Airframe DLM Activities at Alenia Aermacchi - Materials (spares) buy back |
| | | | - | 400,000.00 | Closure of NE-3A Airframe DLM Activities at Alenia Aermacchi - Handling,packaging and support thorough Alenia Team (5 people for 6 months) |
| | | | - | 450,000.00 | Closure of NE-3A Airframe DLM Activities at Alenia Aermacchi - Repair independent activity during termination period |
| | | | - | 850,000.00 | Claim back 3% discount offered for a 10 year contract and granted during recent DLM inductions |
| NAEW&C sub-total | 3,330,226 | 3,330,226 | - | 5,800,000.00 | |
| GRAND TOTAL | 100,347,134 | 100,347,134 | 2,214,022 | 20,028,456 | |
| * Other @28N sub-total reported in the FS | | | | | |
| 2013 ACO Reorganization Budget (BC 122) | 6,595,247 | | | | |
| 2014 ACO Reorganization Budget (BC 122) | 810,579 | | | | |
| 2015 ACO Reorganization Budget (BC 122) | 8,926,077 | | | | |
| Other @28N sub-total | 16,331,904 | | | | |
| Difference | (1,310,880) | | | | |
| Final Special Carry Forwards | 99,036,254 | | | | |

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Table H-C - Reconciliation between ACO authorised Budgets and Calls in 2015

The table below is showing the reconciliation between the Budget Authorisation and the Calls made in 2015:

| Budget authorization 2015 | | | | | | | | | | |
|---------------------------|-----------------------------|---------------|---------------|--|-------------|------------------------|--------------------|---|-------------|-------------|
| Budget Groups | Advance 2015 called in 2014 | 1st Call 2015 | 2nd Call 2015 | Total by cost share called as of 31 Dec 2015 | BA3 (1) | Actual as of 31 Dec 15 | CF as of 31 Dec 15 | Difference between Calls, Actual and CF as of 31 Dec 15 | Lapse | Adjustment |
| 28N AOM | 123,400,000 | 82,899,050 | 68,313,004 | 274,612,054 | 274,571,023 | 222,446,188 | 49,991,225 | 2,174,641 | (2,133,609) | 41,032 |
| Tot AOM | 123,400,000 | 82,899,050 | 68,313,004 | 274,612,054 | 274,571,023 | 222,446,188 | 49,991,225 | 2,174,641 | (2,133,609) | 41,032 |
| 26N AGS | - | 2,192,646 | 730,882 | 2,923,528 | 2,923,528 | 1,066,832 | 51,045 | 1,805,651 | (1,805,651) | |
| 28N AGS | | 656,250 | 218,750 | 875,000 | 875,000 | 408,059 | 9,374 | 457,567 | (281) | 457,286 |
| Tot AGS | - | 2,848,896 | 949,632 | 3,798,528 | 3,798,528 | 1,474,891 | 60,419 | 2,263,218 | (1,805,932) | 457,286 |
| 28N NCSEP | 89,400,000 | 185,449,267 | 91,828,683 | 366,677,950 | 365,965,019 | 338,193,698 | 30,707,293 | (2,223,041) | (1,915,045) | (4,138,086) |
| Tot NCSEP | 89,400,000 | 185,449,267 | 91,828,683 | 366,677,950 | 365,965,019 | 338,193,698 | 30,707,293 | (2,223,041) | (1,915,045) | (4,138,086) |
| 16N NAEW | 62,100,000 | 129,125,402 | 63,741,801 | 254,967,203 | 254,967,203 | 221,464,711 | 33,293,964 | 208,528 | (208,529) | |
| 17N NAEW | 300,000 | 774,598 | 358,199 | 1,432,797 | 1,432,797 | 1,219,700 | 24,432 | 188,665 | (188,665) | |
| Tot NAEW | 62,400,000 | 129,900,000 | 64,100,000 | 256,400,000 | 256,400,000 | 222,684,411 | 33,318,396 | 397,193 | (397,194) | |
| GRAND TOTAL | 275,200,000 | 401,097,213 | 225,191,319 | 901,488,532 | 900,734,570 | 784,799,188 | 114,077,333 | 2,612,011 | (6,251,780) | (3,639,768) |

(1) Exchange rate: budgets authorised in GBP were converted and executed using a parity rate for the fiscal year 2015. The rate was fixed using the rate as of 1st January 2015, 1 EUR = GBP 0.7989

(2) Special Carry Forward: Amount of EUR 457,286 transferred to budget 122

(3) Special Carry Forward and exchange rate: EUR 457,286 was transferred from AGS, see note (2), EUR 428,000 was transferred from IMS and EUR 3,965,732 was transferred from ACT. Remaining difference of EUR 712,932 is due to exchange rate difference

| Budget authorization 2014 | | | | | | |
|---------------------------|---------------|-----------------------------|------------------------|------------------------|--------------------|--------------|
| Budget Groups | Carry Forward | Adjustment to Carry Forward | Adjusted Carry Forward | Actual as of 31 Dec 14 | CF as of 31 Dec 14 | Lapse |
| 28N AOM | 71,393,701 | | 71,393,701 | 7,372,880 | 37,492,308 | (26,528,513) |
| 26N AGS | 18,646 | | 18,646 | 9,507 | 7,521 | (1,618) |
| 28N NCSEP (*) | 26,162,365 | 755,000 | 26,917,365 | 19,534,576 | 6,396,291 | (986,498) |
| 16N NAEW | 43,322,917 | | 43,322,917 | 36,253,699 | 6,800,692 | (268,526) |
| 17N NAEW | 39,647 | | 39,647 | 39,452 | - | (195) |
| 26N NAEW | | 2,330,226 | 2,330,226 | - | 2,330,226 | - |
| GRAND TOTAL | 140,937,276 | 3,085,226 | 144,022,502 | 63,210,114 | 53,027,038 | (27,785,350) |

(*) Adjustment for Budget 131. Ref. BC-D(2015)0206.903.15 dated 5 Oct. 2015

| Budget authorization 2013 | | | | | | |
|---------------------------|---------------|-----------------------------|------------------------|------------------------|--------------------|-----------|
| Budget Groups | Carry Forward | Adjustment to Carry Forward | Adjusted Carry Forward | Actual as of 31 Dec 14 | CF as of 31 Dec 15 | Lapse |
| 28N AOM | 277,235 | | 277,235 | 103,091 | - | (174,144) |
| 28N NCSEP (#) | 21,278,183 | (8,348,120) | 12,930,063 | 5,537,396 | 6,595,247 | (797,420) |
| 16N NAEW (*) | 13,656,679 | | 13,656,679 | 13,656,679 | | - |
| 17N NAEW (*) | - | | - | - | - | - |
| GRAND TOTAL | 35,212,097 | (8,348,120) | 26,863,977 | 19,297,166 | 6,595,247 | (971,564) |

(#) Transferred to ACT for RAP

(*) Change in cost share due to Canada withdrawal on 16 Feb. 2013

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I. NSIP Project Execution

Table I-A - NSIP Active projects²³

| OVERALL - NSIP PROJECT EXECUTION STATUS | | | | | |
|---|--------------------|----------------|------------------|--------------------|-------------------|
| Active projects | | | | | |
| Status | Authorized Budget | Commitments | Actuals YTD | Actuals PJTD | Funds Available |
| BRUNSSUM | 39,784,159 | - | 352,912 | 33,123,119 | 6,661,040 |
| NAPLES | 44,982,424 | - | - | 43,368,574 | 1,613,850 |
| KFOR | 14,295,343 | - | 116,387 | 12,524,169 | 1,771,174 |
| NHQSa | 7,887,783 | - | - | 7,887,783 | - |
| SHAPE | 78,375,073 | 481,869 | 971,120 | 77,354,921 | 538,283 |
| Grand Total | 185,324,782 | 481,869 | 1,440,418 | 174,258,566 | 10,584,347 |

Table I-B - NSIP closed projects with COFFA

| OVERALL - NSIP PROJECT EXECUTION STATUS | | | | | |
|---|--------------------|-------------|-------------|--------------------|-----------------|
| Closed projects | | | | | |
| Status | Authorized Budget | Commitments | Actuals YTD | Actuals PJTD | Funds Available |
| BRUNSSUM | 45,395,316 | - | - | 45,395,315 | 1 |
| NAPLES | 3,644,378 | - | - | 3,644,378 | - |
| KFOR | 83,982,299 | - | - | 83,982,299 | - |
| NHQSa | 114,882,084 | - | - | 114,882,084 | - |
| SHAPE | 557,861,587 | - | - | 557,861,582 | 5 |
| Grand Total | 805,765,663 | - | - | 805,765,657 | 6 |

Total Tables I-A and I-B

| | | | | | |
|--------------|--------------------|----------------|------------------|--------------------|-------------------|
| Total | 991,090,445 | 481,869 | 1,440,418 | 980,024,223 | 10,584,352 |
|--------------|--------------------|----------------|------------------|--------------------|-------------------|

Tables I-A and I-B above show, respectively, the overall value of NSIP projects assigned to SHAPE HN still active at the reporting date and those which have been completed and financially closed. The amounts shown in the tables are broken down by the ACO Command responsible for the implementation of the projects according to delegation of authority provided by SHAPE.

During 2015 a total amount of 1,440,418²⁴ EUR was spent for 9 NSIP projects in total which can refer to three main categories as follows:

- AOM.** An amount of 469.2 KEUR for AOM projects, mainly for contingency funding to repair the network of strategic Main Supply Routes (MSRs) at KFOR and for emergency repairs of Air Operating Surfaces and of static force protection installations at RS camps
- Static HQs.** An amount of 531.4 KEUR for the implementation of various projects at SHAPE such as expanding the existing NCIRC Technical Centre facility, providing a concrete cabin to house all high voltage and low voltage equipment, supply and related works and for NATO hiring personnel for a period of seven years for the creation of the new SHAPE Project Office.
- Centralised projects.** An amount of 439.7 KEUR was spent to upgrade the Force Generation Management Tool required to ensure a better support to the Generation of ISAF/RS forces and their flow in and out of Theatre as well as for the implementation of the ACO/ACT Mission Identification System (AMIS) to standardise a common AMIS ID card throughout the entire NCS.

Several completed projects totalling 31.6 MEUR for the former ISAF mission are about to be closed. The IC agreed²⁵ to such procedure for completed projects with an authorised scope of less than 3 MEUR through

²³ YTD indicates the actual data as of 31 Dec. 2015; PJTD indicates the cumulated data for all the projects until 31 Dec. 2015.

²⁴ The YTD amount reflects the actual for 2015 including the WIP as well. In the Segment Reporting for NSIP (Note E), the expense totaling 1,263,623 reflects only the YTD (1,038,780 EUR) plus the assessment of the expenses related to WIP (176,795 EUR).

²⁵ AC/4-DS(2015)0028.

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an enhanced accelerated Joint Formal Acceptance Inspection (JFAI) and the conversion of the actual expenditures into a lump sum. Consequently the IC invited the IBAN to issue a Certificate of Final Financial Acceptance (COFFA). Some other ISAF projects which are above the ceiling of the 3 MEUR will be closed under the normal NSIP procedures. The same procedure will also apply to the close out of the projects for the Balkans operations; therefore, in the 2016/2017 time frame SHAPE plans to close out a significant number of projects still reported as active in the 2015 FS.

During 2015 2 more projects, included in the total amount of 805.7 MEUR shown in Table I-B for closed projects, were also completed and the related actual costs totalling 800,686 EUR were validated by the IBAN with the COFFA.

The amounts shown in the tables above are based on data recorded in the ACO Financial system (FinS). Any discrepancies with the data provided by CIRIS for the same projects have been duly verified and reconciled.

J. Write Off and Donations

In accordance with article 17 of the NFRs, an annual summary of property and cash losses, including irrecoverable debts, written-off in 2015 is annexed to the annual FS at the following table:

| ACO Headquarters Write-off Report | | | |
|--------------------------------------|-----------------------|-------------------|--------------------------------|
| in EUR | | | |
| HEADQUARTERS | HEADQUARTERS PROPERTY | | Cash/Account Receivable Losses |
| | Equipment | Vehicles | |
| ACO Corporate Accounting and Control | | | 83,465 |
| SHAPE | 425,432 | 450,339 | 11,628 |
| HQ JFCBS | 120,098 | 165,696 | 11,140 |
| HQ JFCNP | 242,943 | | 18,817 |
| HQ LANDCOM | 98,496 | | |
| HQ AIRCOM | 122,096 | 707,347 | |
| HQ MARCOM | | | 19,508 |
| NCISG | 1,499 | 277,526 | |
| HQ NAEW&C Force | JÍ Ê FÎ | 524,713 | |
| RS | 22,509,439 | 11,385,992 | 215 |
| KFOR | 254,084 | 1,267,210 | |
| NHQSa | | 131,550 | 140 |
| Total | 23,869,503 | 14,910,373 | 144,913 |

Two of the main Cash/Account Receivables write-off are for ACO Corporate Accounting and Control and Marcom HQ and they were approved by the BC during 2015 Fiscal Year. It should be noted that the net amount recognised in the ACO Consolidated Statement of Financial Performance as finance write-off ACO-wide is 15,985 EUR. This amount represents the real cost net of the allowances made during previous years for bad debts totalling 128,928 EUR.

In accordance with article 17.4 of the NFRs, donations of property/assets authorised during the year by the relevant finance committee shall also be reported in the Annual FS. In 2015 the BC with BC-DS (2015)0039 dated 23 July 2015 authorised the donation of seven vehicles of the NATO Headquarter-Sarajevo (NHQSa) for a total acquisition value amounting to 120,105 EUR.

Other than this request ACO has not sought the Committee's approval to donate other property it has ownership and control of.

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K. Trust Funds

The Trust Funds reported in 2015 are the Trust Funds for Afghan National Army (ANA), Kosovo Security Forces (KSF), MHI missions and nationally-funded projects. Trust Funds contributions are transferred to the ACO CAC dedicated bank accounts. Upon proper authorisation ACO CAC also executes payments on behalf of the Trust Funds Boards. 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 with the only exception of the remaining KSF project related to KFOR.

One of the main fund is the ANA Trust Fund (ANA TF), originally set up by the NAC in 2006 to support the efforts to equip the Afghan National Army. The role of ANA was expanded first in 2009 and later in 2013 taking into consideration the 2012 Chicago Summit commitments. A revised MOU dated 17 June 2014 was signed by the US, NATO HQ and SHAPE. Based on this MOU SHAPE is responsible for the financial management of the SHAPE ANA TF bank accounts by providing Treasury Functions. The daily management of the ANA TF falls to the NATO ANA TF Office (NATFO). Based on the requirements plan developed by the Afghan MoD/Mol with support by CSTC-A, a yearly Implementation Plan aims to satisfy those requirements through ANA TF projects and activities. The yearly Implementation Plan is approved by the ANA TF Board. The Implementation Plan includes funding mechanism (donor nations) and Working Plan with details of each project's scope, estimated cost, milestones, timelines, priorities and performance objectives. ACO J8 is also responsible for the transfer of funds for project execution pending the physical availability of the donations and the recurring financial reporting.

The ANA TF cash holdings increased significantly in 2015 (275 MEUR) versus 2014 (125, 8 MEUR). The following tables show the execution of the Trust Funds as of 31 December 2015:

| | <u>Funds received</u> | <u>Interests</u> | <u>Actual expenses</u> | <u>Cash transfers</u> | <u>Assessment rate</u> | <u>Total</u> | <u>Accumulated balance</u> |
|--|-----------------------|------------------|------------------------|-----------------------|------------------------|--------------|----------------------------|
| ANA Trust Funds | | | | | | | |
| Previous years | 719,819,337 | 3,072,323 | (3,461,093) | (611,385,289) | 3,869,934 | 111,915,212 | 111,915,212 |
| 2015 | 339,318,355 | 394,081 | | (191,403,995) | 3,968,904 | 152,277,345 | 264,192,557 |
| Total | 1,059,137,692 | 3,466,404 | (3,461,093) | (802,789,284) | 7,838,837 | 264,192,557 | |
| KSF Trust Funds | | | | | | | |
| Previous years | 7,673,728 | 104,797 | (7,454,074) | - | - | 324,451 | 324,451 |
| 2015 | - | 1,026 | (15,525) | | | (14,499) | 309,952 |
| Total | 7,673,728 | 105,823 | (7,469,599) | - | - | 309,952 | |
| KSF Trust Funds - US National funded | | | | | | | |
| Previous years | 1,777,500 | 39,708 | (418,549) | - | - | 1,398,659 | 1,398,659 |
| 2015 | - | 4,546 | - | - | - | 4,546 | 1,403,205 |
| Total | 1,777,500 | 44,254 | (418,549) | - | - | 1,403,205 | |
| Multinational Helicopter Initiative (MHI) | | | | | | | |
| Previous years | 34,157,779 | 520,922 | - | (22,569,474) | (51,822) | 12,057,404 | 12,057,404 |
| 2015 | (1,852,564) | 828 | | (1,159,632) | | (3,011,368) | 9,046,036 |
| Total | 32,305,215 | 521,750 | - | (23,729,106) | (51,822) | 9,046,036 | |
| POHRF - ISAF | | | | | | | |
| Previous years | 5,069,355 | (5,183) | - | (4,938,862) | - | 125,310 | 125,310 |
| 2015 | (49,242) | - | - | - | - | (49,242) | 76,068 |
| Total | 5,020,113 | (5,183) | - | (4,938,862) | - | 76,068 | |

L. PP&E and Inventory prior to 2013

As reported in the above Note A, all the PP&E and Inventory have been analysed across ACO sites through on-site visits made in 2015 by ACO CAC Staff in coordination with local staff to validate the data in terms of correct quantity, asset category and control criteria. As a consequence the data reported in the 2014 FS have been restated also with regard to the assets acquired prior to 1 January 2013.

Data reported in the Tables below are shown net of write-offs and presented by location and type of assets with the indication of the approximate number of items held per asset category, in accordance with the requirements set forth by the NAF.

It should be noted that items reported for AIRCOM also include also assets held at the reporting date by the DACCC, the CAOC in Poggio Renatico (ITA) and the CAOC in Torrejon (SP). Likewise the assets

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reported for the NCISG include data related to the 1st, 2nd and 3rd NSBs located, respectively, in Wesel (GER), Grazianise (ITA) and Bydgoszcz (POL)

Table L-A – Inventory prior to 2013- status as of 31 Dec. 2015 (quantities per site/category)

| Inventory Categories | NAEW&C Force GK HQ | JFC Naples HQ | NHQSa | Landcom HQ | Total |
|----------------------|--------------------|---------------|----------------|---------------|------------------|
| Consumable | 2,206,997 | | 551,778 | | 2,758,775 |
| Spare parts | 857,746 | 12,066 | 15,288 | 64,944 | 950,044 |
| Ammunition | 22,409 | | | | 22,409 |
| Grand Total | 3,087,152 | 12,066 | 567,066 | 64,944 | 3,731,228 |

Inventories acquired prior to 1 January 2013 and still present as of 31 Dec. 2015 are reported by NAEW&C Force GK, JFCNP, NHQSa and LANDCOM. The former still holds a significant quantity of consumables and spare parts due to stockpiles accumulated in the past to satisfy maintenance requirements of the former NE-3A Component AWACS fleet. For the other three sites the end of year balances are expected to phase out in a relatively short-term period depending on consumption rates and write-offs due to obsolescence. The items are continuously monitored through normal stock-counting and technically checked to verify their serviceability.

Amongst the inventories shown in the Table above there are also CIS legacy for NHQSa and a minor quantity of ammunition reported by the NAEW&C Force GK HQ which represents an exception as ammunitions are normally provided by the Nations.

TABLE L-B – PP&E prior to 2013 – status as of 31 Dec. 2015 (quantities per site/category)

| Asset Categories | SHAPE HQ | JFC BRUNSSUM HQ | AIRCQM HQ | RSM HQ | NAEW & C Force GK HQ | JFC NAPLES HQ | NHQSa | LANDCOM HQ | NCISG HQ | KFOR HQ | MARCOM HQ | Total |
|---|---------------|-----------------|---------------|---------------|----------------------|---------------|--------------|---------------|--------------|---------------|--------------|----------------|
| LAND | - | 1 | - | - | 1 | - | - | - | - | - | - | 2 |
| BUILDING | 40 | 39 | 15 | 18 | 216 | 9 | - | 31 | 52 | 109 | 1 | 530 |
| OTHER INFRASTRUCTURES | 58 | 8 | - | 292 | 193 | 15 | - | 18 | 6 | 11 | - | 601 |
| INSTALLED EQUIPMENT | 105 | 248 | 179 | 2,788 | 6,522 | 65 | - | 11 | 166 | 255 | 5 | 10,344 |
| MACHINERY | 822 | 1,547 | 503 | 1,739 | 15,238 | 798 | 561 | 604 | 170 | 2,078 | 72 | 24,132 |
| TRANSPORT EQUIPMENT - VEHICLES | 260 | 66 | 71 | 438 | 63 | 61 | 86 | 43 | 721 | 132 | 4 | 1,945 |
| TRANSPORT EQUIPMENT - AIRPLANES | - | - | - | - | 16 | - | - | - | - | - | - | 16 |
| TRANSPORT EQUIPMENT - AIRPLANES (& Spare Parts) | - | - | - | - | 15,328 | - | - | - | - | - | - | 15,328 |
| MISSION EQUIPMENT | 1,108 | 521 | 371 | 28,673 | 9,897 | 230 | 162 | 402 | 353 | 461 | 6 | 42,184 |
| FURNITURE | 31,800 | 9,373 | 11,655 | 3,301 | 148 | 16,987 | 480 | 8,930 | 1,059 | 15,092 | 2,347 | 101,172 |
| COMMUNICATION | - | - | - | - | 21,327 | - | 632 | - | - | 1,728 | - | 23,687 |
| AUTOMATED INFORMATION SYSTEM | - | - | - | - | 2,415 | - | 1,747 | - | - | 4,037 | - | 8,199 |
| Grand Total | 34,193 | 11,803 | 12,794 | 37,249 | 71,364 | 18,165 | 3,668 | 10,039 | 2,527 | 23,903 | 2,435 | 228,140 |

As specified in Note A (Assets) above the legal ownership of installations and facilities fixed to the ground belongs to the respective territorial Host Nations. However, due to the fact that ACO exercises a certain control over these assets they are reported in the ACO FS. The category of buildings mainly includes the facilities provided by the HNs to ensure the effective operation of the NATO installations as well as a variety of infrastructure made by concrete/brick and by metal and wood frame. They also include other facilities such as the access control posts at the entrance gates, warehouses, storage houses, garages, bunkers, electrical stations, etc. Although traced, the electrical systems, fire detection, transformers etc. which are part of the infrastructure are not counted as separate assets from the infrastructure they serve.

The HQ facilities of the NHQSa are not reported as they are under the control and responsibility of EU Operation Althea based on the Berlin-Plus Agreement. MARCOM is reporting only 1 building which is the NATO HQ facility as all the other infrastructures are under the exclusive control of the HN.

During 2015 SHAPE has developed a clear list of assets belonging to the category of the installed equipment, namely elevators, Heating, Ventilation and Air Conditioning (HVAC) installations, generators/UPS and access control and surveillance systems such as alarm systems, finger print systems, badge readers etc. and others such as water treatment plants, gates and barriers to ensure a consistent accounting treatment of these assets across the ACO Commands. For this reason some of the legacy PP&E previously reported by ACO under other categories have been reassessed at the reporting date as Installed Equipment.

The category shown in the Table related to Transportation – Aircraft (Spare Parts) includes several airplane major spare parts held by NAEW&C Force GK HQ which are functional to the 16 aircrafts that make the AWACS fleet. Since 1985 NAEW&C Force GK HQ has operated a fleet of 17 E3A AWAC planes providing air surveillance to NATO. The decision to create the Air Ground Surveillance (AGS) and a major upgrade

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approved for only 14 airplanes have resulted in the decision to dispose 3 of the planes. Plane LX-N-90449, being next in line for a DLM, was retired in June 2015 and transferred to the US for disposal; this saved approximately 14 MEUR in maintenance costs. Before the plane was transported to the US sensitive and material parts, more than 1,400 items were removed from the plane to be used as spare parts for the remaining fleet. NAEW&C Force GK HQ has reserved the right to request more parts being returned before final disposal.

The category of Furniture includes a variety of items mainly for offices such as desks, chairs, file cabinets, office storage, conference furniture, etc. There are still differences in the number of assets of legacy furniture reported across the ACO sites which may depend on different stockpiles accumulated over the years and different refurbishment plans applied in relation to the availability of funding vis-à-vis other operational requirements. However, it may also depend on how the assets have been tracked whether on a serialised-based approach in some instances rather than by unit. Further analysis will be carried out on this category to improve the consistency of the approach and reduce discrepancies amongst the various ACO sites.

The only CIS assets reported in the 2015 ACO FS relate to KFOR, NHQSa and NAEW&C Force GK as they are not under the control of the NCIA but rather of ACO as disclosed in Note A above.

M. ACO Morale & Welfare Activities

The ACO Morale & Welfare Activities report is presented on an annual basis to the BC.

All the ACO commands with the exception of NHQSa have performed MWA activities during 2015. In terms of annual performance, the 2015 ACO-wide MWA activities have shown an overall turnover of 40.3 MEUR resulting in an overall decrease of 2.1 MEUR in comparison to the aggregated restated revenue reported in 2014 (42.4 MEUR). In terms of profit, with the exception of AIRCOM and MARCOM (with a very limited loss), the rest of the ACO Commands have reported a profit which accounted for a total of 706 KEUR (versus a net loss of 1.6 MEUR generated in 2014).

The structural analysis of the financial data indicates that a high level of cash and capital reserves have been ring-fenced by the various MWA programmes to cater for current losses and future contingencies as well as to protect themselves against discontinuity of revenue income. Nevertheless, it should be pointed out that JFCNP MWA is still facing a difficult situation that may impact its sustainability for the coming years. This is due to the decision of the Italian Customs Agency and Monopoly to suspend the tax-free benefits of the IT NSE personnel assigned to JFCNP and the potential reimbursement of the 5.9 MEUR pre-financed by the NSIP for the construction of the new HQ complex which includes MWA facilities in Lago Patria. Despite this, the short-term liquidity ratios across the commands remained at a strong level which gives an indication about the long term financial viability of these entities.

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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 |
| 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 |
| 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 |

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| 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 |
| 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 |

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| 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 |
| M & W MWA | Morale and Welfare Morale and Welfare Activities | 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 |
| 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 |
| 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&C Force GK | NATO Airborne Early Warning and Control Force HQ | Single International Military HQ comprising the NAEW&C Force HQ, the E3A-Component and the Mission Systems Engineering Centre. Starting date is 1 Dec. 2015. |
| NAF | Non-Appropriated Funds | Resources internally generated by NATO military and civilian staffs through retails and service facilities operated by the Command |
| NAF | NATO Accounting Framework | NATO's adaption to IPSAS |
| 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. |

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| | | <ul style="list-style-type: none"> 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 |
| 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 | 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 |
| 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 |

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| 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 |
| 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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