

	NATO	NORTH ATLANTIC COUNCIL
	OTAN	CONSEIL DE L'ATLANTIQUE NORD

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24 November 2015

DOCUMENT
C-M(2015)0076-AS1

**IBAN REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS OF THE NATO
EARLY WARNING & CONTROL PROGRAMME MANAGEMENT AGENCY (NAPMA)
FOR 2013**

ACTION SHEET

On 23 November 2015, under the silence procedure, the Council noted the IBAN report IBA-AR(2014)28 and agreed the recommendations, including on public disclosure, contained in the RPPB report.

(Signed) Alexander Vershbow
Deputy Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2015)0076.

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18 November 2015

DOCUMENT
C-M(2015)0076
Silence Procedure ends:
23 Nov 2015 18:00

**IBAN REPORT ON THE AUDIT OF THE FINANCIAL
STATEMENTS OF THE NATO EARLY WARNING & CONTROL
PROGRAMME MANAGEMENT AGENCY (NAPMA) FOR 2013**

Note by the Deputy Secretary General

1. I attach the International Board of Auditors for NATO (IBAN) report on the audit of the financial statements of the NATO Airborne Early Warning & Control Programme Management Agency (NAPMA) for the year ended 31 December 2013.
2. The IBAN has issued a qualified audit opinion on the 2013 NAPMA Financial Statements and an unqualified opinion on compliance. The IBAN report and the qualification continue to highlight the difficulties in reconciling the expenditures related to the United States System Programme Office (Foreign Military Sales) that has formed the basis for qualifications on the NAPMA Financial Statements since 2010. The inability to present satisfactory information, despite significant efforts by the Agency and the United States authorities, in the opinion of the NAPMO BOD may lead to qualifications forever. The issue will be examined by the Head of Financial Reporting Policies with a view to recommending a NATO-wide way ahead in relation to the NATO Accounting Framework and NATO Financial Regulations.
3. The IBAN report has been reviewed by the Resource Policy and Planning Board (RPPB), which has provided its comments and recommendations on the report (see Annexes).
4. In line with PO(2015)0052, the RPPB recommends to Council that the IBAN report on the audit of NAPMA for the year 2013, together with the related Financial Statements, be made available to the public.

5. I consider that no further discussion regarding this report is required. Consequently, **unless I hear to the contrary by 18:00 hours on Monday 23 November 2015**, I shall assume that the Council has noted the IBAN report IBA-AR(2014)28 and agreed the recommendations, including on public disclosure, contained in the enclosed RPPB report.

(Signed) Alexander Vershbow

4 Annexes
1 Enclosure

Original: English

**IBAN REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS OF THE NATO
AIRBORNE EARLY WARNING & CONTROL PROGRAMME MANAGEMENT AGENCY
(NAPMA) FOR 2013**

Report by the Resource Policy and Planning Board (RPPB)

References:

- (a) IBA-A(2014)256 & IBA-AR(2014)28
- (b) BC-D(2015)0035-FINAL

Background

1. The present report by the Resource Policy and Planning Board (RPPB) contains the RPPB's observations and recommendations concerning the International Board of Auditors for NATO (IBAN) report (reference (a)). The report is based on the full review of the audit report provided by the Budget Committee (BC) (reference (b)).
2. The RPPB notes and agrees with the conclusions and recommendations of the BC as laid out in their report (reference (b)).

RPPB Conclusions

3. The IBAN has issued a qualified audit opinion on the 2013 NAPMA Financial Statements and an unqualified opinion on compliance. The IBAN report and the qualification continue to highlight the difficulties in reconciling the expenditures related to the United States System Programme Office (Foreign Military Sales) that has formed the basis for qualifications on the NAPMA Financial Statements since 2010. The inability to present satisfactory information, despite significant efforts by the Agency and the United States authorities, in the opinion of the NAPMO BOD may lead to qualifications forever. The issue should be examined by the Head of Financial Reporting Policies with a view to recommending a NATO-wide way ahead in relation to the NATO Accounting Framework and NATO Financial Regulations.
4. NAPMA has settled one of six observations related to previous audits. The settled observation relates to correction and improvement of Disclosures and Notes to the financial statements dealing with administrative asset purchases. Additionally, one of the outstanding observations concerns the reconciliation of expenditures related to the US System Programme Office that is covered by the qualified opinion.

5. Of the four remaining outstanding observations, one concerns residual errors in the NAPMA budget reporting system that was recognised during the 2012 IBAN audit and was expected to be fully resolved in the 2014 financial statements¹. This 2013 IBAN report and the NAPMO BOD comments indicate the observation is in hand and should be resolved as foreseen.

6. The remaining three observations deal in one form or another with the way cash holdings and calls are dealt with by NAPMA and its BOD. For two of the observations the NAPMA BOD has indicated it concurs with the IBAN and will have measures in place for the 2014 financial year. The IBAN has indicated it will follow up the measures to ensure they are sufficient to resolve the outstanding observations as part of its 2014 audit.

7. The final outstanding observation dates from 2003 when the IBAN observed that NAPMA should reduce its cash holdings to comply with NATO Financial Regulation 13 which sets out the principal that currency holdings should be restricted to meet forecast expenditures prior to receipt of the following contribution installment. The NAPMA cash holdings at the end of 2013 remained at some 200% of annual expenditures. The issue and concerns have been indicated for followed up in the context of the broader review of the NATO Financial Regulations (NFRs)² and the IBAN has also conducted a Special Performance Audit on cash holdings in NATO during 2014 that is in the process of finalisation. The observation is likely to remain outstanding until these follow-up inputs have been considered in the course of 2015.

8. The Financial Controller of NAPMO and the NAPMO Board of Directors (BOD) have reviewed the financial statements in accordance with agreed policies (C-M(2018)0116 and PO(2015)0052). The NAPMO BOD is of the opinion that the NAPMA financial statements in their current status are not releasable to the public, due to commercial sensitive information contained therein. The NAPMO BOD has therefore provided a reformatted 2013 financial statement package divided in two parts: one containing information which in their view can be publicly disclosed and another containing sensitive information which in their view cannot be made public at this point³. The NAPMO BOD wishes to highlight this for consideration by the RPPB before it concludes its recommendations to Council. The IBAN has reviewed the adapted version and confirmed that the findings reflected in their original audit report remain valid⁴.

9. After due consideration of the arguments presented by the NAPMO BOD, and in consultation with the IBAN, the RPPB, in line with PO(2015)0052, recommends to Council the publication of the provided adapted 2013 NAPMO financial statements and the associated IBAN report.

¹ C-M(2015)0007

² C-M(2015)0007

³ NAPMO/ES(15)01-00/--7, dated 25 June 2015; and NAPMO/ES(15)01-00/0005, dated 19 April 2015.

⁴ E-mail from Mr Bret Hare, IBAN Senior Auditor, Wednesday 9 September 2015.

RPPB recommendations

10. The Resource Policy and Planning Board (RPPB) recommends that Council:
- (a) note the IBAN report IBA-AR(2014)28 along with the present report;
 - (b) endorse the conclusions outlined in paragraphs 3 through 9;
 - (c) invite NAPMA to implement the IBAN recommendations;
 - (d) note that the Board intends to follow work by the Head of Financial Reporting Policies on the observation related to the United States Programme Office and Foreign Military Sales and any adaptation of NATO financial regulations and accounting procedures that is required;
 - (e) note that the Resource Committees intend to continue to monitor the status of outstanding audit observations;
 - (f) in line with the agreed policy in PO(2015)0052, agree to the public disclosure of the adapted NAPMO 2013 financial statements and the associated IBAN report (IBA-AR(2014)28).

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**Summary Note for Council
by the International Board of Auditors for NATO (Board)
on the audit of the Financial Statements of the
NATO Airborne Early Warning & Control Programme Management Agency (NAPMA)
for the year ended 31 December 2013**

The NATO Airborne Early Warning & Control Programme Management Organisation (NAPMO), including the NATO Airborne Early Warning & Control Programme Management Agency (NAPMA) was established to assume the direction, co-ordination, and the execution of the co-ordinated acquisition programme of the NATO Airborne Early Warning and Control (NAEW&C) system. The management of the program consists of overseeing the acquisition of the operating assets needed to establish NAEW&C capability and subsequent acquisitions of enhancements thereof. NAPMA expenditure in 2013 – including additions to modernisation assets - was approximately USD 100 million.

The Board issued a qualified opinion on the NAPMA Financial Statements and an unqualified opinion on compliance for the year ended 31 December 2013.

The reason for the qualified opinion is that the Board is unable to obtain sufficient and appropriate audit evidence related to transactions contracted through the United States System Program Office (SPO). As at 31 December 2013, the total amount of such expenditures recorded in Project Expenses in the Statement of Financial Performance was approximately USD 737,754 and the total amount of such expenditures that were capitalised as Work in Progress in the Statement of Financial Position was approximately USD 60 million.

During the audit, the Board also made one observation and provided two recommendations in relation to IPSAS 20 (Related Party Disclosures), where the Board acknowledged that NAPMO set a procedure for Board Members and Key Management personnel to disclose possible relationship with the agency using a declaration form, but that some of the declaration forms were not found.

The Board also followed up on the status of observations from previous years' audits and noted that one has been settled and six remain outstanding.

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19 December 2014

AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF THE

**NATO AIRBORNE EARLY WARNING AND CONTROL
PROGRAMME MANAGEMENT AGENCY**

(NAPMA)

FOR THE YEAR ENDED 31 DECEMBER 2013

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

Report on the Financial Statements

The International Board of Auditors for NATO (Board) audited the accompanying Financial Statements of the NATO Airborne Early Warning and Control Programme Management Agency (NAPMA), which comprised the Statement of Financial Position as at 31 December 2013, the Statement of Financial Performance, the Statement of Changes in Net Assets / Equity, the Cash Flow Statement for the year then ended, and Notes to the Financial Statements, including a Statement of Accounting Policies. The Board also audited the Statement of Comparison of Budget and Actual Amounts for the year ended 31 December 2013.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion on the Financial Statements

The Board is unable to obtain sufficient and appropriate audit evidence related to transactions contracted through the United States System Program Office (SPO). The Board understands that NAPMA receives a monthly expenditure report from SPO that cannot be reconciled with delivery report or are reconciled with significant delay. As a result of that, the Board cannot assess the accuracy and completeness of these transactions. As at 31 December 2013, the total amount of such expenditures recorded in Project Expenses in the Statement of Financial Performance was USD 737,754 and the total amount of such expenditures that were capitalised as Work in Progress in the Statement of Financial Position was approximately USD 60 million.

Opinion on Financial Statements

In our opinion, except for the possible effects of the matters described in the *Basis for Qualified Opinion on the Financial Statements*, the Financial Statements present fairly, in all material respects, the financial position of NAPMA as of 31 December 2013, and of its financial performance and its cash flows for the year then ended are in accordance with the NATO Accounting Framework.

Report on Compliance

Management's Responsibility for Compliance

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

Auditor's Responsibility

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

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

Opinion on Compliance

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

Other Matters

The Board had previously issued an unqualified opinion on compliance relating to NAPMA's 2012 financial statements. Following its audit of the 2012 financial statements, the Board had concluded that some immaterial differences still existed relating to budgetary credits carried forward into 2013 but that the Board could issue an unqualified opinion. However, in a note to the Statement of Comparison of Budget and Actual Amounts in NAPMA's 2013 financial statements, the agency disclosed that the original carry forwards from 2012 into 2013 had changed from USD 162,917,499 to USD 167,611,905. This represents a material difference of USD 4,694,406. As a result, the carry forwards into 2013 disclosed in the 2012 Statement of Comparison of Budget and Actual Amounts proved to be materially incorrect. The budgetary credits brought forward into 2013 have been presented correctly in the 2013 financial statements.

Brussels, 19 December 2014

Dr Charilaos Charisis
Chairman

19 December 2014

**LETTER OF OBSERVATIONS AND RECOMMENDATIONS
FOR THE NATO AIRBORNE EARLY WARNING AND CONTROL
PROGRAMME MANAGEMENT AGENCY**

(NAPMA)

FOR THE YEAR ENDED 31 DECEMBER 2013

Introduction

The International Board of Auditors for NATO (Board) audited the NATO Airborne Early Warning and Control Programme Management Agency (NAPMA) Financial Statements for the year ended 31 December 2013, and issued a qualified opinion on the financial statements with respect to a scope limitation regarding expenditures procured through the United States System Program Office (SPO) due to the indirect contracting arrangements in place. The Board issued an unqualified opinion on compliance.

Observations and Recommendations

During the audit, the Board identified one observation and provided two recommendations. This observation is summarized below:

- In relation to the provision of IPSAS 20 (Related Party Disclosures), the Board acknowledged that NAPMO set a procedure for Board Members and Key Management personnel to disclose possible relationship with the agency, using a declaration form. However, the Board found that some declaration forms were not found.

The Board also followed up on the status of observations from previous years' audits and noted that one has been settled and six remain outstanding.

OBSERVATIONS AND RECOMMENDATIONS**1. IMPROVEMENTS NEEDED IN PROCESS OF IDENTIFYING RELATED PARTY RELATIONSHIPS AND TRANSACTIONS****Reasoning**

1.1 IPSAS 20 requires that an entity that prepares and presents financial statements under the accrual basis of accounting shall apply this standard in disclosing information about related party relationships and certain transactions with related parties. NAPMO set a procedure to mitigate the risk of having unknown related party relationship or transaction using a declaration form to be filled in by the members of the Board of Directors and Key Management Personnel.

Observation

1.2 The Board observed that NAPMA has a procedure in place to identify related party relationships and transactions whereby members of the governing bodies and certain members of staff have been asked to sign statements attesting to the fact that they don't have any related party relationships or transactions, or reporting those that they do have. However, the Board found that such signed statements could not be found for six governing body representatives. Without such statements, NAPMA is not in a position to fully ensure the completeness of the related party disclosures made in its financial statements, thus reducing the usefulness of the financial statements for transparency and accountability purposes.

Recommendation

1.3 The Board recommends that NAPMA follow-up with those governing body members whose statements attesting to the fact that they do not have any related party relationships or transactions, or reporting those that they do have, could not be found.

1.4 NAPMA should also integrate how the receipt of such statements fits into their overall internal control environment in respect to the prevention and detection of fraud, including proper monitoring procedures and internal reporting mechanisms.

Formal comment of the NAPMO Board of Directors

NAPMO concurs with the recommendation. NAPMA followed-up with all governing body members, whose statements could not be found. NAPMA will integrate the receipt of the statements into the overall internal control environment.

However, NAPMO takes the opportunity to propose an approach which is not only more efficient, but also in line with the process relating to security clearances. The members of the Board of Directors are elected and appointed by their respective Nations. Security clearances, including potential vulnerabilities which might include related parties, remain a national responsibility. Following this responsibility a process could be set-up, in which the respective Nations provide, upon appointment, NAPMO with a related party declaration which remains valid unless changes are provided by the Nation involved. The National declarations, including potential changes, are to be registered by the Agency. Any changes to present declarations or to newly appointed Board members will be stated in the Notes of the Financial Statements.

Board's Position

The Board preference is for individual declarations.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

The Board reviewed the status of the observations and recommendations arising from the previous audits. The observations and their status are summarised in the table below.

Status of previous years' observations

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
1. Audit Report FY 2012 IBA-AR(2013)39, paragraph 4.1 Valuation of work in progress asset Observation The Board was unable to obtain sufficient and appropriate audit evidences on the expenditures conducted via the U.S. System Programme office (SPO). Therefore the Board was not able to assess the completeness and accuracy of the expenditures and related capitalizations that occurred during the year. Board's recommendation The Board recommended that NAPMA and the U.S. authorities continue their efforts to provide the Board with sufficient evidence to support the value of all work undertaken by U.S. contractors. In the Board's view, this should focus on the more timely delivery of DD250s to match physical deliverables with expenditure in a given year. In addition, NAPMA should explore with the U.S. authorities the possibility of providing additional information related to evidence of the delivered services.	The Board observed that despite attempts from NAPMA to reconcile information from several sources of information, the result was not satisfactory.	Observation Outstanding.
Formal comment of the NAPMO Board of Directors <p><i>NAPMO concurs with the recommendation. NAPMA and the US authorities will continue efforts to provide the IBAN with evidence to support the value of all work undertaken by US contractors, i.e. FUP. However, it should be recognized that such evidence can only be provided in accordance with the legal framework of NAPMO which determines the scope of the audit¹. The scope limitation does not warrant a qualified opinion as this would imply, due to the nature of the limitation, we will carry this qualification forever.</i></p> <p><i>¹NAPMO Charter Annex III "Audit of the Account". The Authority of the Board of Auditors does not extend to auditing internal records of member states; however, member states will make vouchers available to that Board in support of expenditure claimed by them on the NAPMO.</i></p>		
2. Audit Report FY 2012 IBA-AR(2013)39, paragraph 4.2		

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p>Statement of Comparison of Budget and Actual Amounts</p> <p>Observation The Board noticed inaccurate budgetary data on commitments and obligations carried forward in 2011. In 2012, the Board concluded that the carry forwards into 2012 on the prior year Statement of Comparison of Budget and Actual Amounts proved to be incorrect given the material correction to the carry forward into 2012 disclosed in the notes to the 2012 financial statements.</p> <p>Board's recommendation The Board recommended that the agency continue to investigate and correct any residual errors in the SAP budget reporting module to ensure that no material errors still exist within the system.</p>	<p>The Board observed that the budget obligations carried forward from 2012 into 2013 were corrected. As such, the information disclosed on the budget in the 2012 financial statement was inaccurate. The Board will again report this issue as an Other Matters paragraph in its Auditor's Report.</p> <p>The Board also understands that proactive investigations for errors in 2012 budget carry forwards have ended and that in principle NAPMA does not expect any further material errors related to this issue.</p>	<p>Observation Outstanding.</p>
<p>3. Audit Report FY 2012 IBA-AR(2013)39, paragraph 4.3 Call for Funds</p> <p>Observation The Board found that the total call against CNS-ATM budget for 2012 exceeded authorized credit (by USD 5,368,242).</p> <p>The article 17.5 of NAPMO Financial Regulations states that on exceptional basis, calls may be based on a BoD approved method of calculation such as a fixed contribution ceiling by calendar/financial year.</p> <p>The Board did not believe that the BoD has specifically approved the call that was over budget authority but within overall contract authority</p> <p>Board's recommendation The Board recommended that the agency ensure, in future, that all calls are made in accordance with its financial regulations and, if necessary, obtains approval from the BoD in accordance with art. 17.5 of its financial regulations</p>	<p>The Board observed that one Nation made an early payment on its future contribution requirement.</p> <p>The Board does not believe that the Board of Directors specifically approved this contribution, as required by the NAPMO Financial Regulations.</p> <p>Previous year recommendation on similar issue was that NAPMA should ensure to follow its own regulations. This observation is still outstanding.</p> <p>NAPMA has informed the Board, though, that the NAPMO Board of Directors approved a change to Article 17.5 of the NAPMO Financial Regulations. The Board will follow-up on this in the 2014 audit.</p>	<p>Observation Outstanding.</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p>4. Audit Report FY 2012 IBA-AR(2013)39, paragraph 4.5 Presentation of the Statement of Comparison of Budget and Actual Amounts</p> <p>Observation There was minor disclosure errors on NAPMA's 2012 Statement of Comparison of Budget and Actual Amounts. This was due to the exclusion of administrative asset purchases from the expenses column in the Statement of Comparison of Budget and Actual Amounts that should be directly comparable to budgetary transactions disclosed on the statement of financial position and performance</p> <p>Recommendation The Board recommended that, in the future, the agency ensure that administrative asset purchases are fully disclosed on the Statement of Comparison of Budget and Actual Amounts. In addition, in order to improve clarity and transparency, the agency should provide an additional note to the Statement of Comparison of Budget and Actual Amounts that fully reconciled budgetary expenditure to the statements of financial position and performance.</p>	Disclosures and Notes to the Financial statement have been improved.	Observation Settled.
<p>5. Audit Report FY 2005 IBA-AR(2006)21, paragraph 4.2 Inconsistent calls for contributions letters</p> <p>a) NAPMA should issue consistent contribution letters to all nations and not tailor the overall cash requirement figure for the convenience of each nation; and</p> <p>b) NAPMA should ensure that the contribution letters explicitly state which amounts are over and above actual cash requirements.</p>	<p>a) To facilitate the nations who chose to pay higher amounts, different overall cash requirements are stated on 2013 call letters.</p> <p>b) The call letters sent by NAPMA did not state to what extent the contribution call was over and above actual cash requirements.</p> <p>The Board, however, noted that NAPMA instituted a standardized invoice/letter as of 2014 for all calls for contributions.</p>	<p>a) Observation Outstanding.</p> <p>b) Observation Outstanding.</p>
<p>Formal comment of the NAPMO Board of Directors</p> <p><i>NAPMO concurs with the recommendation. NAPMA instituted a standardized invoice/letter as of 2014 for all calls for contributions.</i></p>		

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<i>Recommend closure.</i>		
Board's Position The Board will review the application of the standardised 2014 call invoice/letter as part of its 2014 audit.		
6. Audit Report FY 2003 IBA-AR(2004)21, paragraph 4.1 Unnecessarily high holdings of cash NAPMA should reduce its holdings of cash-at-bank.	Cash held at year end 2013 amounts to USD 241.8 million, increase of USD 20.5 million. The Board observed that the level of cash at the end of the year amounts to more than 200% of the expenditures of the year. Per the NFRs, this continues to represent an excessive level of cash. However, in 2013, the Board acknowledged a reduction of the percentage of cash in relation to the expenditures of the year.	Observation Outstanding.
Formal comment of the NAPMO Board of Directors <i>... The Board observed that the level of cash, at the end of the year, amounts to more than 200% of the expenditures of the year. Per the NFRs, this continues to represent an excessive level of cash.</i> <i>However, per the NFRs, there is no definition of what constitutes an excessive level of cash. NAPMA's cash holdings is a direct function of how quickly or slowly our multi-year acquisition programmes are executing and being billed. The calls are in accordance with Article 17 of the NAPMO Financial regulations and the current cash status is briefed in every Board cycle. Additionally, it should be noted that NAPMA reduced the cash holdings by nearly 50 percent, in comparison to 2013 and will continue to strive to reduce cash holdings.</i> <i>Recommend closure.</i>		
Board's Position Article 13 of the NFRs states that each contribution instalment shall be calculated to restrict total currency holdings to the minimum required to meet forecast expenditures prior to receipt of the following contribution instalment. This constitutes a definition of an excessive level of cash holdings.		

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FINANCIAL STATEMENTS FOR
FINANCIAL YEAR 2013

Public releasable version

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INDEX NAPMA Financial Statements

1. Statement of Financial Position	Page 2
2. Statement of Financial Performance	Page 3
3. Statement of Changes in Net Assets / Equity	Page 4
4. Cash Flow Statement	Page 5
5. Statement of Comparison of Budget and Actual Amounts	Page 6
6. Notes to the Financial Statements	Page 7-26

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1. NAPMA STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013
(IN USD EQUIVALENT)

ASSETS	Notes	2013	2012
Current Assets			
Cash and Cash Equivalents	1	241,811,092	221,295,831
Receivables	2	43,989,229	47,895,078
Advances	3	10,093,750	8,769,837
Accruals/Deferrals	4	4,020	252
Non Current Assets			
Work in progress	5	90,606,495	23,884,255
Fixed Admin assets	6	846,610	1,986,352
TOTAL ASSETS		387,351,197	303,831,605
LIABILITIES			
Current Liabilities			
Accounts Payable	7	1,197,314	3,696,475
Accruals/Deferrals	8	1,027,920	1,132,589
Unearned Contributions	9	256,450,752	220,690,507
Non Current Liabilities			
Advance Contributions	10	30,158,953	39,133,483
Reimbursables NATO Entities	10	4,448,456	5,301,353
Deliverable to NAEW&C	11	90,606,495	23,884,255
TOTAL LIABILITIES		383,889,891	293,838,661
NET ASSETS		3,461,306	9,992,944
TOTAL LIABILITIES AND NET ASSETS		387,351,197	303,831,605

**2. NAPMA STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 DECEMBER 2013
(IN USD EQUIVALENT)**

REVENUE	Notes	2013	2012
Revenue from Contributions	12	25,047,039	22,777,365
Financial Revenue		0	0
Other Revenue		404,488	0
Total Revenue		25,451,527	22,777,365
 EXPENSES			
Project Expenses	13	6,936,596	4,388,843
Administrative Expenses	13	22,556,733	21,329,643
Depreciation and amortization expenses	13	1,315,735	1,616,629
Financial Expenses	13	284,722	240,026
Total Expenses		31,093,786	27,575,141
 SURPLUS/(DEFICIT) FOR THE YEAR	14	(5,642,258)	(4,797,776)

3. NAPMA STATEMENT OF CHANGES IN NET ASSETS / EQUITY FOR THE YEAR ENDED 31 DECEMBER 2013
(IN USD EQUIVALENT)

	Restricted	Unrestricted	Accumulated Surpluses/ Deficits	- Investment in Capital Assets	Accumulated Currency Transactions	Total 2013	Total 2012
Net Assets, beginning of year	15,535,949	14,411,923	(21,300,570)	1,986,352	(640,710)	9,992,944	14,242,179
Prior period adjustment: WIP Mid-Term incorrectly capitalized under fixed admin assets	79,974					79,974	
Adjusted Net Assets, beginning of year						10,072,918	
Surplus/-Deficit for the year (excl. Depreciation)			(4,326,523)			(4,326,523)	(3,181,147)
Excess of Revenue over Expenditure	4,276,755	(4,276,755)				0	0
Transfer for Expenses	(175,993)	(1,157,627)				(1,333,620)	(312,207)
Net change in Investment in Capital Assets				(1,139,742)		(1,139,742)	(1,304,422)
Revaluation adjustment for current period					188,273	188,273	548,541
Net Assets, end of year	19,716,685	8,977,542	(25,627,093)	846,610	(452,436)	3,461,306	9,992,944

**4. NAPMA CASH FLOW STATEMENT FOR YEAR ENDED 31 DECEMBER 2013
(IN USD EQUIVALENT)**

	2013	2012
Cash Flow from Operating Activities		
Surplus/(Deficit) from Operating Activities	(5,642,258)	(4,797,776)
Add: Non-Cash Movements		
Depreciation	1,315,735	1,616,629
Increase in Receivables	3,905,849	(30,384,309)
Decrease in Advance Payments	(1,323,913)	1,258,147
Decrease in Accruals/Deferrals	36,134	193,381
Increase in Payables	(2,499,161)	1,072,447
Increase in Unearned Contributions	35,760,246	28,453,942
Decrease in Advances Received	(9,827,426)	(6,535,992)
Change of Value in Asset Deliverable	71,701,991	36,655,210
Decrease in Goods Receipt	(144,570)	(1,469,536)
Net Cash Flow from Operating Activities	93,282,625	26,062,143
Cash Flow from Investing Activities		
Purchase of Assets	(295,953)	(312,207)
Correction to Assets	199,934	0
Purchase of Assets in Progress	(71,701,991)	(36,655,210)
Net Cash Flow from Investing Activities	(71,798,010)	(36,967,417)
Cash Flow from Financing Activities		
Fund Transfer from Net Assets	(1,157,627)	0
Effect of Currency Valuations		
Currency Valuation Operating Activities	0	0
Currency Valuation Financing Activities	188,273	548,541
Total Currency Valuations	188,273	548,541
Net Increase (Decrease) in Cash/Cash Equival.	20,515,261	(10,356,733)
Cash and Cash Equiv. Beginning of Period	221,295,830	231,652,563
Cash and Cash Equiv. End of Period	241,811,092	221,295,830

**5. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2013
(IN USD EQUIVALENT)**

	Budgeted Amounts		Actual Amounts		
	2013 BOD Approved Budget Credits	Total Authorities Available	Financial Statements (Market Rate)	Comparable Basis (Programme Rate)	Budgeted
PROJECT	98,525,106	265,043,725	78,638,587	77,676,757	77,659,980
ADMIN	21,929,208	21,140,105	22,852,686	20,865,447	21,052,957
TOTAL	120,454,314	286,183,830	101,491,273	98,542,204	98,712,937

6. Notes to the Financial Statements

INDEX

A. GENERAL INFORMATION OF NAPMA AND AGENCY ACTIVITIES

B. ACCOUNTING POLICIES

Accounting Period
Reporting Currency
Basis of Preparation
Financial Reporting Framework
Changes in Accounting Policy
Foreign Currency Transactions
Assets – Current Assets
Assets – Non-Current Assets
Liabilities - Current Liabilities
Liabilities - Non-Current Liabilities
Revenue and Expense Recognition
Surplus or Deficit for the Period

C. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

D. NOTES TO STATEMENT OF FINANCIAL POSITION

1. Cash and Cash Equivalents
2. Accounts Receivable
3. Advances
4. Accruals
5. Work in Progress
6. Property, Plant and Equipment
7. Payables
8. Accruals/Deferrals
9. Unearned Contributions
10. Advanced Contributions and Reimbursables
11. Deliverables

E. NOTES TO STATEMENT OF FINANCIAL PERFORMANCE

12. Revenue
13. Expenses
14. Surplus or Deficit for the Period

F. RELATED PARTIES DISCLOSURE

G. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

15. Budgeted Amounts
16. Actual Amounts
17. Reconciliations
18. Carry Forwards

H. WRITE OFF

I. FINANCIAL INSTRUMENTS DISCLOSURE

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A. GENERAL INFORMATION OF NAPMA AND AGENCY ACTIVITIES

In 1975, the NATO Military Authorities established a "priority one" requirement for an Airborne Early Warning and Control (AEW&C) system to operate over both land and sea. The system was to be designed to provide an airborne warning and detection capability and to improve the Alliance's maritime surface surveillance capability. It would also contribute to the direction and control of tactical air forces and to the gathering of information on hostile ship and aircraft movements.

In 1978, the Ministers of Defence of NATO member governments decided to establish a NATO AEW&C Programme. The Charter of the newly established NATO AEW&C Programme Management Organisation (NAPMO) was approved by the Foreign Ministers on 8 December 1978, with 12 participating nations. NAPMO was established by charter as a NATO Production and Logistics Organisation (NPLO). The NATO AEW&C Programme Management Agency (NAPMA) is responsible for the administration of the NAEW&C Programme. The day-to-day management of the Programme is the responsibility of the NAPMA General Manager. NAPMA is headquartered in Brunssum, The Netherlands.

NAPMA is a programme management and budgetary organization funded through contributions made by the participating nations. In 2013, there were 16 participating nations including: Belgium, Czech Republic, Denmark, Germany, Greece, Hungary, Italy, Luxembourg, The Netherlands, Norway, Poland, Portugal, Romania, Spain, Turkey and the United States. Although represented on the Board of Directors (BOD), the United Kingdom does not financially contribute to the programme since it has its own AWACS capability.

The legal status of NAPMA, as an integral part of the North Atlantic Treaty Organisation, is laid down in the Ottawa Agreement as of 20 September 1951. Based on this agreement, NAPMA is, inter alia, exempt from all taxes and customs duties.

NAPMA's overall activities are funded by member nations through projects and related administrative budgets; "separate and distinct from the International Staff, other NPLSOs or other NATO Organs" and approved annually by the NAPMO Board of Directors. The administrative budget covers all expenditures for the internal functioning of the Agency. acquisition budgets contain the credits for the modification of the NAEW&C fleet. Aside from its own budgeted activities, NAPMA also supports other NATO entities such as NAEW&C Force Command, NATO E-3A Component and NATO Support Agency.

The CNS/ATM EMD project is a cooperative project with the US Government. As stated in Project Arrangement #3, Section 7, the Nations' liability is limited to the NAPMO portion of the common project. Additionally, each contributing participant is responsible for its own manpower, administrative costs, and travel costs.

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B. ACCOUNTING POLICIES

Accounting Period

The 2013 Financial Statements are based on the accounting records of NAPMA as of 31 December 2013. In accordance with the NAPMO Financial Regulations (NFR), the financial year at NAPMA begins on 1 January and ends on 31 December.

Reporting Currency

The functional and reporting currency used throughout these Financial Statements is the USD (\$). The Financial Statements are prepared using data based on the actual multi-currency execution of the approved budget credits. The non USD expenditure is converted to the USD equivalent using the weekly posted NATO exchange rate for booking of transactions during the year, and to the NATO rate in effect at the end of the year to report the Statement of Financial Position.

Basis of Preparation

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

Financial Reporting Framework

NAPMA Financial Statements have been prepared in accordance with the accounting requirements of the NAPMO Financial Regulations (NFR) and the Financial Implementing Rules and Procedures (FRP). NAPMA uses an Enterprise Resource Planning (ERP) System based on SAP to record and report financial information.

The NAPMA Financial Statements have also been prepared on the accrual basis of accounting in accordance with the International Public Sector Accounting Standards (IPSAS) issued by the IPSAS Board (IPSASB) and relevant to NAPMA as decided by the North Atlantic Council in 2002. A list of standards issued by the IPSAS Board can be found on the website www.ifac.org.

The accounting principles recognized as appropriate for the recognition, measurement and reporting of the financial position, performance, and cash flows on an accrual based accounting uses historical costs. The accounting principles have been applied consistently throughout the reporting period. This ensures that the Financial Statements provide information that is relevant to the decision-making and is reliable, comparable, and understandable in light of the qualitative characteristics of financial reporting.

Note that all figures have been rounded to the nearest dollar. A slight difference in summation may occur.

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

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Revenue is recognized from various sources including nations' contributions and currency gains. Effective 1 January 2007, all interest and other miscellaneous income is returned or credited to the nations in accordance with Board of Directors (BOD) instructions, unless the BOD decides otherwise.

Expenses are recognized as incurred to satisfy both miscellaneous project requirements and administrative related activities. Disbursements made for the acquisition of assets are not considered to be expenses; however, they are capitalized under Property, Plant & Equipment (PP&E).

Changes in Accounting Policy

The same accounting policies are applied within each period and from one period to the next, unless a change in accounting policy meets one of the criteria set in IPSAS 3. For the 2013 Financial Statements the accounting policies have been applied consistently throughout the reporting period.

Foreign Currency Transactions

Transactions in currencies, other than the functional currency, are translated into USD at the NATO exchange rates prevailing at the time of the transaction. Monetary assets and liabilities at year-end, which are in currencies other than USD, were translated into USD using the NATO exchange rates that were applicable on 31 December 2013.

Realised and unrealised gains and losses resulting from the translation into USD and from the revaluation at the reporting dates of monetary assets and liabilities in currencies other than USD are recognised in the Statement of Financial Performance.

Assets – Current Assets

NAPMA holds the following types of current assets:

a. Cash and Cash Equivalents

Cash and cash equivalents are defined as short-term assets. They include petty cash, current bank accounts and deposits held with banks.

b. Receivables

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

In accordance with IPSAS, receivables are broken down into amounts receivable from nations, NATO entities, Non-NATO entities, staff members and miscellaneous receivables.

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

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c. Advance Payments and Accrued Interest

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

Assets – Non - Current Assets

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

a. Work in Progress

The value of work in progress for an acquisition project will be transferred to the NAEW&C Force based on the declaration of Initial Operational Capability (IOC), Full Operational Capability (FOC) and the final amount upon completion. That amount is valued at its historical acquisition value at the exchange rate in effect on the date of the expenditure transactions.

b. Property, Plant and Equipment

In accordance with IPSAS 17 on PP&E, these accounts have been established to capitalize expenditures on administrative assets and show the amortization accumulated against those assets. Administrative assets include those used specifically by the agency itself in supporting its programme management activities. The building and the land that NAPMA occupies are provided by the Host Nation as a "right of use".

PP&E categorizations for purposes of determining the appropriate depreciable life of the assets is listed in the table below.

Straight-line depreciation method is used for all categories however the depreciable life of an asset is dependent on the particular category it is in.

PPE Category	Description	Year Depreciation	Method
Automated information systems	NIMS Hardware and software	5	Straight line
Office Furniture	Desks, Cabinets	10	Straight line
Vehicles	Transportation equipment	5	Straight line
Property/Structure	Equipment as part of structure such as air conditioning units, renovation of main entrance, etc.	40	Straight line
Installed and Miscellaneous Equipment	Miscellaneous Equipment required for daily office operations	10	Straight line
Government Furnished Equipment	Miscellaneous Equipment provided to Contractors	10	Straight line

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Liabilities – Current Liabilities

a. Payables and Accruals

Payables are amounts due to NATO and Non-NATO entities, commercial vendors and NAPMA staff for goods received or services provided that remain unpaid as of reporting date. Accruals are estimates of the cost for goods and services received at year-end but not yet invoiced.

b. Unearned Contributions

Unearned revenue represents contributions from nations and/or third parties that have been called for current or previous years' budgets but that have not yet been recognized as revenue.

Liabilities – Non - Current Liabilities

a. Advance Contributions

Advances received from NATO entities to support third party projects. Funds are received and expended on behalf of other NATO entities, predominantly the NAEW&C Force, for execution of projects and activities for operations and support. Advances on contributions represent the amounts of funds held on behalf of the contributing nations, which arise from a variety of sources including interest earnings on nations' cash balances, sales of residual assets and R&D recoupment.

b. Deliverables to NAEW&C Force

These amounts represent the cumulative amount of work in progress that is still to be transferred to NAEW&C Force based on the declaration of IOC, FOC and the final amount upon completion.

c. Net Assets

Net assets represent the net result of revenues and expenditures, and the accumulation of inventory, capital and retained earnings over the life-time of the NAPMA Programme. The net assets are displayed into three components: Restricted net assets, unrestricted net assets and investment in capital assets.

The restricted net assets represent the funds used from unrestricted net assets to cover disbursements/expenditures for the year. This is due to the fact that recognition of non-contributing funds were already reported as revenue when it was earned in previous years. Therefore it is recognized as a transfer from unrestricted to restricted net assets in the column of "excess of revenue over expenditure."

Additionally in 2013 recognized in the column of "transfer for expenses" residual funds were used from unrestricted net assets to fund: expenditures for the project LAIRCM as approved by the Board of Directors; sales of currencies and exchange gains/losses on transactions in foreign currencies required for reporting purposes within net assets.

Unrestricted net assets are non-contributing funds from the net result of revenues (to include additional contributions subsequently received from new joiners to the programme) and losses.

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Invested capital is the accumulated amount of fixed admin assets. This includes all purchases less disposals and depreciation. The fixed admin assets purchases during the year are reflected in the column titled "transfer for expenses".

Revenue and Expense Recognition

a. Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be measured reliably. Contributions when called are booked as unearned revenue and subsequently recognized as revenue when it is earned.

Revenue comprises contributions from member nations and other customers to fund NAPMA budgets. It is recognized as revenue in the Statement of Financial Performance when such contributions are used for their intended purpose as envisioned by operational and administrative budgets. The balance of unspent contributions and other revenues that relate to future periods are deferred accordingly.

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

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

b. Expenses

Budgetary expenses are recognized when occurred. Accruing of expenses is based on the concept of accruing when goods and services are received.

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

Surplus or Deficit for the Period

In accordance with NAPMA accounting policies, NAPMA revenue is recognized up to the amount of the matching expenses.

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C. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

The estimates and underlying assumptions are reviewed on an on-going basis. These estimates and assumptions affect the amounts of assets, liabilities, revenues and expenses reported. By their nature, these estimates are subject to measurement uncertainty. The effect of changes to such estimates and assumptions in future periods could be significant to the financial statements. The most significant estimate used in these financial statements is the estimation of goods / services received (accruals accounts payable).

D. NOTES TO STATEMENT OF FINANCIAL POSITION

Assets – Current Assets

1. Cash and Cash Equivalents

<u>Cash and cash equivalents</u>	<u>2013</u>	<u>2012</u>
Petty Cash and Advances	22	105
Current Bank Accounts	102,516	57,143
Investment/Deposit Accounts	241,708,555	221,238,583
Total	241,811,092	221,295,831

Cash is maintained on deposit held between on-demand investment accounts and current accounts.

2. Accounts Receivable

<u>Accounts receivable</u>	<u>2013</u>	<u>2012</u>
Receivable from Nations	43,839,979	47,977,440
Receivables from NATO Entities	96,499	(120,250)
Receivables from Non-NATO Entities	52,751	28,050
Receivables from Staff Members	0	3,292
Other Receivables/Recoverable	0	6,546
Total	43,989,229	47,895,078

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Most receivables are due from the contributing nations. Receivables from NATO entities are due from Force Command and the NATO Support Agency. It is deemed that all accounts receivable will be received within 12 months from the end of the reporting period. As there is deemed to be no risk on collectibles, no allowance has been made for Bad Debts.

3. Advances

<u>Advances</u>	<u>2013</u>	<u>2012</u>
Advance Payments to NATO Entities	761,677	660,485
Advance Payments to Non-NATO Entities	9,332,073	8,109,352
Total	10,093,750	8,769,837

Advance payments were made to NSPA (NATO Entities) and DFAS (Non-NATO Entities) against Taskings and Case Directive Amendments (CDAs).

4. Accruals

<u>Accrued Interests</u>	<u>2013</u>	<u>2012</u>
Accrued Interests	4,020	606
Accrued Bank charges	0	(354)
Total	4,020	252

For reporting purposes accrued bank charges are shown on the liability side of the Statement of Financial Position.

Assets - Non-Current Assets

5. Work in Progress (WIP)

<u>Work in Progress</u>	<u>2013</u>	<u>2012</u>
WIP	90,606,495	23,884,255
Total	90,606,495	23,884,255

WIP – The value of work in progress for an acquisition project will be transferred to the NAEW&C Force based on the declaration of Initial Operational Capability (IOC), Full Operational Capability (FOC) and the final amount upon completion. That amount is valued at its historical acquisition value at the exchange rate in effect on the date of the expenditure transactions.

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Changes in Work in Progress for the year were as follows:

	Work in Progress (WIP)	Totals
Opening Balance (01 January 2013)	23,884,255	23,884,255
Additions	71,701,991	71,701,991
Transferred to NAEW&C	4,979,751	4,979,751
Disposals/Corrections	0	0
Closing Balance (31 December 2013)	90,606,495	90,606,495
Gross Carrying Amount	1,848,355,846	1,848,355,846
Accumulated Transfers	1,757,749,351	1,757,749,351
Net Carrying Amount	90,606,495	90,606,495

6. Property, Plant and Equipment

During 2013, additions to PP&E were for automated information system, office furniture and installed equipment. Acquisitions for the year ended 31 December 2013 totalled USD 295,953. During the year it was discovered that in 2009 an amount of USD 199,934 was erroneously capitalized within fixed admin assets and also depreciated over the useful life. This amount should have been booked as WIP to the project and transferred to NAEW&C Force. This mistake was corrected in 2013. The PP&E has been adjusted accordingly, as well as the WIP. The accumulated depreciation has been adjusted by doing a prior period adjustment to net assets for the amount of USD 79,974 which is reflected in the Statement of Changes in Net Assets/Equity. Additions and corrections in PP&E are reported in the Statement of Financial Position and the depreciation expense for the year of USD 1,315,735 is reported in the Statement of Financial Performance.

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

Table 1								
NAPMA Admin Assets 2013 (Historical Acquisition Value)		Purchase Value	Depreciation	Book Value	Purchases	Corrections	Depreciation	Book Value
	Rate	2012	To 2012 (accum.)	2012	2013	2013	2013	2013
	(Straight Line)							
Automated Inf. Sys (incl NIMS)	20.0%	7,511,483	6,349,175	1,162,308	294,920	0	1,221,292	235,936
Office Furniture	10.0%	654,130	475,439	178,691	900	0	65,503	114,088
Vehicles	20.0%	63,137	26,307	36,830	0	0	12,627	24,203
Property/Structure	2.5%	603,899	125,510	478,389	0	0	15,097	463,291
Installed and Misc Equipment	10.0%	12,016	1,841	10,175	133	0	1,215	9,093
Government Furnished Equipment	10.0%	199,934	79,974	119,960	0	119,960	0	0
Totals		9,044,599	7,058,246	1,986,353	295,953	119,960	1,315,735	846,610

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Liabilities – Current Liabilities

7. Payables

<u>Payables</u>	<u>2013</u>	<u>2012</u>
Payable to NATO Entities	0	1,193,929
Payable to Non-NATO Entities	802,429	789,320
Payable to Suppliers	355,615	1,635,447
Payable to Staff	39,271	77,779
Total	1,197,314	3,696,475

Payable to Non-NATO Entities

Payables to Non-NATO Entities include the DFAS US-Reimbursables that were not settled but accrued per reporting date.

Payable to Supplier

Payables to suppliers include invoices received from commercial vendors not settled but accrued per reporting date.

Payable to Staff Members

Amounts due to staff members such as travel expenses.

8. Accruals/Deferrals

<u>Accruals/Deferrals</u>	<u>2013</u>	<u>2012</u>
Accrued Bank Charges	834	0
Deferred Income	39,067	0
Goods Receipt – Invoices to be Received	988,019	1,132,589
Total	1,027,920	1,132,589

In previous years, accrued bank charges were shown under the asset side for accruals/deferrals. For reporting purposes this is now added to the liability side.

The amount shown on deferred income relates to an overpayment of interest by Deutsche Bank NL which was recovered by the bank in 2014.

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9. Unearned Contributions

<u>Unearned Contributions</u>	<u>2013</u>	<u>2012</u>
Unearned Contribution	256,450,752	220,690,507
Total	256,450,752	220,690,507

Unearned contributions represent the balance of nations' called contributions which are identifiable to the various programmes and are called for administrative support.

Liabilities – Non-Current Liabilities

10. Advanced Contributions and Reimbursable NATO Entities

<u>Advances on Nations' Contributions</u>	<u>2013</u>	<u>2012</u>
Advance Nation Accounts	30,158,953	39,133,483
Total	30,158,953	39,133,483

Advances on nations' contribution are funds held on behalf of the contributing nations which arise from a variety of sources including interest earnings on nations' cash balances, sales of residual assets, R&D recoupment for the Radar System Improvement Project (RSIP).

<u>Reimbursables</u>	<u>2013</u>	<u>2012</u>
Reimbursable NATO Entities	4,448,456	5,301,353
Total	4,448,456	5,301,353

This account tracks the financial activities to support third party NATO entities. Funds are received and expended on behalf of other NATO entities predominantly the NAEW&C Force for execution of projects and activities for operations and support.

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11. Deliverables

<u>Deliverable to NAEW&C Force</u>	<u>2013</u>	<u>2012</u>
Deliverable to NAEW&C	90,606,495	23,884,255
Total	90,606,495	23,884,255

Deliverables to NAEW&C Force represent the cumulative amount of work in progress that is still to be transferred on the declaration of IOC, FOC and the remaining amount on completion.

Changes in Deliverables for the year were as follows:

	Deliverables	Totals
Opening Balance (01 January 2013)	23,884,255	23,884,255
Additions	71,701,991	71,701,991
Transferred to NAEW&C	4,979,751	4,979,751
Disposals/Corrections	0	0
Closing Balance (31 December 2013)	90,606,495	90,606,495
Gross Carrying Amount	1,848,355,846	1,848,355,846
Accumulated Transfers	1,757,749,351	1,757,749,351
Net Carrying Amount	90,606,495	90,606,495

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E. NOTES TO STATEMENT OF FINANCIAL PERFORMANCE

12. Revenue

The revenue recognition is matched with the recognition of expenses against NAPMA budgets. Contributions when called are booked as unearned revenue and recognised when earned. The table below shows the breakdown of the operating revenue.

<u>Revenue</u>	<u>2013</u>	<u>2012</u>
Revenue from Contributions	25,047,039	22,777,365
Financial Revenue	0	0
Other Revenue	404,488	0
Total	25,451,527	22,777,365

Revenue from contributions was used to pay expenses related to project and administrative activities. There's no financial income in 2013 because due to transactions made in foreign currencies during the year, an exchange rate loss was created and therefore reported under financial expenses. Other revenue from "Advances on Nations' contribution" was used to pay for the "Canadian Sources of Repair Relocation" (CANSORREL) requirement.

13. Expenses

Expenses are recognized by nature within the following groups.

<u>Project Expenses</u>	<u>2013</u>	<u>2012</u>
Project Expenditures	6,936,596	4,388,843
Total	6,936,596	4,388,843

Project expenses contain indirect and direct expenditures and are not related to the capitalization of WIP assets.

<u>Administrative Expenses</u>	<u>2013</u>	<u>2012</u>
Personnel Expenditures	19,227,043	18,485,911
Operational Expenditures	3,329,690	2,843,732
Total	22,556,733	21,329,643

The majority of the administrative expenses relate to personnel 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, removal, and training.

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Due to a change in NATO procedures the GM's representation allowance, in the amount of USD 9,744, is included in the personnel expenses. The remaining part of the administrative expenses relate to operational activities.

Capital

Acquired assets of PP&E were capitalized and depreciated over their useful life (see note D.6).

<u>Financial Expenses</u>	<u>2013</u>	<u>2012</u>
Financial Expenses	284,722	240,026
Total	284,722	240,026

The financial expenses represent the exchange rate losses due to transactions made in foreign currencies during the year. The loss relates to necessary clearings on third-party, nation's advances and the unrestricted net assets accounts which only reflect an unrealised gain or loss required for reporting purposes.

14. Surplus or Deficit for the Period

The 2013 loss results primarily from using existing funds to cover project expenditures, the financial expenses including the currency translation adjustments at the end of the year in accordance with IPSAS 4, and the depreciation expenses of the fixed administrative assets.

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F. RELATED PARTIES DISCLOSURE

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

The BOD members receive no remuneration and do not receive loans. Based on the BOD annual declaration for 2013, to the extent received from the BOD Members, no significant party relationships could be identified which could affect the operation of NAPMA.

Based on the annual declaration for 2013 received from the key management personnel of NAPMA, there were no significant party relationships identified which could affect the operation of NAPMA.

Senior management is remunerated in accordance with the published NATO pay scales. They do not receive loans that are not available to all staff.

The aggregate remuneration of key management personnel was as follows during the year:

Remuneration of Key Management Personnel For Period ended December 31, 2013			
Number	Grade	Gross Salary (Euro)	USD Equiv. (At End Year Rate)
1	A7	161,616	218,909
4	A6	598,243	810,321
8	A5	1,096,462	1,485,158
9	A4	987,693	1,337,831
22		2,844,014	3,852,219

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G. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

The presentation of budget information in the Financial Statements is applicable since 1 January 2009 (IPSAS 24).

The budget and accounting bases differ for NAPMA. The Financial Statements for NAPMA are prepared on an accrual basis, based on the nature of expenses in the Financial Statements whereas the budgets are prepared on a commitment basis. Budgets are approved annually by programme/project, but cover multi-year requirements. All budgets are approved in USD equivalent at an established rate at the beginning of each project. Execution of the approved budgets is in multi-currencies and is expressed in USD equivalent at the established project rate.

The Board of Directors approves budgets based on programme/projects including administrative costs. Budgets may be subsequently amended by the Board.

15. Budgeted Amounts

Changes from 2013 BOD Approved Budget Credits to Total Authorities Available

	2013 BOD Approved Budget Credits	Carried Forward from 2012	Corrections to Previous Year Carry Forward	2013 Budget Changes	Total Authorities Available
PROJECT	98,525,106	162,467,354	4,760,266	-709,000	265,043,726
ADMIN	21,929,208	450,145	-65,859	-1,173,389	21,140,105
TOTAL	120,454,314	162,917,499	4,694,407	-1,882,389	286,183,831

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Corrections to Previous Year Carry Forward

Residual reporting and data processing problems in SAP have been investigated and corrected in the underlying data. The majority of the adjustments were made to correctly re-state the USD equivalent value of some project carry forwards of 2012 and to implement a minor SAP technical update to prior year obligations.

2013 Budget Changes

Budget changes in 2013 resulted primarily from realignment of budget credits within programmes and admin lapses.

16. Actual Amounts

Actual expenditures reported in the Financial Statements, at market rate, are brought to a comparable basis by applying applicable programme rates to compare to the budgeted expenditures. In the actual amounts, there are additions included which are disclosed to the assets as WIP, deliverables to NAEW&C Force, and administrative asset purchases.

17. Reconciliations

2013 BOD Approved Budget to Actual Amounts on Comparable Basis

1. The Medium Term Financial Plan (MTFP) is established by project, covers an eight-year plan, and is updated annually. Annual budget authority supports the current MTFP in providing projects the necessary authority to meet requirements for long-lead acquisition projects. Inherent in this process and a natural phenomenon is the resulting timing differences between the approved budgets and actual amounts that do not follow a straight-line expenditure profile.
2. The use of approved credits out of previous years provokes negative amounts.
3. Based on the yearly admin budget the delta is caused by lapses.

Actual Amounts: Comparable Basis (Programme Rate) to Budgeted

As stated previously, the budget and accounting bases differ due to different methodologies. Differences between budget expenses (commitment basis) and actual expenses (accrual accounting basis and restated at a programme rate) are driven primarily by Clearing House timing differences, accruals, and adjustments required under IPSAS.

In the Clearing House process, actual expenditures are recognized when USD equivalent payments are made through DFAS, while the budgeted expenditures are recognized when payments are made to subcontractors, in multi-currencies, by NAPMA.

Actual expenditures are on an accrual basis. Budgeted expenditures are recognized when the goods receipt is posted and the budget is consumed by an individual project.

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18. Carry Forwards

Statement of Credits Carried Forward

The Policy and Finance Committee approves the credits carried forward in accordance with NAPMO Financial Regulations (NFR, Art. 12). The approved 2012 carry forwards represent the estimated unexpended balances at year end for which there is a legal liability and are equal to the 2012 closing unearned revenue. The carry forwards into 2013 reflect the final amounts which are within the approved authority.

Comparison between Carry Forward from Previous Year and Carry Forward into Following Year

As stated above in paragraph G.15., residual reporting and data processing problems in SAP have been investigated and adjustments made to the carry forward into 2013. The table below provides a comparison between the carry forward into 2013 and the carry forward into 2014:

2012 Carry Forward into Following Year	Corrections to Previous Year Carry Forward	Carry Forward into 2013 from Previous Years
162,917,499	4,694,406	167,611,905

	Commitments / Obligations Carried Forward into 2013 (\$EQ)	Commitments / Obligations Carried Forward into 2014 (\$EQ)
PROJECT	167,227,620	187,297,848
ADMIN	384,285	144,923
TOTAL	167,611,905	187,442,771

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H. WRITE OFF

As assets which are currently providing operational service potential are deemed to be the reporting responsibility of NAEW&C FC, NAPMA does only report write-offs of NAPMA fixed admin assets and inventory. This results from the implementation of IPSAS 17 (PP&E).

I. FINANCIAL INSTRUMENTS DISCLOSURE

NAPMA uses only non-derivative financial instruments as part of its normal operations. These financial instruments include petty cash, bank accounts, deposit accounts, accounts receivable. All financial instruments are recognized in the Financial Statements. In 2013 NAPMA on behalf of NAPMO Nations only drew advantage from "risk free investment" bank accounts.