

	<b>NATO</b>	NORTH ATLANTIC COUNCIL
	<b>OTAN</b>	CONSEIL DE L'ATLANTIQUE NORD

**NATO UNCLASSIFIED**

23 May 2016

**DOCUMENT**  
C-M(2016)0025-AS1

## **IBAN REPORT ON THE NAHEMO 2014 FINANCIAL STATEMENTS**

### **ACTION SHEET**

On 20 May 2016, under the silence procedure, the Council noted the IBAN report IBA-AR(2015)29-REV1 attached to C-M(2016)0025 and agreed the recommendation regarding 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(2016)0025.

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17 May 2016

**DOCUMENT**  
C-M(2016)0025  
**Silence Procedure ends:**  
**20 May 2016 16:00**

## **IBAN REPORT ON THE NAHEMO 2014 FINANCIAL STATEMENTS**

### **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 Helicopter for the 1990s (NH 90) Design and Development, Production and Logistics Management Organisation (NAHEMO) for the year ended 31 December 2014.
2. The IBAN issued a qualified opinion on the financial statements of the NAHEMO and on compliance for financial year 2014.
3. The IBAN report has been reviewed by the Resource Policy and Planning Board (RPPB), which has provided a recommendation regarding public disclosure to Council. The audit report concerns a NATO agency which has no common funding and therefore the RPPB is not providing a report to Council which addresses the qualification. It is assumed that the responsible governing body will address this issue. Any measures taken in this regard should be reflected in the IBAN report on the 2015 NAHEMO financial statements.
4. I consider that no further discussion regarding this report is required. Consequently, **unless I hear to the contrary by 16:00 hours on Friday, 20 May 2016**, I shall assume that the Council has noted the IBAN report IBA-AR(2015)29-REV1 and agreed the recommendation regarding public disclosure contained in the RPPB report.

(Signed) Alexander Vershbow

4 annexes  
1 enclosure

Original: English

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**IBAN REPORT ON THE NAHEMO 2014 FINANCIAL STATEMENTS**

**Report by the Resource Policy and Planning Board**

References: (A) IBA-A(2015)182-REV1 & IBA-AR(2015)29-REV1  
(B) NH/ADM/DLA/06166/2015

1. Council agreed with PO(2015)0052 that, in principle, unclassified IBAN audit reports, together with any related financial statements, should be made publicly available after they have been dealt with by Council.
2. The IBAN issued a qualified audit opinion on the 2014 Financial Statements of the NATO Helicopter for the 1990s (NH 90) Design and Development, Production and Logistics Management Organisation (NAHEMO). The audit report concerns a NATO agency which has no common funding and therefore the RPPB is not providing a report to Council which addresses the qualification. It is assumed that the responsible governing body will address this issue. Any measures taken in this regard should be reflected in the IBAN report on the 2015 NAHEMO financial statements. The audit report (reference (A)) will be forwarded to Council for notation, as per agreed procedures.
3. In reference (B), the entity concludes that the 2014 NAHEMO Financial Statements can be disclosed.
4. With regard to public disclosure, the RPPB concludes that the subject IBAN report does not contain information which, according to NATO Policy on Disclosure of NATO Information<sup>1</sup>, shall be withheld from public disclosure, and in line with the agreed policy in PO(2015)0052, therefore recommends that the Council agree to the public disclosure of the subject IBAN report and the related financial statements.

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<sup>1</sup> C-M(2008)0116; AC/324-D(2014)0010-REV1

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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 Helicopter Management Organisation (NAHEMO)  
for the year ended 31 December 2014**

The NATO Helicopter for the 1990s Design and Development, Production and Logistics Management Organisation (NAHEMO) is a NATO subsidiary body established with a view to meet the NH90 Helicopters requirements of France, Germany, Italy, The Netherlands, Belgium and Portugal. NAHEMO consists of a Steering Committee (SC) composed of representatives of the Participants with the responsibility of the overall management of the programme and of the Agency called NAHEMA. The agency is located in Aix-en-Provence (France).

For 2014, the NAHEMO operational and administrative budgets were EUR 1.309 million and EUR 11.4 million (including brought forward) respectively.

During the audit the Board identified four observations, and issued a qualified opinion on the NAHEMO Financial Statements and on compliance for the year ended 31 December 2014 due to the following reasons:

Observations 1 and 2 impact the audit opinion on compliance:

1. Contract management procedure changed without due process.
2. Doubtful collection of EUR 126 million of receivables related to the operational budget not recognized or disclosed.

Observation 3 does not impact the audit opinion:

3. Steering Committee National Representatives did not sign the declarations of related parties.

Observation 4 impacts both the audit opinion and compliance:

4. Lack of review on the financial statements revealed material weaknesses in Internal Control over financial reporting.

These observations are summarised in the Letter of Observations and Recommendations (Annex 4).

The Board also followed up on the status of observations from its previous years' audits and noted that one was settled, one was still outstanding, and one was superseded by Observation 4.2 (Annex 4).

For NAHEMO's Formal Comments and the Board's positions, see the Appendix (Annex 4). NAHEMO did not acknowledge a number of IBAN observations, and their formal comments presented further information to the reader. However, they do not fundamentally change the Board's observations or recommendations. Where appropriate, the Board has also provided positions to some of the formal comments

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ANNEX 3  
C-M(2016)0025  
IBA-AR(2015)29-REV1

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

**AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF  
THE NATO HELICOPTER MANAGEMENT ORGANISATION  
(NAHEMO)**

**FOR THE YEAR ENDED 31 DECEMBER 2014**

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

**Report on the Financial Statements**

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

*Management's Responsibility for the Financial Statements*

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

*Auditor's Responsibility*

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

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

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

*Basis for Qualified Opinion on the Financial Statements*

The Board found that Receivables were overstated by EUR 126 million in the Statement of Financial Position. This is because an operational budget call for contributions made to one of the nations was subsequently rejected by the nation before the issuance of the financial statements. Furthermore, the financial statements didn't disclose this as an event after the reporting period as required by the NATO Accounting Framework.

The Board also found that EUR 41 million of invoices received from industry, relating to goods and services performed in 2014 for one nation, were not properly tracked and processed for payment, resulting in them not being appropriately presented in the financial statements.

Significant weaknesses on internal control concerning the insufficient review of the Financial Statements have led to other significant findings, reported in the Letter of Observations. As a result of that, the Board cannot issue an unqualified opinion.

*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 NAHEMA as of 31 December 2014, 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 authorized by the North Atlantic Council (NAC).

*Auditor's Responsibility*

In addition to the responsibility to express an opinion on the restated 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 authorized 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 NATO Financial Regulations requires the establishment of a system of internal control. The Board found material weaknesses in internal control over financial reporting.

The Board also found that EUR 41 million of invoices sent by industry, relating to goods and services performed in 2014 for one nation, were not properly tracked and processed. This is not in accordance with NATO and NAHEMA rules and regulations, related to contract management procedure changed without due process.

*Opinion on Compliance*

In our opinion, except for the possible effects of the matters described in the *Basis for Qualified Opinion on Compliance*, in all material respects the financial transactions and information reflected in the financial statements are in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations.

Brussels, 30 October 2015

Lyn Sachs  
Chairman

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ANNEX 4  
C-M(2016)0025  
IBA-AR(2015)29-REV1

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

**LETTER OF OBSERVATIONS AND RECOMMENDATIONS  
FOR THE NATO HELICOPTER MANAGEMENT ORGANISATION  
(NAHEMO)**

**FOR THE YEAR ENDED 31 DECEMBER 2014**

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## Introduction

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

## Observations and Recommendations

During the audit, the Board identified four observations and provided four recommendations. Observations 1 and 2 impact the audit opinion on compliance; Observation 3 does not impact the audit opinion, and Observation 4 impacts both the audit opinion and compliance. The observations are summarised below:

1. Contract management procedure changed without due process.
2. Doubtful collection of EUR 126 million of receivables related to the operational budget not recognized or disclosed.
3. Steering Committee National Representatives did not sign the declarations of related parties.
4. Lack of review on the financial statements revealed material weaknesses in Internal Control over financial reporting.

The Board also followed up on the status of observations from its previous years' audits and noted that one was settled, one was still outstanding, and one was superseded by Observation 4.2.

For NAHEMO's Formal Comments and the Board's positions, see the Appendix (Annex 3). NAHEMO did not acknowledge a number of IBAN observations, and their formal comments presented further information to the reader. However, they do not fundamentally change the Board's observations or recommendations. Where appropriate, the Board has also provided positions to some of the formal comments.

## **1. CONTRACT MANAGEMENT PROCEDURE CHANGED WITHOUT DUE PROCESS**

### **Reasoning**

1.1 Article 18 of the NATO Financial Regulations (NFRs) states that Heads of NATO bodies shall establish a system of internal financial and budgetary control. Article 21 of the NFRs states that Heads of NATO bodies shall have a Financial Controller who exercises in their name responsibility for administration of the financial and budgetary controls established pursuant to Article 18 of the NFRs. Segregation of duties, where tasks for a specific business process are disseminated among multiple users, is a fundamental concept of internal control. The objective of segregation of duties is to prevent fraud and error.

1.2 An Internal Note on the contract management process, signed by the prior General Manager on 16 April 2013, presents a detailed description of all phases of the contracting cycle in the Agency. The Phase 4 describes how the contract execution and follow-up has to be performed. Specifically, it states “When a milestone is deemed as achieved, the contractor sends directly the related invoices with the associated evidence to NAHEMA Administrative Division (NAHEMA/ADM) for payment. In this case, NAHEMA/ADM asked the Contract Custodian to perform his assessment of the milestone achievement in line with the “NAHEMA certification of milestones procedure”. If positive, this assessment is provided to the ADM for payment. If negative, the invoice is returned to the contractor by ADM.

### **Observations**

1.3 The Board found that the General Manager put in place, as of April 2014, a new procedure for the delivery of the invoices sent by the main NAHEMA contractor. The new procedures were included in a letter sent to NH90 Program’s main contractor. However, they were not well documented elsewhere or even communicated to ADM. It also wasn’t properly reflected as an official change to the prior process.

1.4 According to the letter sent to industry, invoices were to now be sent directly to the NAHEMA Senior Central Secretary, where they will be managed and checked preliminarily by the Senior Management of the Agency in order to verify if all of them meet the initial requirements, after which they will be sent to the ADM to initiate the payment process.

1.5 The new procedure has resulted in longer delays to process payment of invoices (from 30 days to 45 days). The Board also found that it has contributed to approximately EUR 41 million of invoices related to goods and services received from industry in 2014, and provided to one nation, not being properly tracked or recorded in the financial statements. Even though these invoices were supported by certifications and letters of achievement, they were rejected by the General Manager. In 2015, the invoices were subsequently re-issued with minor differences.

1.6 The Board was informed by the NAHEMA that it is in the process of preparing an Internal Contracting Process Directive. In September 2015, this was not approved yet.

## **Recommendations**

1.7 The Board recommends that all invoices are recorded, as first received by NAHEMA, in a central list in the system regardless of whether they are later rejected or withdrawn. The receipt and rejection of invoices should be done in a transparent manner, including being fully visible to the Financial Controller, who is responsible for the administration of financial and budgetary controls.

1.8 The Board also recommends that NAHEMA finalize the documentation of the new Internal Contracting Process Directive, ensuring that it complies with the revised NFRs in effect as of April 2015.

## **2. DOUBTFUL COLLECTION OF EUR 126 MILLION OF RECEIVABLES RELATED TO THE OPERATIONAL BUDGET NOT RECOGNISED OR DISCLOSED**

### **Reasoning**

2.1 Receivables, as current assets, should represent funds due at year-end not but yet not received. According to IPSAS 14, Events After the Reporting Date, if an event occurs that materially changes the value of the assets after the effective date of the financial statements, and prior to their issuance, an assessment should be performed to determine whether the amounts reported in the financial statements should be adjusted. A note should also be added to the financial statements describing the subsequent event and its impact on the value of amounts reported in the financial statements.

2.2 Article 27 of the NAHEMO Financial Rules and Regulations states that “the amounts shown in the Operational budget will be requested by NAHEMA, according to NAHEMA's assessment of the funds required”. Article 29 describes what NAHEMA shall take into account on making the assessment of contributions (cash available on the Nations related bank accounts, credits carried over from preceding financial year, miscellaneous income).

### **Observations**

2.3 The Board found that NAHEMA calculated the amount of the last call for funds of 2014 for Operational Budget Chapter 2, based on the approved budget at Mid-Year Review 2014, and the assessment of cash available and needs for funds to cover expected payments of invoices. The assessment of the amount to call was made according to NAHEMA Financial Rules and Regulations.

2.4 On 18 September 2014, a letter to request the call for EUR 126 million was sent to one of the national Head of Delegation according to the above described procedures. In February 2015, the Nation challenged by official correspondence the authority of that call indicating that payment for that call would not be sent. The amount in the call was never paid. Therefore, as of the date of the issuance of the Financial Statements at the end of April 2015, significant doubt existed as to whether this receivable would be collected.

2.5 Accordingly, the Agency should have assessed whether this subsequent event should have resulted in adjustments to the amount of Receivables reported in the Statement of Financial Position. It should have also added a note to the Financial Statements with respect to a Subsequent Event, identifying that the collection of the EUR 126 million receivables was doubtful and the amount of adjustments made to Receivables in the Statement of Financial Position as a result.

2.6 As a result, the Financial Statements are materially misstated.

### **Recommendation**

2.7 The Board recommends that NAHEMA comply with IPSAS 14 by fully assessing all events occurring after the reporting period (31 December) but before the issuance of the financial statements, in order to determine whether adjustments to the balances or additional note disclosures are needed.

## **3. STEERING COMMITTEE NATIONAL REPRESENTATIVES DID NOT SIGN THE DECLARATIONS OF RELATED PARTIES**

### **Reasoning**

3.1 According IPSAS 20, Related Parties, 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.

3.2 In order to identify such related parties and related party transactions, reporting entities should ensure that it is making inquiries to all those individuals identified as key management personnel, which includes members of governing bodies.

### **Observation**

3.3 The Board found that NAHEMA requested senior management personnel of NAHEMA to complete forms declaring that they have no related party relationships or transactions for the year 2014. However, the National Representatives on the Steering



Committee, which are considered as “those in charge with governance”, were not requested to complete and sign such declarations.

#### Recommendation

3.4 The Board recommends that NAHEMA ensure that all members of key management personnel, including National Representatives of the Steering Committees, complete and sign declarations stating that they have no related party relationships or transactions that could affect the operation of the entity.

#### **4. LACK OF REVIEW ON THE FINANCIAL STATEMENTS REVEALED MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

##### Reasoning

4.1 Article 18 of the NFRs states that Heads of NATO bodies shall establish a system of internal financial and budgetary control. Article 21 of the NFRs states that Heads of NATO bodies shall have a Financial Controller who exercises in their name responsibility for administration of the financial and budgetary controls established pursuant to Article 18 of the NFRs. Segregation of duties, where tasks for a specific business process are disseminated among multiple users, is a fundamental concept of internal control. The objective of segregation of duties is to prevent fraud and error. In the exercise of those control functions, it is essential to have in place a process for the review of the Financial Statements. This will help to ensure that they contain all the relevant information, as well as ensure compliance with accounting principles and practices.

##### Observations

4.2 The Board found material weaknesses in internal control over financial reporting. This is primarily due to the lack of a proper review of the financial statements. This resulted in many misstatements in the financial statements, the most significant of which is the lack of reporting as doubtful of EUR 126 million on Receivables in the Statement of Financial Position as explained in Observation 2 above. In addition, the Board also found the following misstatements:

- **Incomplete recording of EUR 41 million of payables to suppliers for invoices received yet unpaid at as 31 December 2014**

With respect to the Operational Budget, whereby NAHEMO is acting as agent on behalf of the nations, when invoices have been received from industry but payment not yet authorized, disclosures of these amount should be made in a note to the Financial Statements, as recommended by the Board last year.

The Board found that EUR 41.16 million of invoices, as reported in Observation 1 above, were not disclosed as required above. These invoices represent milestones achieved in 2014 and services certified, but the invoices were rejected and/or amended in 2015. These amounts may still represent a payable to suppliers and should therefore be disclosed.

- **Statement of Financial Position presents assets and liabilities not balanced due to payables to Nations in respect of Operational Budget understated for EUR 43,918**

The balance of Payables to Nations in respect of the operational budget is understated by approximately EUR 44 thousand, due to an arithmetic error when posting manual journals of unearned revenue of Chapter 2 of the Operational Budget. As a result, liabilities were presented for EUR 44 thousand more than the total Assets.

This error also impacts the Cash Flow Statement, which presents an incorrect figure of “Increase/Decrease in payables” of EUR 129,623,000 instead of EUR 129,579,000. The Net Cash flow from Operating activities should be reported for a value of EUR 110,600,000.

- **Incomplete presentation of Budget Execution Statement**

The Board has found that the current format of the Budget Execution Statement includes as “Transfers” the changes of budget amounts that occurred during the year. This figure includes both the difference with updated values at the mid-year review and the differences with the actual budget executed during the year, instead of clearly distinguishing among the budget initially authorized, the budget revised at the mid-year review, and the actual values of execution of the budget at year-end.

Also, the Administrative Budget Execution Statement does not present the amount of open commitment still valid at year-end and to be carried forward to the following year. The amount of estimated accrued expenses is given in Note 6 on “Payables”, but this is not sufficient.

- **Recording of accruals for Administrative Budget**

For Administrative Expenses, NAHEMA records accruals based on commitments recorded regardless of whether goods have been received or not. NAHEMA does not record in its accounting system the date of certification of good or service, and it does not keep a copy of receipt of good or service in the invoice file.

The Board audited the 11 transactions recorded as accruals end of 2014. Four of the 11 “accruals” are only commitments with no receipt of good or service.

Accruals are therefore overstated by EUR 14,748 or 29% of the total accruals recorded at year-end 2014.

- **No disclosure of Representation Allowance in the Financial Statements**

A summary of the operations related to Representation Allowance has not been included in the NAHEMO 2014 Financial Statements. This is not in compliance with the guidelines on the use of Representation Allowance (PO(2013)0154, paragraph 6 of the Annex), that states "as a measure of transparency, a summary of the operations related to the RA will be included in the Financial Statements".

### **Recommendation**

4.3 The Board recommends that NAHEMA strength its system of internal control by improving the preparation, review and reporting process of the financial statements. The Board would like to highlight that management takes responsibility for the preparation and presentation of the entity's financial statement. The review procedures are necessary to provide a reasonable basis for obtaining assurance that financial statements are in compliance with the applicable financial reporting framework.

**FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS**

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

**Status of previous years' observations**

<b>OBSERVATION / RECOMMENDATION</b>	<b>ACTION TAKEN</b>	<b>STATUS</b>
<b>1. 2013 Restated Financial Statements Audit Report IBA-AR(2014)31</b>  <b>Recommendation</b> The Board recommends that NAHEMA ensure that there are annual internal audit plans and that these plans are followed. As part of this, the Board recommends that NAHEMA (i) go through a mapping and assessing exercise in the operational budget process and the financial reporting process and (ii) take the opportunity to review its ORACLE authorization delegations when updating its authorization table to be approved by the General Manager.	NAHEMA General Manager has put in place an Internal Audit initiative, in order to commit National members of NAHEMO Financial Administrative Committee to perform some internal audit activities during the year. Some reports have been produced during 2015.	<b>Observation Settled.</b>
<b>2. 2011 Restated Financial Statements Audit Report IBA-AR(2013)15</b>  <b>Recommendation</b> The Board recommends that NAHEMA only call for funds when funding requirement cannot be covered by existing cash holding of respective member nations as required by NATO and NAHEMO Financial Regulations.	The Board found that following the new budgetary approach based on expected milestones to be achieved and paid, the average level of cash on NAHEMA bank accounts has been reduced by 14.6% from 2013 to 2014 after a reduction of 25% from 2012 to 2013.  However, the level still exceeds the limits as per the NATO and NAHEMO Financial Regulations.	<b>Observation Outstanding.</b>

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<b>3. 2011 Restated Financial Statements Audit Report IBA-AR(2013)15</b>  <b>Recommendation</b> The Board recommends that only budgetary credits supported by a legal liability be carried forward in order to comply with NAHEMO's Financial Rules and Regulations related to the carry forward of its Administrative Budget commitments.	The Administrative Budget Execution Statement does not present the amount of open commitment still valid at year-end and to be carried forward to the following year.	Observation <b>Superseded by current year observation 4.2</b>

**NATO HELICOPTER MANAGEMENT ORGANISATION (NAHEMO)  
FORMAL COMMENTS ON THE  
LETTER OF OBSERVATIONS AND RECOMMENDATIONS AND THE  
INTERNATIONAL BOARD OF AUDITORS (BOARD) POSITIONS**

**OBSERVATION 1:**

**CONTRACT MANAGEMENT PROCEDURE CHANGED WITHOUT DUE PROCESS**

**Paragraph 1.1**

**NAHEMO's Formal Comments**

*NOT ACKNOWLEDGED BY NAHEMA (and partially not understood)*

*It is not clear the link between the first sentence and the following one (i.e. Segregation of duties...) and what is the "specificc business process". In NAHEMA's understanding the last one is meant to be the "administration of the financial and budgetary controls" which is much more than a specific business process in a NATO Programme Agency.*

*For sake of clarity, since this will also inspire the following NAHEMA comments to the IBAN remarks, it is necessary to take into account the present unique situation when new NATO FRRs have been issued in April 2015:*

- In NAHEMA's understanding, at 1.1 IBAN refers to Articles (18 and 21) of the old NATO FRRs (NFRs) as per Document C-M(81)30 approved by NAC on 13 May, 1981.*
- New NATO FRRs have been issued on 24 April 2015 as per Document C-M (20 15) 0025.*
- NAHEMA is still working on NAHEMO (NAHEMO Financial Rules and Regulations 5th Issue Approved by NAHEMO Steering Committee on 4 December 2012) internal rules and regulations which were approved and implemented in accordance with the old NATO FRRs.*
- NAHEMO - as NATO Procurement, Logistics or Service Organizations (NPLSO) empowered by its Charter approved by Council on 13 April 1992 - adopts a set of financial regulations still in force today (NAHEMO Financial Rules and Regulations 5th Issue Approved by NAHEMO Steering Committee on 4 December 2012).*
- In the frame of NATO FRRs renewal project, according to the established time schedule, NAHEMO Steering Committee (together with others NPLOs governing boards) has been invited to renew its FRR by the end of 2015 since "The Charters of some NATO Procurement, Logistics or Service Organizations (NPLSO) allows the governing bodies to approve the adoption of a set of financial regulations respecting conditions peculiar to their operations."*
- activity is ongoing in NAHEMA to propose to the SC a new set of these FRRs (in accordance with new NFRs) by the end of the year including, if necessary,*

*modifications of, or arrangements from, the NFRs (which anyway should be kept to a minimum and, where necessary, they must be specific and justified by the appropriate governing body and approved by Council).*

*After this necessary introduction, and coming to the specific remark from IBAN, even in the new FRRs the concept “segregation of duties” is never mentioned. In turn ART. 6 of the New NFR clearly rule the key responsibilities as follows:*

*6.1 The Secretary General, the Supreme Commanders and the other Heads of NATO bodies shall have a Financial Controller on their staffs to be their principal financial advisor and who exercises in their names responsibilities for..... ;*

*6.2 The Financial Controller shall be responsible to the Head of the NATO body and shall be accountable to the relevant finance committee on the management of appropriated and non-appropriated funds.*

*The NAHEMO Charter (and the existing NAHEMO FRR) defines in a very coherence way the perimeter of the responsibilities hierarchy as follows:*

*According to the NAHEMO CHARTER:*

*- Art. 11 Delegation of Authority*

*The authority defined in Article 9 above shall normally be exercised, with due observance of the requirement stated in Article 10 above, by the Steering Committee who may delegate this authority to the General Manager (see Article 32).*

*- Art. 32 General Manager*

*(B) Authority*

*The General Manager will within the authority delegated to him by the Steering Committee be responsible for the execution of the Programme. This will include in particular:*

- a) Overall day-to-day management of the Programme;*
- b) negotiation, placing and administration of the Prime Contracts with the IIO or others...;*
- c) drawing up specifications complying with the NSR to be approved by the Steering Committee;*
- d) in accordance with financial regulations to be approved by the Steering Committee proposing an annual budget and an outline budget for the following two years, implementing the approved budgets and giving notification and explanation of any significant deviations, establishing computerized financial accounting and payment of bills;*
- e) management of the contracts with industry in view of obtaining a product that will meet the requirements described in the NSRs, and the approved modifications to the NSRs;*
- f) check of the execution of planning and work share approved by the Steering Committee;*

*g) ensuring of cost effectiveness and overall quality of the Programme.*

*(C) Responsibility*

*The General Manager shall be directly responsible to the Steering Committee for the operations of NAHEMA even in the case where he has delegated a portion of his authority to his staff.*

*According to the existing NAHEMO FRR:*

- Art. 3. Responsibility: Responsibility for the effective application of the Financial Rules and Regulations contained herein rests with the NAHEMA General Manager.*
- Art. 4. Delegation: NAHEMA General Manager may delegate specific responsibilities defined herein to individual post-holders within NAHEMA.*
- Art. 41 Responsibility: It is the responsibility of the Division Leader Administration<sup>2</sup>, acting on behalf of the General Manager:*
  - to effect payments and receive monies on behalf of NAHEMA;*
  - to account for all such expenditure and receipts;*
  - to maintain in safe custody all funds entrusted to NAHEMA and to issue written instructions on the procedure necessary to discharge the above mentioned responsibilities.*

*Therefore clear and key points are common between the NAHEMO Charter and the existing NAHEMA FRR:*

- NAHEMA GM as Head of the NATO Body retain the higher level of responsibility to the SC;*
- NAHEMA GM may delegate portion of his authority but remains always responsible even in the case where he has delegated a portion of his authority to his staff;*
- the NAHEMA ADMIN Division Leader/FCO is the GM special advisor and operates “in GM name”; as per C2 functional relationship meaning, who operates “on behalf” (or “in name” as per NATO FRR) is formally called to operate in the willing of the upper Authority (NAHEMA GM in the case), due to fact that the Authority retains in any case the responsibility on the delegated functions (as per NAHEMO Charter).*

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<sup>2</sup> According to NAHEMO MoU and FRR, ADMIN Division Leader plays the role of FCO, too.



*Thus, the “On behalf/in name” formula;*

- does not prevent the Authority (GM) to fully exercise himself the delegated authority and role;*
- assumes that the delegation is “reversible” and the reverse DOA (Delegation of Authority) can be applied by the Authority when deemed opportune and necessary.*

*Additional elements in answer to the “segregation of duties” remark can be found later.*

### **Paragraph 1.3**

#### **NAHEMA’s Formal Comments**

NOT ACKNOWLEDGED BY NAHEMA

*The “NAHEMA Contract Management Process” was issued by the previous NAHEMA Management on 16 April 2013 to be effective on 31 May 2013. By 31 July 2013 the whole Top Management (GM, Division Leaders<sup>3</sup> and Management Staff) was regularly turned (end of mandate) with any factual opportunity to experience the effectiveness of the established procedure.*

*Less than one year later, the new NAHEMA management came to the conclusion that additional attention (and revision of the process) was necessary on the following issues:*

- lack of adequate and immediate detection of invoices issued by industry with technical and formal mistakes (invoices issued before the certification date, invoices differently named in respect of the scope, double invoices, uncompleted invoices etc.) which hampered in different scales the payment process;*
- reiterated failures in the recording process, including loss of invoices which caused official claims (anyway not always justified and/or correct) by contractors.*

*On the basis of these elements, the need to improve the control and refine specific steps of the existing procedure was communally recognized by NAHEMA. As per evidences already provided to the IBAN auditors (for the sake of clearness see Annex “A” and Annex “B”), the arrangement was in fully transparency:*

- in depth analyzed within the weekly NAHEMA Staff Meeting (shared among the Senior Management);*

---

<sup>3</sup> ADMIN Division leader and BUDFIN Section leader turned respectively in September 2013 and October 2013.

- formalized to main contractors either by letter or by email;
- officially spread along the whole NAHEMA "Chain of Command" (DGM, Division Leaders including the ADMIN/FCO one as well as Management Staff and Security Officer) and published, as usual, on NAHEMA local mail depository system to make it accessible to all Staff Members, too.

*The procedure was promptly acknowledged and applied by all Staff Members. Finally, under a mere formal perspective, it's necessary to underline that all the official guidelines/provisions/instructions to NAHEMA contractors are to be signed by NAHEMA GM/DGM only, in accordance with the NAHEMO GMOU.*

## Paragraph 1.4

### NAHEMO's Formal Comments

ACKNOWLEDGED BY NAHEMA ON THE BASIS OF THE FOLLOWING SPECIFICATIONS.

*According to the above mentioned evidences in Annex "A" and Annex "B", invoices:*

- *must be delivered to NAHEMA supported by a list;*
- *not listed and not processed invoices, according to the new rule, are to be directly returned to the sender;*
- *cannot be declared lost by industry if not included in the mentioned official list.*

*Once delivered:*

- *only the cover letter reporting the list of the attached invoices is recorded on Central Mail Protocol by NAHEMA Senior Central Secretary to formalize the receipt of the "folder" and the start of lead time for payment;*
- *the whole "folder" is primarily screened and analysed by Top Management<sup>4</sup> (GM/DGM and/or Management Staff if deemed necessary/opportune).*

*In case some formal defects in the list or in the invoices are found, the "folder" – or part of it – is returned to the contractor by official letter (copy to all Top Management including ADM Leader/FCO) (an example in Annex "C").*

*If no returned to the contractor, the "folder" is passed to ADM Division to be regularly recorded by ADMIN Secretary on the Invoices Central Database. Obviously, if further defects or imperfections are then detected by ADMIN Division, invoices are to be rejected by DLA (by letter. VISA of GM/DGM and copy to MS is required).*

---

<sup>4</sup> All daily mail is read and noted by both GM and DGM.

*As explained to auditors, all the initiatives taken up to now by NAHEMA aim to create effective conditions for a responsive internal control, mainly on the basis of the mentioned lessons learnt. In the scope, the Management Staff (MS) under the direct authority of GM/DGM is been designed as fulcrum of NAHEMA internal capacity to cross-check and synchronize information and processes.*

*The MS is delegated to monitor the coherence of all internal processes and flows, including the certification, invoicing and payments, among all Divisions, aiming to prevent and reduce the risk of delays and failures. This was also established taking mainly into account:*

- a progressive and perceived significant lack of internal (processes) control from industry side where invoices were issued without previous technical formal endorsement (of the achievement of the milestones/events) from NAHEMA and/or Nations, incomplete and or duplicated,*
- claims by industry at Senior level meetings with NAHEMA (GM/DGM) as delays to payments (in accordance to contractual obligations) which factually were not correct (after investigation).*

*NAHEMA believes that the adopted arrangement:*

- strength the internal control either on the contractor's invoices flow in Nahema and/or on the information/evidences justifying the invoices payment claim by contractors;*
- represents a necessary further “layer” to safeguard the effectiveness and transparency of the process, while keeping unchanged the technical process as well as the competencies of the administrative pattern; while reducing the burden of ADM Division on workload which is not technically and contractually justified,*
- greatly improves the “Customer” standing (at Senior level) in front of industry that, since then, has taken significant internal steps to modify and improve “their processes”.*
- is coherent with NAHEMO FRR Art. 46.1. Approval of invoices: NAHEMA will ensure that invoices are in conformity with orders placed, goods delivered or services rendered and due for payment. The invoices will be certified and will be clearly marked “partial payment” if such is the case.*

## Paragraph 1.5

### NAHEMA's Formal Comments

NOT ACKNOWLEDGED BY NAHEMA.

Auditors assessed that the lead time to process payment of invoices is increased from 30 to 45 days.

These figures do not match with NAHEMA internal analysis and overview of the average lead time which is the following:

- MILESTONES:

Received:	532
Certified/rejected:	518
Average:	94%
Timing:	22.6 days

- INVOICES:

Received:	1197
paid:	953
rejected:	124
Average:	89%
Timing:	20.6 days

As said, Top Management (directly or throughout the MS) monitors processes and flows in terms of KPI (Key Performance Index). The outcomes are monthly reported to all NAHEMA Top Managers during the internal weekly Staff Meetings. However, neither GM/DGM nor MS were asked by auditors to provide them with the above mentioned figures. Therefore NAHEMA stands ready to further advice (and if necessary modify the KPI and internal analysis) the IBAN on their quoted average lead time when this evidence will be submitted.

As far as the EUR 41 million of invoices are concerned, according to the evidence (distributed to auditors - copy in Annex "D") invoices were returned to the contractor requiring for a further check due to formal and technical inaccuracies immediately identified (preventing de facto risks of unnecessary upload of wrong invoices in the Invoices Central Database).

Therefore, until the invoices are not officially entered into the NAHEMA Financial System (as explained before by ADMIN Secretary in the mentioned Invoices Central Database), they cannot (and have not to be) recorded as "payables to suppliers".

In this regard the following IBAN statement cannot be shared "In 2015, the invoices were subsequently re-issued with minor differences". It is necessary to underline that NAHEMA does not use to distinguish between "minor differences" or "major differences" when relating to formal invoices acceptance and validation, but only to "fully compliant invoices".

*Finally, aiming to prevent blocking events to the payment process (at the real end of the financial year), industry Top Managers agreed with NAHEMA on this need for a further official “final-check” and confirmation on invoices delivery and/or retrieval by their Finance Department (as evidence in Annex “E” letter to NAHEMA GM by a Delegated Managing Director listing the invoices to be returned for a new internal assessment).*

## Paragraph 1.6

### NAHEMO’s Formal Comments

*ACKNOWLEDGED BY NAHEMA.*

*The new Directive<sup>5</sup> is in preparation. The scope is to provide the Agency (once approved the new NAHEMO FRR by the SC) with a unique document to which refer for a wide range of technical, administrative and financial matters.*

*As far as the “invoicing delivery and acceptance” process itself, the new Directive will confirm, most likely, the one amended by NAHEMA in April 2014 (Draft was given as evidence to auditors - see Annex “F”, pag. 9/25). This again, will depend on the ongoing analysis of the new NATO FRs, which will lead to the drafting of the subsequent NAHEMO FRR to be approved. Then, “lower” level processes/directive that describe in more detail the processes will be put in place.*

## Paragraph 1.7

### NAHEMO’s Formal Comments

*NOT ACKNOWLEDGED BY NAHEMA.*

*On the basis of the evidences and assessments above up to now, NAHEMA believes the current checking process of invoices delivered by contractors is clear and transparent in terms of internal (and unique) control effectiveness, risk management and error prevention and “a central list in the system” was and is in place.*

*As per Nahema assessment in para. 1.3, the statement “... including being fully visible to the Financial Controller” cannot be acknowledged and technically is not understood since the central data base is visible and accessible by all Staff Members, including the Div Leader ADM/FCO. As said, all the received invoices are always firstly recorded in Central Mail Protocol and then loaded into the Invoices Central Database to be processed for payment.*

---

<sup>5</sup> “Directive” formally strengthens the value of the provisions and procedures contained more than an “Internal Note” that has to be used for internal “real life” matters and/or administrative communications only.



*It has once again to be underlined that the core mission of a Programme Agency, is to manage the programme on behalf of Nations in accordance with contractual obligations in place with industry, therefore invoice payments are part of the core missions of NAHEMA and require previous and concurrent activities by all the different Divisions (and this also includes Nations where contractually specified). Goods and services contracted (to be delivered to Nations) are not merely supporting the “core business” of NAHEMA. In reality they are “the core business”. This, again, answers the “Segregation of duties, where tasks for a specific business are disseminated among multiple users, is a fundamental concept of internal control....” remark as above identified.*

## Paragraph 1.8

### NAHEMO's Formal Comments

*As clarified above, the new Directive will be issued once the new NAHEMO FRR will be approved by NAHEMO SC (end of 2015), therefore it will come in place most in 2016.*

### Board's position

Proper segregation of duties in the accounts payable process, including the reception of invoices, should not only prevent the payment of inaccurate and fraudulent invoices, but should also ensure that all vendor invoices are accounted for. Segregation of duties is a fundamental and generally accepted concept of internal control. In the Board's opinion, the new process put in place in 2014 does not reduce, to an acceptably low level, the risk that all vendor invoices are accounted for.

The Board acknowledges the responsibilities of the General Manager. However, such responsibilities are not incompatible with proper segregation of duties. Rather, proper segregation of duties is essential for the General Manager to be able to properly fulfil his responsibilities to the Nations for a sound system of internal control. Segregation of duties is meant to ensure that one person is not able to exert excessive control over a process.

As a result, the Board maintains its position and its recommendations. The new Directive to be approved by the NAHEMO Steering Committee in late 2015 should clearly ensure that the concept of segregation of duties is respected.

Furthermore, in respect to the EUR 41 million of invoices that were returned to industry and not recorded as payables at 31 December 2014, the evidence supports that the goods and services were certified as being received in 2014. This did not change with the subsequently issued invoices by industry that the

Board reviewed.

In addition, in respect to the average time to pay the invoices, the differences are due the fact that the Board's calculations were from the invoice date to the payment date, whereas NAHEMA's calculations were from date the General Manager's Senior Secretary reported receiving the invoice to the payment date. Unfortunately, there is no independent evidence to support the date of receipt as reported by the Senior Secretary. The Board does acknowledge these differences.

Lastly, in respect to the Invoices Central Database, this is not a fully controlled system. There is no tracing when changes are made to the system, and no documentation of who made the changes. For example, the Board has been told that the EUR 41 million of invoices mentioned above were removed from this Invoices Central Database, and the database did not track that this occurred. This risks creating an incomplete audit trail of events.

**OBSERVATION 2:  
DOUBTFUL COLLECTION OF EUR 126 MILLION OF RECEIVABLES RELATED TO  
THE OPERATIONAL BUDGET NOT RECOGNISED OR DISCLOSED**

***NAHEMO's Formal Comments***

***NOT ACKNOWLEDGED BY NAHEMA***

*The assumption "In February 2015, the Nation challenged by official correspondence the authority of that call indicating that payment for that call would not be sent." is not shared. As per evidences, no official and specific instructions were received by NAHEMA at that time but only informal internal correspondences (in national language) were managed aiming to create conditions for the preparation and the related issuing of the 1st CFF/2015. As long as an amount is not officially cancelled it has to be accounted as a receivable as correctly done for the end of 2014. The amount was in turn officially cancelled and reported only when the along "mid-review" analysis (started in May 2015 and concluded in late July) the decision was finally formalized by the Nation (in fact the 126ME CFF was cancelled by NAHEMA accounting system on 17 June 2015).*

**Board's position**

The Board maintains its position and its recommendation that NAHEMA should fully assess events occurring after the reporting period but before the issuance of the financial statements as required by IPSAS 14.

The NAHEMA Financial Controller sent a letter to the Nation involved in early February 2015 asking for confirmation of the cancellation of the call. The Nation's

official response to this letter, also in early February 2015, does not appear to dispute this, as it highlights several reasons why the Nation thought that this should have already been evident to NAHEMA. Furthermore, the call for contributions for 2015 issued by NAHEMA on 26 February 2015 was calculated on the assumption that the EUR 126 million call was being disregarded.

**OBSERVATION 3:  
STEERING COMMITTEE NATIONAL REPRESENTATIVES DID NOT SIGN THE  
DECLARATIONS OF RELATED PARTIES**

**NAHEMO's Formal Comments**

*ACKNOWLEDGED BY NAHEMA.*

*Even if in 2013 remarks on the matter were not made by IBAN, additional HoDs declarations will be secured by NAHEMA soon.*

**OBSERVATION 4:  
LACK OF REVIEW ON THE FINANCIAL STATEMENTS REVEALED MATERIAL  
WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

**NAHEMO's Formal Comments**

*NOT ACKNOWLEDGED as per Nahema assessment to point 1.1*

**Observation 4.2 – first bullet**

*NOT ACKNOWLEDGED.*

*As already explained in para 1.4 and 1.5, until the invoices are not officially entered into the NAHEMA Financial System (by ADMIN Secretary in the Invoices Central Database), they cannot (and have not to be) recorded as "payables to suppliers". Hence, they could as well not be accounted for in the Financial Statements. Therefore, the assumption, "... due to the lack of a proper review of the financial statements" is not shared.*

**Observation 4.2 – second bullet**

*NOT ACKNOWLEDGED.*

*The assumption "... due to the lack of a proper review of the financial statement." is not shared. The Financial Statements were properly reviewed and the understatement was noticed. However, due to the fact, that the mistake was made when posting the very complex manual year end journals, it was not possible to find the mistake in due time before the deadline for the presentation of the Financial Statements. In consideration of the amount in question in relation*



*to the total budget it was decided by the Management to present the financial statements in time as they were.*

**Observation 4.2 – third bullet**

*PARTIALLY ACKNOWLEDGED BY NAHEMA.*

*The observation, “the current format of the Budget Execution Statement includes as ‘Transfers’ the changes of budget amounts that occurred during the year. This figure includes both the difference with updated values at the mid-year review and the differences with the actual budget executed during the year, instead of clearly distinguishing among the budget initially authorized, the budget revised at the mid-year review, and the actual values of execution of the budget at year-end.” is shared.*

*In turn, the following assumption “Incomplete presentation of Budget Execution Statement” cannot be shared.*

*The current format of the Budget Execution Statement has been used by NAHEMA for several years, based on the needs of the Nations represented by NAHEMA and considered a complete presentation of budget execution by them. This format has not been questioned by IBAN before. The layout will change as NATO aims on the use of common templates for the Financial Statements (including the Budget Execution Statement) in the future for all NATO Agencies.*

**Observation 4.2 – fourth bullet**

*PARTIALLY ACKNOWLEDGED BY NAHEMA.*

*The observations regarding the recording of accruals for the Administrative Budget are shared.*

*In turn, the assumption “...due to the lack of a proper review of the financial statements.” cannot be shared.*

*NAHEMA has not been recording in its accounting system the dates of certification of goods or services, nor has it kept copies of receipts of goods or services in the invoice files for several years. This has never been queried before. Therefore there was no reason for Management to question this practice when reviewing the Financial Statements.*

*Furthermore, it is necessary to point out, that the overstatement “29% of the total accruals recorded at year-end 2014” represent only 0.12% of the final Administrative Budget.*

**Observation 4.2 – fifth bullet**

*ACKNOWLEDGED BY NAHEMA. It has been an unpredicted misprint. In 2013 FS, RA figures were regularly disclosed.*

*OVERALL ASSUMPTION WITH REGARD TO PARA 4:*

*Evidences provided by NAHEMA in respect of initial IBAN argumentations make unclear/weak the following statement: “The Board found material weaknesses in internal control over financial reporting”.*

**Board’s position**

The Board maintains its position and recommendations.

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**NAHEMA**

*"UNITE TO SUCCEED"*

---

**NATO HELICOPTER D&D PRODUCTION AND LOGISTICS  
MANAGEMENT AGENCY**



**NAHEMO FINANCIAL STATEMENTS FOR**  
**FINANCIAL YEAR 2014**

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# **NAHEMO Financial Statements 2014**

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# **GENERAL INFORMATION**

## ***OBJECTIVES OF THE ORGANISATION***

The "NATO Helicopter for the 1990s Design and Development, Production and Logistics Management Organisation" (NAHEMO) is a NATO subsidiary body established with a view to meet the requirements of the French Republic, the Federal Republic of Germany, the Republic of Italy and the Kingdom of The Netherlands for the Design and Development, Production and In-Service Support of a NATO Helicopter for the 1990s (NH90). The NATO Council approved the NAHEMO Charter on 7<sup>th</sup> February 1992.

NAHEMO consists of the Steering Committee (SC) composed of representatives of the Participants and the Agency called NAHEMA.

On 8<sup>th</sup> June 2000 the Memorandum of Understanding (MOU) for the Production (P) Phase of the NH90 including Production Investment (PI) and Initial In-Service Support (IISS) was signed.

With the signature of the Addendum No. 1 to the MOU on 21<sup>st</sup> June 2001 Portugal joined the Programme.

On 17<sup>th</sup> July 2004 the Community MOU (CMOU) between NAHEMO Nations and Nordics Standard Helicopter Programme (NSHP) Nations (Finland, Norway and Sweden) has been signed with the aim that NAHEMA provides support in standardisation, qualification and interoperability to the Nordics. Australia and Belgium were admitted to the CMOU in 2008/2009.

The Programme Arrangement No. 1 to the CMOU, signed on 6<sup>th</sup> December 2004, establishes the NSHP Participants' contribution to the NAHEMA Administrative Budget (AB) starting from 2005.

With the signature of the NH90 Belgian Production MOU on 12<sup>th</sup> June 2007 Belgium joined the Programme.

On 23<sup>rd</sup> December 2004 the NH 90 ISS (In-Service Support) MOU between NAHEMO Nations has been signed to set out the framework for the In-Service Support Phase of the NH90. With the signature of the amendment No. 1 Belgium on 25<sup>th</sup> October 2006 was admitted to the ISS MOU.

On 29<sup>th</sup> May 2013 the amendment No. 4 to the CMOU has been signed concerning the admission of the Kingdom of Spain and New Zealand.

NAHEMA is applying the NATO Financial Regulations (NFR). The NAHEMO Financial Rules and Regulations were approved in September 1994 by the SC and since then they are implemented (last issue dated 4<sup>th</sup> December 2012).

The SC approved the necessary amendment on 4<sup>th</sup> December 2012.

In the year 2014 Portugal decided to withdraw from the NH90 Programme. The Addendum n°6 to the NAHEMO Charter dealing with Portugal withdrawal from the NH90 Programme was brought in force on 15<sup>th</sup> January 2015.

NAHEMA is maintaining two different budget types:

The AB for the administrative costs of NAHEMA.

The OB is composed of the following three chapters:

- Chapter 1: expenditures related to Design and Development activities for FRA, DEU, ITA, and NLD, under the legal framework of the D&D MOU;
- Chapter 2: expenditures related to Production Investment, Production, Integrated Logistics Support and Initial In-Service Support for FRA, DEU, ITA, NLD, PRT under the legal framework of the PI/P MOU and for BEL under the BEL Prod MOU;
- Chapter 3: expenditures related to In-Service Support activities for all NH90 Community Nations (NAHEMO and non-NAHEMO) under the legal framework of the CMOU.

## NAHEMO Statement of Financial Position

As at December 31, 2014

	<i><b>Note</b></i>	<i><b>2014</b></i>	<i><b>2013</b></i>
		€ '000	€ '000
<b><u>ASSETS</u></b>			
<i><u>Current Assets</u></i>			
Cash and Cash Equivalents	<b>1</b>	646,467	757,110
Receivables	<b>2</b>	278,704	39,633
Prepayments	<b>3</b>	0	0
		925,171	796,743
<i><u>Non-Current Assets</u></i>			
Infrastructure, Plant and Equipment	<b>4</b>	68	65
Intangible Assets	<b>5</b>	21	68
		89	133
		<b>925,260</b>	<b>796,876</b>
<b><u>Total Assets</u></b>			
<b><u>LIABILITIES</u></b>			
<i><u>Current Liabilities</u></i>			
Payables to suppliers	<b>6</b>	47,790	68
Payables to Nations in respect of AB	<b>6</b>	1,808	1,504
Payables to Nations in respect of OB	<b>6</b>	873,619	792,022
Other Payables	<b>6</b>	0	0
Advances	<b>7</b>	0	487
Unearned revenue	<b>7</b>	1,909	2,662
		925,126	796,743
		<b>925,126</b>	<b>796,743</b>
<b><u>Total Liabilities</u></b>			
<b><u>NET ASSETS</u></b>		<b>89</b>	<b>133</b>
<i><u>Represented by:</u></i>			
PP&E Intangible Asset Reserve	<b>8</b>	170	229
Net surplus on revaluation			
Net surplus of the period	<b>11</b>	(81)	(96)
		<b>89</b>	<b>133</b>
<b><u>Total Net Assets</u></b>			

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## NAHEMO Statement of Financial Performance

For the year ended December 31, 2014

	<b>Note</b>	<b>2014</b>	<b>2013</b>
		€ '000	€ '000
<b><u>REVENUE</u></b>	<b>9</b>		
<i>Revenue from exchange transactions</i>			
Administration Budget		10,933	11,171
Operational Budgets		0	0
<b>Total Revenue</b>		<b>10,933</b>	<b>11,171</b>
<b><u>EXPENSES</u></b>	<b>10</b>		
<i>Administrative Budget</i>			
Personnel		(9,501)	(9,601)
Operating		(1,171)	(1,322)
Capital, non capitalized		(46)	(46)
Value Added Tax		(215)	(202)
Depreciation PP&E		(34)	(41)
Depreciation Intangible Assets		(46)	(55)
<b>Total Expenses</b>		<b>(11,013)</b>	<b>(11,267)</b>
<b>NET SURPLUS/(DEFICIT) FOR THE YEAR</b>	<b>11</b>	<b>(81)</b>	<b>(96)</b>

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## NAHEMO Statement of Changes in NET ASSETS/EQUITY

For the year ended December 31, 2014

Amounts in € '000

	<b>Note</b>	<i>Accumulated Surpluses/ (Deficits)</i>	<i>PP&amp;E &amp; Intangible Assets Reserve</i>	<i>Total net assets/ equity</i>
<b>Balance at 31 December 2013 brought forward</b>			<b>133</b>	<b>133</b>
Surplus for acquisition of property	<b>4,5</b>		37	37
Surplus (deficit) for the period	<b>11</b>	(81)		(81)
Transfer between funds		81	(81)	0
<b>Balance at 31 December 2014</b>		<b>0</b>	<b>89</b>	<b>89</b>

## NAHEMO 2014 Cash Flow Statement (Indirect Method)

For the year ended December 31, 2014

	<b>2014</b>	<b>2013</b>
	€ '000	€ '000
<b><u>Cash Flow from Operating Activities</u></b>		
Surplus/ (deficit) from ordinary activities	0	0
<b>Non-cash movements</b>		
Increase/Decrease in unearned revenue	<b>(753)</b>	<b>2,056</b>
Increase/Decrease in Net Assets	<b>44</b>	<b>41</b>
Increase/Decrease in payables	<b>129,623</b>	<b>(362,317)</b>
Increase/Decrease in receivables	<b>(239,071)</b>	<b>104,014</b>
Increase/Decrease in advances	<b>(487)</b>	<b>34</b>
Increase/Decrease in prepayments	<b>0</b>	<b>0</b>
<b><u>NET CASH FLOW FROM OPERATING ACTIVITIES</u></b>	<b>(110,644)</b>	<b>(256,172)</b>
<b><u>Cash Flow from Investing Activities</u></b>		
Increase/Decrease in Non-Current Assets	<b>(44)</b>	<b>(41)</b>
<b><u>NET CASH FLOW FROM INVESTING ACTIVITIES</u></b>	<b>(44)</b>	<b>(41)</b>
<b>NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENT</b>	<b>(110,644)</b>	<b>(256,213)</b>
<b>CASH AND CASH EQUIVALENT AT THE BEGINNING OF THE PERIOD</b>	<b>757,110</b>	<b>1,013,323</b>
<b>CASH AND CASH EQUIVALENT AT THE END OF THE PERIOD</b>	<b>646,467</b>	<b>757,110</b>

Operating activities relate to cash flows on the  
Administrative and Operational Budget

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## SUMMARY BUDGET EXECUTION STATEMENT FOR NAHEMO ADMINISTRATIVE BUDGET (AB) 2014

BUDGET TYPE	BUDGET			COMMITMENTS				CASH BASED EXPENSES	CREDITS	
	ORIGINAL	TRANSFERS	FINAL	CFW	CFW	CFW			CFW	Lapsed
	From	2013	From 2013							
CHAPTER	2014	2014	2014	2014	2013	Lapsed in 2014	FINAL		Next Year	2014
<b><u>ADMINISTRATIVE BUDGET (AB)</u></b>										
CHAPTER 1: PERSONNEL	10,281,200.00	336,695.00	10,617,895.00	9,329,469.88	20,781.47	14,353.04	6,428.43	9,335,898.31	0.00	1,289,425.12
CHAPTER 2: OPERATING	1,418,450.00	63,305.00	1,481,755.00	1,171,178.41	188,458.95	111,913.87	76,545.08	1,247,723.49	0.00	309,576.59
CHAPTER 3: CAPITAL	118,000.00	0.00	118,000.00	46,401.96	23,896.68	6,577.14	17,319.54	63,721.50	0.00	71,598.04
VALUE ADDED TAX								214,859.54		
<b>TOTAL (AB)</b>	<b>11,817,650.00</b>	<b>400,000.00</b>	<b>12,217,650.00</b>	<b>10,547,050.25</b>	<b>233,137.10</b>	<b>132,844.05</b>	<b>100,293.05</b>	<b>10,862,202.84</b>	<b>0.00</b>	<b>1,670,599.75</b>
CASH RECEIVED FROM NATIONS AGAINST ADMINISTRATIVE BUDGET IN 2014								10,718,461.33		
INTEREST RECEIVED FROM BANKS AGAINST ADMINISTRATIVE BUDGET IN 2014								4,211.09		
VALUE ADDED TAX RECEIVED FROM FRANCE IN 2014								208,547.97		
OTHER INCOME IN 2014								0.00		
<b>TOTAL CASH RECEIVED IN 2014 (AB)</b>								<b>10,931,220.39</b>		

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## SUMMARY BUDGET EXECUTION STATEMENT FOR NAHEMO OPERATIONAL BUDGETS (OB) 2014

BUDGET TYPE	BUDGET			COMMITMENTS				CASH BASED EXPENSES	CREDITS	
	ORIGINAL	TRANSFERS	FINAL	CFW		CFW	CFW		CFW Lapsed	
				From	2013	From 2013				
	2014	2014	2014	2014	2013 Adjusted in 2014	FINAL			Next Year	2014
<b>CHAPTER 1 (OB)</b>										
FRANCE	3,621,727.00	(-612,031.42)	4,205,049.50	4,205,049.50	0.00	0.00	0.00	4,205,049.50	0.00	0.00
ITALY	1,567,800.00	(-583,322.50)	3,595,915.85	3,595,915.85	0.00	0.00	0.00	3,595,915.85	0.00	0.00
GERMANY	994,800.00	(-612,031.42)	1,606,831.42	1,606,831.42	0.00	0.00	0.00	1,606,831.42	0.00	0.00
NETHERLANDS	409,200.00	(-141,522.58)	550,722.58	550,722.58	0.00	0.00	0.00	550,722.58	0.00	0.00
<b>TOTAL</b>	<b>6,593,527.00</b>	<b>(-3,364,992.35)</b>	<b>9,958,519.35</b>	<b>9,958,519.35</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>9,958,519.35</b>	<b>0.00</b>	<b>0.00</b>
<b>CHAPTER 2 (OB)</b>										
FRANCE	497,056,768.54	(232,175,182.15)	264,881,586.39	264,881,586.39	0.00	0.00	0.00	264,881,586.39	0.00	0.00
ITALY	334,522,395.14	(82,372,250.69)	252,150,144.45	252,150,144.45	0.00	0.00	0.00	252,150,144.45	0.00	0.00
GERMANY	138,437,972.94	(55,452,592.59)	86,760,851.09	86,760,851.09	0.00	0.00	0.00	86,760,851.09	0.00	0.00
NETHERLANDS	84,327,059.05	(19,292,859.05)	65,034,200.00	65,034,200.00	0.00	0.00	0.00	65,034,200.00	0.00	0.00
PORTUGAL	5,400,000.00	(-32,008,690.65)	37,408,690.65	37,408,690.65	0.00	0.00	0.00	37,408,690.65	0.00	0.00
BELGIUM	61,840,185.07	(10,424,586.10)	51,415,598.97	51,415,598.97	0.00	0.00	0.00	51,415,598.97	0.00	0.00
<b>TOTAL</b>	<b>1,121,584,380.74</b>	<b>(363,933,309.19)</b>	<b>757,651,071.55</b>	<b>757,651,071.55</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>757,651,071.55</b>	<b>0.00</b>	<b>0.00</b>

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## SUMMARY BUDGET EXECUTION STATEMENT FOR NAHEMO OPERATIONAL BUDGETS (OB) 2014

BUDGET TYPE	BUDGET			COMMITMENTS				CASH BASED EXPENSES	CREDITS	
	ORIGINAL	TRANSFERS	FINAL	CFW		CFW	CFW		CFW	Lapsed
	2014	2014	2014	2014	2013	Adjusted in 2014	FINAL		Next Year	2014
<b>CHAPTER 3 (OB)</b>										
FRANCE (SIMMAD)	47,442,468.51	(16,245,354.27)	31,197,114.24	31,197,114.24	0.00	0.00	0.00	31,197,114.24	0.00	0.00
FRANCE (DGA)	55,577,798.88	(29,109,945.65)	26,467,853.23	26,467,853.23	0.00	0.00	0.00	26,467,853.23	0.00	0.00
ITALY	23,517,333.85	(22,742,518.37)	774,815.48	774,815.48	0.00	0.00	0.00	774,815.48	0.00	0.00
GERMANY	12,812,868.49	(5,140,059.06)	7,672,809.43	7,672,809.43	0.00	0.00	0.00	7,672,809.43	0.00	0.00
NETHERLANDS	5,986,951.65	(4,458,190.87)	1,528,760.78	1,528,760.78	0.00	0.00	0.00	1,528,760.78	0.00	0.00
BELGIUM	13,692,004.21	(12,078,207.35)	1,613,796.86	1,613,796.86	0.00	0.00	0.00	1,613,796.86	0.00	0.00
NORWAY	1,299,077.13	(917,200.47)	381,876.66	381,876.66	0.00	0.00	0.00	381,876.66	0.00	0.00
SWEDEN	2,239,214.00	(812,908.00)	1,426,306.00	1,426,306.00	0.00	0.00	0.00	1,426,306.00	0.00	0.00
FINLAND	5,303,966.00	(3,047,574.96)	2,256,391.04	2,256,391.04	0.00	0.00	0.00	2,256,391.04	0.00	0.00
AUSTRALIA	1,014,170.00	(814,634.00)	199,536.00	199,536.00	0.00	0.00	0.00	199,536.00	0.00	0.00
<b>TOTAL</b>	<b>168,885,852.72</b>	<b>(95,366,593.00)</b>	<b>73,519,259.72</b>	<b>73,519,259.72</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>73,519,259.72</b>	<b>0.00</b>	<b>0.00</b>

Grand Total OPERATIONAL BUDGETS IN 2014

841,128,850.62

CASH RECEIVED FROM NATIONS AGAINST ALL OPERATIONAL BUDGETS IN 2014

665,163,501.15

INTEREST RECEIVED FROM BANK AGAINST OPERATIONAL BUDGET IN 2014

928,649.49

TOTAL CASH RECEIVED IN 2014 (OB)

666,092,150.64

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## **A. Accounting Policies**

### ***Accounting Period***

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

### ***Reporting Currency***

The functional and reporting currency used throughout these Financial Statements is the Euro (€). All call for funds and contributions are made in Euro.

### ***Basis of preparation***

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

### ***Financial Reporting Framework***

The NAHEMO financial statements have been prepared on the accrual basis of accounting in accordance with the International Public Sector Accounting Standards (IPSAS) issued by the IPSAS Board (IPSASB) and relevant to NAHEMO as decided by the North Atlantic Council in 2002. A list of standards issued by the IPSAS Board can be found on the following website [www.ifac.org](http://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 using historical costs have been applied consistently throughout the reporting period to ensure that the financial statements provide information that is relevant to the decision-making and reliable, comparable, and understandable in light of the qualitative characteristics of financial reporting as well as the of the principle of the right balance between the benefits derived from the information and the costs of providing it as required by IPSAS 1.29 and further summarised in Appendix A of IPSAS 1.

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

These financial statements represent the consolidated activities of NAHEMO and its executing agency NAHEMA.

NAHEMO financial statements have also been prepared in accordance with the accounting requirements of the NATO Financial Regulations (NFR) and the Financial Rules and Procedures (FRP) and the relevant entity directives and policies. In instances where there is a conflict between IPSAS and the NFR and FRP this has been noted.

In December 2012 NAHEMO changed its accounting policy for the treatment of accounting for revenues and expenditures in relation to operational programme revenues and expenditures.

Therefore, these revenues and expenditures are excluded from the Statement of Financial Performance. The subject of knowing the stage-of-completion of operational programme assets from an accounting perspective is not relevant due to the change in accounting policy.

NAHEMO considers that it is acting as an agent for its member states in relation to managing the NH90 programme. As NAHEMO is not exposed to the risks or rewards of the programme and is paying Industry on behalf of NAHEMO member states it considers that it should show the net consideration received from member states for running the programme and match this to expenditures; this revenue and expenditure is equivalent to NAHEMO's AB. NAHEMA's management considers that this information provides more reliable and transparent financial reporting to users of the financial statements. The change in accounting policy is in accordance with IPSAS 9: Revenue from Non-Exchange Transactions.

NAHEMO considers that Industry controls the assets like helicopters, training media, AGE and spares until they are delivered to Nations. Liabilities for accrued expenses for the OBs are excluded from the Statement of Financial Performance and these assets are excluded from the Statement of Financial Position.

NAHEMO makes prepayments on behalf of member nations to Industry. However, these prepayments are not considered assets of NAHEMO (they are assets of the member nations) and as such are not shown as assets in the Statement of Financial Position.

Expenditure, on a cash basis, in respect of the OB can be found in the Budget Execution Statement.

### ***Changes in accounting policy***

The same accounting policies are applied within each period and from one period to the next, unless a change in accounting policy meets one of the criteria set in IPSAS 3. For the 2014 Financial Statements the accounting policies have been applied consistently throughout the reporting period.

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

### ***Assets – Current Assets***

The entity holds the following types of current assets:

#### ***a. Cash and cash equivalents***

Cash and cash equivalents are defined as short-term assets. They include cash on hand, 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 user charges, taxes, receivables from related parties, etc.

Contribution receivables are recognized when a call for contribution has been issued to the member nations.

### ***c. Inventories***

NAHEMO does not hold inventory. In this respect, purchases which might be considered inventory consist entirely of administrative operating material and regularly consumed supplies. All such supplies are expensed when purchased. The total of all such items in stock at any one date is deemed to be immaterial to these financial statements.

### ***d. Prepayments***

A prepayment is a payment in advance of the period to which it pertains and is mainly in respect of advance payments made to third parties. NAHEMO acts as an agent on behalf of member states. It makes prepayments on behalf of member nations to Industry. However, these prepayments are not considered assets of NAHEMO (they are assets of the member Nations) and as such are no longer shown as assets in the Statement of Financial Position.

## ***Assets – Non - Current Assets***

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

### ***a. Property, plant and Equipment***

#### **Basic Principles**

- Buildings are shown at their re-valued amounts, being the fair value based on internal valuations at each reporting date. NAHEMO has rented the building.
- All other property, plant and equipment are stated at historical cost less accumulated depreciation and any recognised impairment loss.
- No external evaluator to set values for assets.
- Best available information from procurement sources, industry estimates or any relevant source of information as a basis for valuation.

PP&E categorizations for purposes of determining the appropriate depreciable life of the assets is listed in the table below. The categories for both tangible and intangible assets complete with the years in which the asset is to be depreciated.

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.



<b>PPE Category</b>	<b>Description</b>	<b>Year Depreciation</b>	<b>Method</b>
Land		N/A	N/A
Structures	Buildings, Roads, Bridges	40	Straight line
Installed equipment	Equipment as part of structure such as Air conditioning units.	10	Straight line
Machinery	On board for production that can be displaced	10	Straight line
Transportation equipment		5	Straight line
Mission equipment (military Assets)	Classes to be determined	TBD	Straight line
Furniture		10	Straight line
Communication Systems	Communication equipment required for daily office operations	3 to 5	Straight line
Automated information systems	Hardware and software	3 to 5	Straight line

### ***Impairment of tangible assets***

The carrying values of fixed assets are reviewed for impairment if events or changes in circumstances indicate that they may be not recoverable. In 2014 no indication existed to review the values of fixed assets for impairment.

### ***b. Intangible assets***

According to IPSAS 31: Intangible Assets; NAHEMO recognized the set-up costs for the implementation of ORACLE modules as intangible assets. In the financial statements these set-up costs have been expensed. Depreciation is calculated using the straight line method to allocate the cost to the residual values over the estimated useful lives.

## ***Current liabilities***

### ***a. Payables***

Payables are amounts due to third parties 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 revenue, advances and amounts owing to nations***

Unearned revenue represents contributions from Nations that have been called for current or prior year ABs but that have not yet been recognised as revenue. Funds are called in advance of their need because the agency has no capital that would allow it to pre-finance any of its activities.

Advances are contributions received related to future year's ABs.

Amounts owing to nations are amounts held by or owed to NAHEMO in respect of the AB or OB. Until these amounts are expensed they are considered as owing to the member nations.

### ***c. Employee benefits***

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

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

Certain employees participate in the New Defined Contribution Pension Scheme administered by NATO. Contributions to these Plans are limited to matching the employees' contributions for current service.

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

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

## ***Non-Current liabilities***

### ***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. In 2014 NAHEMO has no provisions.

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

Revenue comprises contributions from Member Nations to fund the NAHEMO AB. It is recognized as revenue in the statement of financial performance when such contributions are used for their intended purpose as envisioned by the AB. Revenue is recognized to the extent that it is probable that the economic benefits will flow to NAHEMO and the revenue can be measured reliably. The balance of unspent contributions and other revenues that relate to future periods are deferred accordingly.

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

#### ***b. Expenses***

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

### ***Surplus or Deficit for the Period***

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

## **B. 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 ongoing basis. These estimates and assumptions affect the amounts of assets, liabilities, revenues and expenses reported. By their nature, these estimates are subject to measurement uncertainty. The effect of changes to such estimates and assumptions in future periods could be significant to the financial statements.

## C. Notes to Statement of Financial Position

### Assets – Current Assets

#### 1. Cash and cash equivalents

	December 31, 2014	December 31, 2013
	€ '000	€ '000
Petty Cash	1	1
Current Bank Accounts	596,466	607,109
Cash equivalents	50,000	150,000
<b>Total Cash and cash equivalents</b>	<b>646,467</b>	<b>757,110</b>

Petty cash is cash on hand locked in a safe at NAHEMA.

Deposits are partly held in interest-bearing current bank accounts in immediately available funds. Current bank accounts are held in EURO.

Cash equivalents are funds invested on short-term deposit bank accounts held in EURO.

Cash and cash equivalents included in the Cash Flow Statement equal the above figures in the Statement of Financial Position.

#### 2. Accounts receivable

	December 31, 2014	December 31, 2013
	€ '000	€ '000
<b>Contributions from Member Nations</b>		
Receivable from Nations related to AB	(258)	2,275
Receivable from Nations related to OB	278,716	36,967
Other receivables	247	364
<b>Total Receivables</b>	<b>278,705</b>	<b>39,633</b>

#### Contributions from Member Nations

Contributions receivables from Member Nations are recognised when called.

### ***Receivables from Nations related to the AB funding***

The accounts receivable from Nations related to the NAHEMO AB are related to the NAHEMO Nations (France, Germany, Italy, The Netherlands, Portugal and Belgium), and the non NH 90 Programme Contributing Participants Finland, Norway and Sweden (the so called NORDIC Nations) and Australia.

Since the Amendment No. 1 to the Production MOU has been signed (21.06.2001) the new PI/P cost share considering the participation of Portugal has to be applied.

The total yearly Administrative Costs of NAHEMA have been fixed by the Production MOU for the NAHEMO community to a ceiling amount of EUR 6.6 Million based on economic conditions of 01/01/1999. The ceiling has been increased to EUR 7.85 Million since the Addendum No. 5 to the Production MOU has been signed in September 2009. The ceiling is annually escalated using the annual NATO salaries increase and the index "Indice mensuel des prix à la consommation" published in the Bulletin mensuel de l'INSEE.

With Programme Arrangement No. 1 to the NH90 Community MOU an additional ceiling amount of EUR 750,000 on economic conditions of 01/01/1999 has been fixed for the NAHEMA activities in favour of the NORDIC Nations depending on the agreed scope of work.

The NORDIC Nations contribute to the AB starting from the financial year 2005.

Since the financial year 2007 Australia is contributing to the AB.

In June 2007 the NH 90 Belgian Production MOU was signed and Belgium became the 6<sup>th</sup> NAHEMO Nation. The yearly administrative ceiling amount of EUR 110,000 for an A3 post or an amount of EUR 124,000 for an A4 post on economic conditions 01/1999 has been agreed as Belgian participation.

In May 2013 with Programme Arrangement No.1 amendment 2 to the Community MOU an additional ceiling amount of EUR 140,000 each of the Spanish and the New Zealand Contributing Participant on economic conditions 01/1999 has been agreed as annual administrative participation.

All expenses including salaries and associated costs in the frame of the AB are considered as administrative expenses.

In 2014, the NAHEMO Nations were invited to pay EUR 10,326,930, the NORDIC Nations share was EUR 931,700 and the share for Australia, New Zealand and the Kingdom of Spain was EUR 186,340 each (= EUR 559,020).

As credit memos were not credited against the call for funds, there is a negative receivable at the end of 2014 that represents de facto a payable to nations.

### ***Receivables from Nations related to OB funding***

For Budget year 2014, total OB receivables of EUR 278,715,627.97 was recorded.

### **Other receivables**

These are receivables as outstanding VAT reimbursements from 2013 in the amount of EUR 971 and from 2014 in the amount of 214,860 from the French Minister of Finance for a total of EUR 215,831 and accrued interest from the banks for a total of EUR 31,065.

According to the MOUs, VAT is payable by the country levying it, which is France in the case of the NH90 Programme. The Finance and Administrative Committee (FAC) decided that the AB is to be submitted exclusive of VAT. VAT payments are kept in a specific expense account and will be reimbursed by the French Ministry of Finance (MoF). VAT payments not reimbursed by MoF due to French internal regulations will be reimbursed by the French Ministry of Defence (MoD).

### **3. Prepayments**

NAHEMO acts as an agent on behalf of member states. It makes prepayments on behalf of member nations to industry. However, these prepayments are not considered assets of NAHEMO (they are assets of the member nations) and as such are no longer shown as assets in the Statement of Financial Position.

## **Assets – Non-current Assets**

### **4. Property, plant and equipment**

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

Description	Model	Quantity	Net book value € at 31/12/2013	Depreciation Years Depreciation %	2014 Depreciation €	Net book value € at 31/12/2014
Staff car	Renault	1	4,179.45	5 20%	4,179.45	0.00
Laptop	A	14	2,178.75	4 25%	2,178.75	0.00
Server	A	5	4,140.00	5 20%	4,140.00	0.00
Server	B	1	788.33	5 20%	788.33	0.00
Storage	A	1	1,960.00	5 20%	1,960.00	0.00
Network	B	2	522.21	5 20%	482.04	40.17
Network	C	1	346.86	5 20%	346.86	0.00
Network	D	1	732.19	5 20%	675.87	56.32
Network	E	1	990.15	5 20%	792.12	198.03
Network	F	2	3,252.27	5 20%	2,439.20	813.07
Screens	A	24	1,700.00	4 25%	1,020.00	680.00
Laptop	B	30	15,732.50	4 25%	6,742.50	8,990.00
Storage	B	1	9,337.45	5 20%	2,240.99	7,096.46
Storage	C	1	18,941.77	5 20%	4,546.02	14,395.75
			<b>64,801.93</b>		<b>32,532.13</b>	<b>32,269.80</b>

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New Acquisitions 2014						
Network	E	1	1,423.25	5 20%	213.49	1,209.76
Network	F	2	9,029.86	5 20%	0.00	9,029.86
Server	C	1	4,665.59	5 20%	777.60	3887.99
Server	D	2	17,766.00	5 20%	0.00	17,766.00
UPS	A	16	3,664.00	5 20%	427.47	3,236.53
Printer	A	2	895.62	5 20%	14.93	880.69
			<b>102,246.25</b>		<b>33,965.62</b>	<b>68,280.63</b>

In 2014 NAHEMA purchased systems for EUR 37,444 that are capitalized on NAHEMO's Statement of Financial Position. The total depreciation for 2014 reads EUR 33,966 and results in a total net book value of EUR 68,281 for infrastructure, plant and equipment. According to the production contract specific PI-work tooling developed, manufactured or purchased by Industry shall be accounted on national level. This means that Nations control the tooling and they are not shown as NAHEMO's assets on its Statement of Financial Position.

## 5. Intangible Assets

Changes in intangible assets and related depreciation for the year were as follows:

Description	Model	Quantity	Net book value € at 31/12/2013	Depreciation Years Depreciation %	2014 Depreciation €	Net book value € at 31/12/2014
Oracle Customization Upgrade to Windows 7	CA , AR and AP modules	1	41,417.77	4 25%	41,417.78	0.00
Oracle Customization Adjustment OPSF module	OPSF module	1	8,851.65	4 25%	3,034.85	5,816.80
Oracle Customization Adjustment OPSF module Cash based	OPSF module	1	17,937.50	4 25%	3,062.50	14,875.00
			<b>68,206.92</b>		<b>47,515.13</b>	<b>20,691.80</b>

The total depreciation for 2014 reads EUR 47,515 and results in a total net book value of EUR 20,692 for intangible assets.

## ***Liabilities – Current Liabilities***

### **6. Payables**

	December 31, 2014	December 31, 2013
	€ '000	€ '000
Payables AB suppliers	193	68
Payables OB suppliers	47,597	0
<b>Payables to suppliers</b>	<b>47,790</b>	<b>68</b>
Payables to Nations in respect of AB	1,808	1,504
Payables to Nations in respect of OB	873,619	792,022
<b>Payables to Nations</b>	<b>875,427</b>	<b>793,526</b>
<b>Other Payables</b>	<b>0</b>	<b>0</b>
<b>Total Payables</b>	<b>923,217</b>	<b>793,594</b>

#### ***Payables to AB Suppliers***

In 2014 there are payables to AB suppliers for the purchase of goods and services and staff members for duty trips done in 2014 of EUR 193,472 Payables also contain liabilities for accrued expenses in the amount of EUR 71,118.

#### ***Payables to OB Suppliers***

For 2014 there are payables to OB suppliers in the amount of EUR 47,596,863.

#### ***Payables to AB funding nations in respect of AB***

This represents the net revenue containing interest, bank charges, lapses, and over/under call in 2014. The net result in the amount of EUR 1,807,654 has to be reimbursed to the nations following the MOU cost sharing agreement and NAHEMO SC decisions towards the NAHEMO AB funding.

#### ***Payables to OB funding nations in respect of OB***

This represents the net revenue containing interest, bank charges, lapses, contributions from other Nations for compensation, unallocated contributions and unearned revenue. The amount of EUR 873,620,256 represents balances held by NAHEMO or owed from member Nations which are in turn owing to nations until they are expensed on the OB.

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In the table below, the details of the total payables to Nations of EUR 1,807,655 (AB) and EUR 873,620,256 (OB) are explained.

<b>Payables to Nations 2014</b>	
<b>Payables to Nations in respect of AB</b>	
	<b>EURO € '000</b>
Interest	4
Lapse 2011	44
Lapse 2012	89
Lapse 2013	1,671
<b>Total AB Related</b>	<b>1,808</b>
<b>Payables to Nations in respect of OB</b>	
	<b>EURO € '000</b>
Interest	2,766
Lapse NSPA 2011	105
Contribution other Nations	6
Unallocated Contributions	5,900
Unearned Revenue	864,843
<b>Total OB Related</b>	<b>873,620</b>

### ***Other Payables***

In 2014 there are no other payables.

## 7. Unearned Revenue and Advances

	December 31, 2014	December 31, 2013
	€ '000	€ '000
<b>Unearned Revenue AB</b>	<b>1,909</b>	<b>2,662</b>
<b>Advances AB</b>	<b>0</b>	<b>487</b>
<b>Total</b>	<b>1,909</b>	<b>3,149</b>

### **Unearned Revenue AB and OB**

Due to the change in accounting policy, there is no longer unearned revenue in respect of the OB; such amounts are restated as payables to Nations in respect of the OB.

Unearned revenue AB consists of contributions and other transfers received or receivable, but for which corresponding charges will be incurred after the reporting date. The unearned revenue liability as of 31 December 2014 was EUR 1,909,291 of budget calls for AB 2014 not received as of year-end.

If the funds are not spent by the end of the second year following the year in which they have been approved, these funds will be returned to Nations.

In note 9, it is explained how the unearned revenue 2013, contributions and revenue recognition in 2014 result in the unearned revenue 2014.

### **Advances AB and OB**

Advances related to the AB are contributions received in advance relating to the 2015 Budget. Due to a change in accounting policy, there are no longer advances in respect of the OB; such amounts are restated as payables to Nations in respect of OB.

## **Net Assets**

### **8. PP&E and Intangible Asset Reserve**

Net assets of EUR 88,972 are represented by PP&E and intangible asset reserve of EUR 170,452 minus the depreciation for 2014 of EUR 81,481.

## D. Notes to Statement of Financial Performance

### 9. Revenue

The revenue recognition is matched with the recognition of expenses against the NAHEMO AB. Contributions when called are booked as an advance under unearned revenue and subsequently recognised as revenue when it is earned.

The table below shows the revenue from exchange transactions for the AB 2013 and 2014.

	December 31, 2014	December 31, 2013
	€ '000	€ '000
<i>Revenue AB</i>		
<b>Contributions</b>	10,933	11,171
<b>Revenue</b>	<b>10,933</b>	<b>11,171</b>

The revenue recognition is matched with the recognition of expenses.

### Reconciliation between Revenue and Unearned Revenue

The table below explains to what extent the unearned revenue from previous years and the net calls in the current year for the AB is recognized as revenue in the current year. The remaining balance is unearned revenue for the funds that are carried forward to future years and payables for the AB credits that are lapsed.

The starting balance of the unearned revenue at the beginning of 2014 is EUR 2,662,185. The reversal for accrued expenses is EUR 68,220, the total amount called in 2014 reads EUR 11,705,058. EUR 214,860 was recorded for the VAT paid in 2014 to be reimbursed in future.

The revenue recognized in 2014 is EUR 10,718,461 for expenses and EUR 214,860 for VAT expenses; lapsed funds to be returned to Nations are for an amount of EUR 1,807,655. This results in unearned revenue of EUR 1,909,347 at the end of 2014.

Reconciliation of Unearned Revenue AB 2013 with 2014	
	<b>EURO € '000</b>
<b>Unearned Revenue 31 December 2013</b>	<b>2,662</b>
Reversal accruals 2013	68
Call for Funds 2014	11,705
VAT paid in 2014 to be reimbursed	215
Revenue earned in 2014	-10,718
Revenue earned in 2014 for VAT	-215
Payable to Governments 31 December 2014	-1,808
<b>Total unearned revenue 31 December 2014</b>	<b>1,909</b>

## **10. Expenses**

Expense recognition for the 2014 AB and previous years carried forward budgets activities are based upon actual payments made together with accrued expenses which are based on value of work completed by contractors or duty trips performed where invoices are not yet received. Depreciation for PP&E and Intangible Assets for 2014 is reflected as expense.

AB Expenses are recognized by nature within the following groups.

### ***Personnel***

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

### ***Contractual Supplies and Services***

Contractual Supplies and Services expenses include expenses for general administrative overheads, and the maintenance costs of buildings/grounds, communication and information systems, transportation, travel expenses, representation/hospitality and miscellaneous expenses. These expenses were mainly needed to meet NAHEMOs' requirements in order to fulfil NAHEMAs' management tasks.

### ***Operating Leases***

NAHEMA rents premises and photocopiers on an operating lease. The costs of the lease are expensed in the year. The lease for buildings A and B will terminate in 2017. If the leases are cancelled by NAHEMA before the maturity of the contract, NAHEMA will be liable to pay the rental fees until the end of the contracts. The annual rent for the premises is EUR 504.900 inclusive accessory charges. The annual rent for the photocopiers is 43,620.

### ***Capital & Investment***

Capital investments are still reported as expenses against the AB. Acquired assets of PP&E which exceed the materiality thresholds would be in principle capitalized and depreciated over their useful life.

The table on the next page shows the breakdown of the expense from AB exchange transactions:

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
	<b>€ '000</b>	<b>€ '000</b>
Personnel	9,501	9,601
Operating	1,171	1,322
Capital	46	46
VAT	215	202
Depreciation PP&E	34	41
Depreciation Intangible Assets	46	55
<b>Total Expenses AB</b>	<b>11,013</b>	<b>11,267</b>

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

### ***Reconciliation between Revenue and Expenses***

The Revenue related to the AB that has been recognized in 2014 relates directly to the expenses that can be attributed to AB. For the AB the total revenue incurred is matched with the total expenses recognized in 2014 for a total of EUR 11,013,802.

The depreciation for PP&E and intangible assets are reflected as expense and cannot be matched with the Revenue and therefore result in a net surplus/deficit for the year 2014 of EUR 81,481.

### ***11. Surplus or Deficit for the Period***

In the Statement of Financial Performance the surplus/deficit of the period of EUR 81,481 represent the annual depreciation expense for PP&E and intangible assets.

## **E. 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 key management personnel of NAHEMA have completed a declaration stating that they have no related party relationships that could affect the operation of this reporting entity. NAHEMO Steering Committee members and senior management are remunerated in accordance with published NATO pay scales and do not receive loans that are not available to all staff.

## Key Management Personnel

**GENERAL MANAGER, grade A7**  
**DEPUTY GENERAL MANAGER, grade A6**  
**ADM DIVISION LEADER, grade A6**  
**SYS DIVISION LEADER, grade A6**  
**LOG DIVISION LEADER, grade A6**

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

	December 31, 2014	December 31, 2013
	€ '000	€ '000
Basic salaries	692	702
Allowances	118	171
Post-employment benefits	83	84
Employer's contribution to Insurance	96	102
<b>TOTAL</b>	<b>989</b>	<b>1,059</b>

The Salary adjustment was -0,8% in 2014.

	December 31, 2014	December 31, 2013
Number of individuals on a full time equivalent basis		
General Manager	1	1
Deputy General Manager	1	1
Other key management personnel (Division Leaders)	3	3
<b>TOTAL</b>	<b>5</b>	<b>5</b>

In addition NAHEMA management has assessed that there are no related party transactions between the nations which are members of NAHEMO and the industrial contractors used to implement NAHEMO programmes. However, France and Germany have shareholdings of about 12% of EADS who owns Airbus Helicopters (formerly known as Eurocopter).

## F. Employee Disclosure

Employees in NAHEMA 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. NAHEMA is not reliable for retirement benefits.

The costs in Chapter 1 are for staff members hired under the NATO Civilian Personnel Regulations as well as for consultants and contractors. The figures represent the costs of personnel including basic salary, allowances, insurance and pension plan contributions. It also includes accruals for entitlements to leaving allowance and loss of job indemnity.

	December 31, 2014	December 31, 2013
	€ '000	€ '000
Employee benefits expense	8,735	8,735
Post employment benefits		
for defined benefit pension scheme	11	11
for defined contribution pension scheme	656	656
<b>Total employee benefits expense</b>	<b>9,402</b>	<b>9,402</b>

Different pension plans are applicable to employees in NAHEMA; defined benefit plan, and defined contribution plan. All pension plans are managed by NATO HQ and are therefore not included in the entity Financial Statements. Contributions to the plans are expensed when occurred.

## G. Financial Instruments Disclosure/Presentation

NAHEMA uses only non-derivative financial instruments as part of its normal operations. These financial instruments include, cash, bank accounts, deposit accounts, and accounts receivable. All the financial instruments are recognised in the statement of financial position at their fair value.

NAHEMA is restricted from entering into borrowings and investments. NAHEMA's management have considered the following types of risks related to its financial assets and liabilities:

- Foreign currency exchange risk: NAHEMA is not exposed to foreign currency exchange risk because all contributions and payments are made in EURO
- Liquidity risk: The liquidity risk is based on the assessment whether the organisation will encounter difficulties in meeting its obligation associated with financial liabilities. There is a very limited exposure to liquidity risk because of the budget funding mechanism that guarantees contributions in relation to approved budgets. The limited risks are primarily the validity of forecasts that result in the calls for contributions.

- Credit Risk: There is a low credit risk as the contributing nations have high credit ratings. NAHEMA's management does not believe that its customers' credit positions will directly impact on their ability to meet NAHEMA's funding commitments.
- Price Risk: There is a low price risk to NAHEMA due to programme price increases because Nations are contractually bound to meet such price changes and NAHEMA itself is not exposed to this price risk.

## H. Comparison of Budget Execution and Statement of Financial Performance

### ***Budget Execution***

#### ***Reconciliation between the NAHEMO Budget Execution Statements and the NAHEMO Statement of Financial Performance:***

The difference between the Budget Execution Statement for the AB and the accrual based inputs in the Statement of Financial Performance is based on the payables accrued expenses amount of EUR 71,118 and the depreciation of EUR 81,480.

The following table represents this reconciliation.

BUDGET	EXPENSE IN  BUDGET EXECUTION STATEMENT  € '000	Adjustments for  Payable and  Payables accrued Expenses  € '000	Adjustments for Payable 2013	Adjustments for  Depreciation  € '000	EXPENSE IN  STATEMENT OF FINANCIAL PERFORMANCE  € '000
ADMINISTRATIVE  BUDGET 2014	10,862	71	0	81	11,267
<b>TOTAL</b>	<b>10,862</b>	<b>71</b>	<b>0</b>	<b>81</b>	<b>11,013</b>

IPSAS 24 - Presentation of budget information in Financial Statements is applicable from the 2009 financial reporting period onwards.

In accordance with the 5<sup>th</sup> issue of the NAHEMO Financial Rules and Regulations (NFRRs) the OB is composed of 3 Chapters, Chapter 1 (formerly known as D&D), Chapter 2 (formerly known as PIP) and Chapter 3 (formerly known as ISS and NAMSA).



The ORIGINAL OB for each Chapter indicates the total estimated amount of expected cash payments. This amount includes amounts for planned contracts to be signed during the actual Budget year and planned amendments of contracts as well. For the new frame contracts like the repair & overhaul contracts for the engine and the helicopter, Nations provided the budget figures based on their assumptions.

The OB 2014 has been approved during the 72 SC meetings in June 2014.

The ORIGINAL AB is based on estimates and has been increased by EUR 400,000 in accordance with a Financial Administrative Committee (FAC) decision from October 2013. The ORIGINAL AB, the increase and the FINAL AB has been approved by the NAHEMO Steering Committee during the 71 SC meetings in December 2013.

The AB COMMITMENTS 2014 are mainly based on personal cost for the NAHEMA employees and purchase and service contracts signed in order to run the agency. The column AB COMMITMENTS CFW from 2013 comes from the column CREDITS CFW Next Year from the year 2013. During the new budget year previous years commitments are closed and adjusted and the result is shown in the column COMMITMENTS CFW 2013 Lapsed in 2014. The column COMMITMENTS CFW From 2013 FINAL represents the real amount that is left over and therefore available for the budget 2014. In order to improve this functionality NAHEMA closed in December 2013 already as many estimated commitments as possible in order to present more realistic figures. The CREDITS CFW Next Year amount is allowed to be carried forward for two years, at the end of the third financial year they will be finally cancelled as shown.

The column CASH BASED EXPENSES shows the amount paid in cash in the year 2014 by NAHEMA.

The column CREDITS Lapsed 2014 consists of the difference between the BUDGET FINAL 2014 and COMMITMENTS 2014.

### **Statement of Credits carried forward**

NATO Financial Regulations (NFR part III, Art 11Bis), require a statement of credits carried forward to give a brief explanation of the unexpended balances at year end for which there is a legal liability.

There are no Credits Carried Forward to 2015 in 2014.

### **Statement of transfers**

In accordance with the NATO Financial Regulations (NFR III Art. 10), a statement of budgetary transfers recorded in 2014 is presented in the following table.

<b>NAHEMA ADMINISTRATIVE BUDGET 2014 TRANSFERS AUTHORISED BY THE FINANCE AND ADMINISTRATIVE COMMITTEE (FAC) IN ACCORDANCE WITH ARTICLE 18 OF NAHEMO FINANCIAL RULES AND REGULATIONS</b>						
<b>ORIGIN OF THE CREDITS</b>			<b>CREDITS NEEDED</b>			<b>GRAND TOTAL</b>
<b>BUDGET ITEM LINE</b>	<b>AMOUNT</b>	<b>TOTAL</b>	<b>BUDGET ITEM LINE</b>	<b>AMOUNT</b>	<b>TOTAL</b>	
1410ADM	4,000.00 €	4,000.00 €	1116ADM	4,000.00 €	4,000.00 €	0.00 €
1410ADM	8,000.00 €	8,000.00 €	1214ADM	8,000.00 €	8,000.00 €	0.00 €
1410ADM	2,000.00 €	2,000.00 €	1414ADM	2,000.00 €	2,000.00 €	0.00 €
1511ADM	3,400.00 €	3,400.00 €	1513ADM	3,400.00 €	3,400.00 €	0.00 €
1118ADM	3,000.00 €	3,000.00 €	1610ADM	3,000.00 €	3,000.00 €	0.00 €
1710ADM	2,000.00 €	2,000.00 €	1610ADM	2,000.00 €	2,000.00 €	0.00 €
1410ADM	3,000.00 €	3,000.00 €	1611ADM	3,000.00 €	3,000.00 €	0.00 €
2311ADM	3,000.00 €	3,000.00 €	2310ADM	3,000.00 €	3,000.00 €	0.00 €
2811ADM	30,000.00 €	30,000.00 €	2510ADM	30,000.00 €	30,000.00 €	0.00 €
2811ADM	30,000.00 €	30,000.00 €	2810ADM	30,000.00 €	30,000.00 €	0.00 €
<b>GRAND TOTAL</b>		<b>88,400.00 €</b>			<b>88,400.00 €</b>	<b>0.00 €</b>

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## **I. Bank Guarantees**

NAHEMA's building rental contracts include two bank guarantees ("cautionnement bancaire") with Credit Agricole Bank in favour of société GENEPIERRE for EUR 258,805 and in favour of société ATLANTIQUE MUR REGIONS S.C.P.I. of EUR 18,125.

Société GENEPIERRE is the owner of the building (Bâtiment A) and société ATLANTIQUE MUR REGIONS S.C.P.I. is the owner of the building (Bâtiment B, ground floor) that are rented by NAHEMA. Société GENEPIERRE and société ATLANTIQUE MUR REGIONS S.C.P.I. insisted on these bank guarantees. These guarantees do not elapse before the end of the rental contract.