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

**NATO UNCLASSIFIED**

1 February 2016

**DOCUMENT**  
C-M(2016)0005-AS1

**IBAN REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS OF NAGSMO  
FOR 2014**

**ACTION SHEET**

On 29 January 2016, under the silence procedure, the Council noted the IBAN report IBA-AR(2015)33 attached to C-M(2016)0005 and agreed the RPPB recommendation regarding public disclosure.

(Signed) Alexander Vershbow  
Deputy Secretary General

**NOTE:** This Action Sheet is part of, and shall be attached to C-M(2016)0005.

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21 January 2016

**DOCUMENT**

C-M(2016)0005

**Silence Procedure ends:**

**29 Jan 2016 16:00**

**IBAN REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS OF NAGSMO FOR  
2014**

**Note by the Deputy Secretary General**

1. I attach the International Board of Auditors for NATO (IBAN) report on the audit of the financial statements of the NATO Alliance Ground Surveillance Management Organisation (NAGSMO) for the year ended 31 December 2014. The audit report sets out an unqualified opinion.
2. The IBAN report has been reviewed by the Resource Policy and Planning Board (RPPB). In line with PO(2015)0052, the RPPB disclosure notice, agreed on 10 December 2015, recommends to Council that the subject audit report, together with the related 2014 financial statements, be made available to the public (Annex).
3. I consider that no further discussion regarding this report is required. Consequently, **unless I hear to the contrary by 16:00 hours on Friday, 29 January 2016**, I shall assume that the Council has noted the IBAN report IBA-AR(2015)33 and agreed the RPPB recommendation regarding public disclosure.

(Signed) Alexander Vershbow

4 annexes  
1 enclosure

Original: English

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**IBAN REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS OF THE NATO  
ALLIANCE GROUND SURVEILLANCE MANAGEMENT ORGANISATION (NAGSMO)  
FOR 2014**

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

References: (A) IBA-A(2015)196 & IBA-AR(2015)33  
(B) NOR(DIR)(2015)0180

1. Council agreed with PO(2015)0052 that, in principle, unclassified IBAN audit reports, together with any related financial statements, should be made publicly available after they have been dealt with by Council.
2. The IBAN issued an unqualified audit opinion on the NATO Alliance Ground Surveillance Management Organisation (NAGSMO) 2014 Financial Statements. The unqualified audit report (reference (A)) will be forwarded to Council for notation, as per agreed procedures.
3. No reply to the contrary to the proposed public disclosure of the 2014 NAGSMO Financial Statements was received from the entity (reference (B)).
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, 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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**Summary Note for Council  
by the International Board of Auditors for NATO (Board)  
on the audit of the Financial Statements  
of the NATO Alliance Ground Surveillance Management Organisation  
(NAGSMO)  
for the year ended 31 December 2014**

The Board audited the Financial Statements for the year ended 31 December 2014. The NATO Alliance Ground Surveillance Management Organization (NAGSMO) was created within NATO for the acquisition of the Alliance Ground Surveillance (AGS) Core System. NAGSMO is responsible for the overall management of the AGS program. It comprises a Board of Directors (BoD) and Working Groups with representatives from the participating Nations. It also comprises a NATO Management Agency led by a General Manager.

The budgetary expenditure for the administrative budget in 2014 was EUR 8.3 million. The budgetary expenditure for the operational budget in 2014 was EUR 117.3 million and USD 332 million.

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

During the audit, the Board also made one observation and one recommendation relating to an excessive level of cash holdings as per the NATO Financial Regulations. The finding is summarized in the Letter of Observations and Recommendations (Annex 3).

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ANNEX 3  
C-M(2016)0005  
IBA-AR(2015)33

27 November 2015

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

**AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF  
THE NATO ALLIANCE GROUND SURVEILLANCE MANAGEMENT ORGANISATION  
(NAGSMO)**

**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 the NATO Alliance Ground Surveillance Management Organisation (NAGSMO), which comprised the Statement of Financial Position as at 31 December 2014, and the Statement of Financial Performance, Statement of Changes in Net Assets/Equity and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The Board also audited the Budget Execution Statements for the year ended 31 December 2014.

*Management's Responsibility for the Financial Statements*

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

*Auditor's Responsibility*

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

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

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

*Opinion on Financial Statements*

In our opinion, the financial statements present fairly, in all material respects, the financial position of NAGSMO as of 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with the NATO Accounting Framework.

**Report on Compliance**

*Management's Responsibility for Compliance*

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

*Auditor's Responsibility*

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

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

*Opinion on Compliance*

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

Brussels, 27 November 2015

Lyn Sachs  
Chairman

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ANNEX 4  
C-M(2016)0005  
IBA-AR(2015)33

27 November 2015

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

**LETTER OF OBSERVATIONS AND RECOMMENDATIONS**

**FOR THE NATO ALLIANCE GROUND SURVEILLANCE  
MANAGEMENT ORGANISATION**

**(NAGSMO)**

**FOR THE YEAR ENDED 31 DECEMBER 2014**

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## **Introduction**

The International Board of Auditors for NATO (Board) audited the NATO Alliance Ground Surveillance Management Organisation (NAGSMO) Financial Statements for the year ended 31 December 2014, and issued an unqualified opinion on those financial statements and an unqualified opinion on compliance.

## **Observations and Recommendations**

During the audit, the Board identified one observation in 2014 relating to the high level of cash holdings being held by NAGSMO.

The Board also followed up on the status of the observations from previous years' audit and noted that they have been settled.

The Board also followed up on the observations in Management Letter (reference IBA-AML(2015)01 and noted that the observations have also been settled.

NAGSMO provided no formal comments on this Letter of Observations and Recommendations.

## OBSERVATIONS AND RECOMMENDATIONS

### 1. EXCESSIVE LEVEL OF CASH HOLDINGS AS PER NATO FINANCIAL REGULATIONS

#### Reasoning

1.1 Article 13.3 of the NATO Financial Regulations (NFRs) states that “*each contribution instalment shall be calculated to restrict total currency holdings to the minimum required to meet forecast expenditures prior to receipt of the following contribution instalment.*” Furthermore, the NAGSMO Financial Rules and Procedures state that each call for contribution shall be calculated, as at the time of its issue, to yield the amount which, in addition to treasury holdings and amounts still receivable on previous calls, will be sufficient to cover the payments anticipated during the period covered by the call.

#### Observation

1.2 The Board found that NAGSMO held levels of cash that exceeded its cash requirements during 2014. The level of average cash holdings in 2014 was EUR 335 million based on a monthly calculation, which is about 90% of the 2014 expenses (EUR 375 million).

#### Recommendation

1.3 The Board recommends that NAGSMO complies with Article 13.3 of the NFRs.

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

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

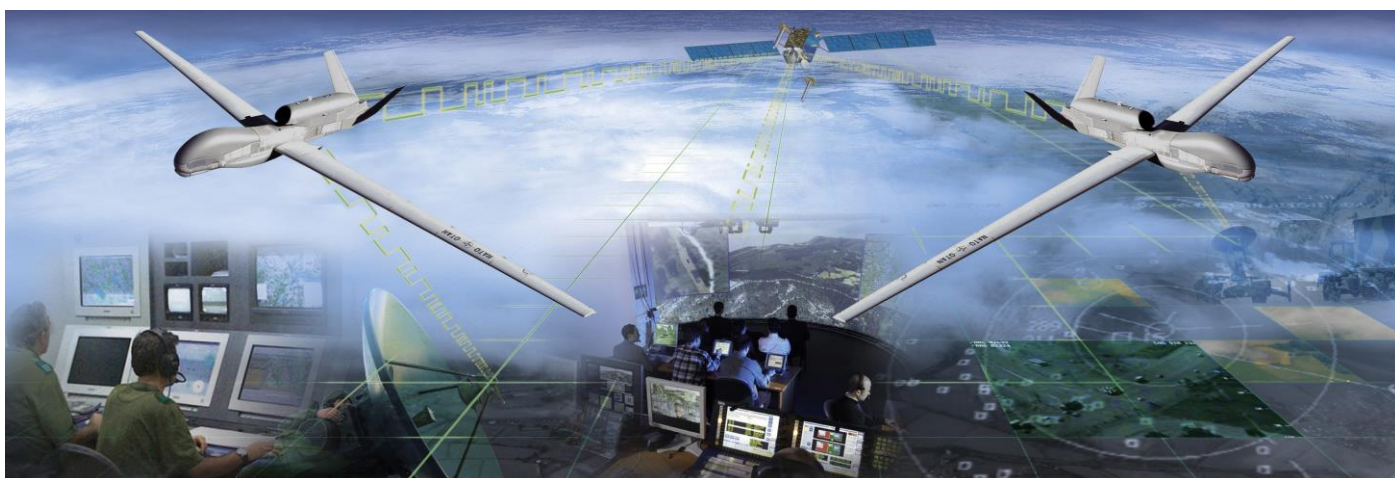
**Status of previous years' observations**

| OBSERVATION / RECOMMENDATION   | ACTION TAKEN   | STATUS                         |
|--|--|--------------------------------|
| <p><b>1. Audit Report FY 2013</b><br/>IBA-AR(2015)01, paragraph 1<br/><b>NO INTERNAL AUDITS</b></p> <p><b>NAGSMA does not have its own internal audit service. As a result, no internal audit activities were performed in 2014</b></p> <p><b>Recommendation</b><br/>The Board recommends NAGSMA ensures that internal audits are performed on a regular basis</p>   | <p>NAGSMA has requested the service of the NCIA Internal Audit, which has performed a risk assessment and identified some risk areas. These areas will be addressed in the 3 year internal audit plan 2015-2017.</p> <p>The audit plan will foresee one audit per year with two to three audit subjects of the areas identified in the risk assessment document.</p> | Observation<br><b>Settled.</b> |
| <p><b>2. Audit Report FY 2013</b><br/>IBA-AR(2015)01, paragraph 2<br/><b>TRANSFERS BETWEEN ITEMS IN CHAPTER TO BE APPROVED ACCORDING TO NAGSMO FMDP</b></p> <p><b>Recommendation</b><br/>The Board recommends that the NAGSMO FMPD be specific on who should approve transfers above financial level D. Furthermore, when the NAGSMA General Manager approves such transfers, there should be detailed and timely documentation of such approvals.</p> | <p>All the transfers made in 2014 have been submitted for approval to the Finance Committee and Board of Directors.</p>  | Observation<br><b>Settled.</b> |

# **NAGSMO**

## **2014**

### **FINANCIAL STATEMENTS**



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**NATO ALLIANCE GROUND SURVEILLANCE MANAGEMENT AGENCY**

**NAGSMA**



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Boulevard Léopold III - Batiment Z  
B-1110 Brussels - Belgium  
Tel: +32 2 707 1801 - Fax: +32 2 707 1862  
Email: [nagsma@nagsma.nato.int](mailto:nagsma@nagsma.nato.int)



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**NATO ALLIANCE GROUND SURVEILLANCE MANAGEMENT AGENCY**

**NAGSMA**



NAGSMA/FC/L/(2015)001858  
30 April 2015

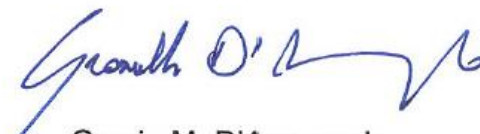
International Board of Auditors for NATO

Attention: NAGSMO Board of Directors - Chairman and National Representatives

Subject: **NAGSMO Financial Statements - Year ending 31 December 2014**

Enclosed are the NAGSMO 2014 Financial Statements. Please note that the enclosed statements are subject to audit by the International Board of Auditors for NATO.

For the General Manager



Grazia M. D'Arcangelo  
NAGSMA Financial Controller

Encl.: NAGSMO Financial Statements for the year ending 31 December 2014.

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Boulevard Léopold III - Batiment Z  
B-1110 Brussels - Belgium  
Tel: +32 2 707 1801 - Fax: +32 2 707 1862  
Email: [nagsma@nagsma.nato.int](mailto:nagsma@nagsma.nato.int)

These Financial Statements represent the consolidated activities of the NATO Alliance Ground Surveillance Management Organisation (NAGSMO) and its executive body NATO Alliance Ground Surveillance Management Agency (NAGSMA).

## **THE NATO ALLIANCE GROUND SURVEILLANCE PROGRAMME**

NAGSMO is acquiring as an agent a NATO owned and operated Alliance Ground Surveillance (AGS) system that will give commanders an up-to-date picture of the situation on the ground throughout a wide area of interest. The AGS Core will be compliant with NATO STANAGs in order to ensure interoperability with interoperable national and NATO systems.

The AGS Core capability will enable the Alliance to perform persistent surveillance over wide areas from high-altitude, long-endurance, unmanned air platforms operating at considerable stand-off distances and in any weather or light condition. Using advanced radar sensors, the AGS Core will continuously detect and track moving objects throughout the observed areas, as well as providing radar imagery of areas and stationary objects.

The NAGSMO and its executive body NAGSMA are responsible for the procurement of the NATO AGS Core capability. The NAGSMA was established in September 2009, after all Participating Nations signed the AGS Programme Memorandum of Understanding.

In late 2011, NAGSMA completed negotiations of the AGS Core procurement contract which was subsequently approved by the Participating Nations. The AGS Programme contract award was signed on 20 May 2012 in the margins of the NATO Summit in Chicago. In parallel, all 28 NATO nations negotiated the AGS Programme's practical funding solution for the related Capability Package for the future operations and support of the system.

## **THE AGS CORE**

The AGS Core will be an integrated system consisting of an air segment, a ground segment and a support segment.

The air segment will be based on the Block 40 version of the US RQ-4B Global Hawk high-altitude, long-endurance unmanned aerial vehicle (UAV). The UAV will be equipped with the state-of-the-art Multi-Platform Radar Technology Insertion Program (MP-RTIP) ground surveillance sensor, and also with an extensive suite of communications and data links. The air segment will also include the ground-based UAV control stations, which will be located at the AGS Main Operating Base (MOB) at Sigonella Air Base, Italy.

The ground segment will consist of deployable ground stations in mobile and transportable and maritime configurations, and dedicated mission operations support facilities at the MOB. The ground segment entities will provide data link connectivity, data processing and exploitation capabilities, and interoperable interfaces between the AGS Core System and a wide range of NATO and national Command, Control, Intelligence, Surveillance and

Reconnaissance systems. This will enable the AGS Core to interconnect with and provide data to multiple deployed and non-deployed operational users in a flexible, timely and effective manner.

The AGS support segment provides items needed to train the air and ground segment operators and maintainers, to maintain the AGS System at its main operating base, and to enable maintenance and repair during deployed operations.

The AGS Core System will be supplemented by interoperable national airborne ground surveillance systems from NATO countries, as part of NATO's broader Joint Intelligence, Surveillance and Reconnaissance capability.

### **NATO ALLIANCE GROUND SURVEILLANCE MANAGEMENT ORGANISATION**

The NATO Alliance Ground Surveillance Management Organisation (NAGSMO) is a NATO body

- created within the framework of NATO for the acquisition of the AGS Core System and established by the North Atlantic Council pursuant to Article IX of the North Atlantic Treaty and within the meaning of the Agreement on the Status of the North Atlantic Treaty Organisation, National Representatives and International Staff, signed in Ottawa 20 September 1951;
- to which the North Atlantic Council grants, within the framework of the NATO, a clearly defined organisational, administrative and financial status as specified below; and
- established with a view to meeting the NATO requirement, by Bulgaria, Czech Republic, Denmark, Estonia, Germany, Italy, Latvia, Lithuania, Luxembourg, Norway, Poland, Romania, Slovakia, Slovenia, and the United States of America in the field of implementation of the NATO AGS Programme described in the AGS Programme Memorandum of Understanding (PMOU).

In June 2010, Denmark announced her intent to withdraw from the AGS Programme, a process that under the terms of the PMOU came into effect on 31 March 2011. Subsequently, in July 2011, Canada also announced her intent to withdraw, effective as of 30 April 2012. Later in 2012 Denmark announced her interest and intent to re-join the AGS Programme. Denmark re-joined the AGS Programme in December 2012. Poland announced to the NAGSMO Board of Directors their interest in joining the AGS Programme in August 2012. An amendment to the PMOU was sent to Participating Nations for signature in August 2013. Poland signed the Amendment 1 to the AGS PMOU in April 2014. With the signature of all of the Participating Nations, the Amendment 1 to the AGS PMOU has come into effect on the 19th of June 2014.

The principal task of the NAGSMO is to ensure the planning and implementation of a harmonised AGS Programme, which satisfies the operational requirements, in accordance

with the provisions of the PMOU, and with due regard to the NAGSMO Member States' views on political, economic, industrial and technological factors. NAGSMO shall assume the functions of overall management of the AGS Programme, including:

- overall governance of the AGS Programme;
- general administration of the NAGSMA and procurement of the AGS Core System;
- examination of all issues that might impact the AGS Programme;
- coordination, as necessary, of the policy and working methods of the NAGSMO Member States' services, such as quality assurance and auditing; and
- support integration of the AGS Core System with the NATO Joint Intelligence, Surveillance and Reconnaissance architecture.

NAGSMO comprises a Board of Directors (BoD) with Representatives from the Participating Nations, and NAGSMA as the Executive Body, led by a General Manager. The diagram below depicts the NAGSMO and NAGSMA organizational structure in 2014.



### **NAGSMA and Service Support/Level Agreement**

The NAGSMO BoD, represented by the NAGSMA GM, signed five formal agreements (an MOA, an SLA and three SSA's) with the NATO IS, NSPA and NCI Agency, for support services in a number of areas necessary for the day to day operations of the Agency. In all respects of NAGSMA related activities, the GM and his staff remain fully accountable for the responsibilities assigned to them and make the final decisions on all matters related to the execution of NAGSMA's mandate. The SSA includes NCI Agency support services in the area of accounting and financial support in accordance with the NATO Financial Regulations (NFRs).

### **NAGSMO Financial Management Procedures Document and Financial Rules and Procedures (FMPD-FRP)**

The NAGSMO BoD approved the revised NAGSMO FMPD-FRP at their September 2012 meeting, recognising the withdrawal of Canada and the re-entry of Denmark, the conversion parameters from Then-Year to Base-Year, the call for contribution structure and the proposed structure of the Operational Budget. The NAGSMO FMPD-FRP conforms to the provision of the NATO Financial Regulations. The NAGSMO Finance Committee has requested a review of the NAGSMO FMPD to comply with the new NFRs once approved by the NAC.

### **NAGSMA 2014 Administrative Budget**

The NAGSMA 2014 Administrative Budget was approved by NAGSMO BoD in June 2013. The budget was approved to fund NAGSMA's expenditures from 1 January to 31 December 2014. In 2014 NAGSMA continued to reduce costs related to business operations, overhead activities and support functions. It successfully negotiated a new Memorandum of Agreement (MOA) with NATO IS, two Service Support Agreements (SSAs) with NATO Support Agency (NSPA) and a new Service Level Agreement (SLA) and Service Support Agreement (SSA) with the NCI Agency for external administrative support. Personnel related expenditures in the NAGSMA 2014 Administrative Budget were considerably lower than what had been anticipated, due to re-organization of the functional requirements outlined in the NAGSMA Staffing Plan. Notwithstanding the efforts of the Agency, it has been very challenging to recruit new staff members, many campaigns had to be re-advertised. The main deterrents are the time required for security clearances to be granted and the concerns regarding the definite duration of the Agency. Resulting from the successful negotiations with NCI Agency and IS as well as a review of the staffing plan NAGSMA proposed a budget reduction of 11%, at the 2014 Mid-Year Review, approved by nations in October 2014 and the credit was applied to the 2<sup>nd</sup> Call for Contributions to the 2014 Administrative Budget for NAGSMO Participating Nations.

## **NAGSMA 2014 Operational Budget**

The NAGSMA 2014 Operational Budget was approved in principle by NAGSMO BoD at the June 2013 meeting. The budget was approved to fund prime contract related AGS Core acquisition expenditures in 2014. The NAGSMA USD and EUR Operational Budget was increased at no cost to Nations to cover the Danish and Canadian Industrial Participation, approved in August 2014 and delivered by industry in 2014 (Amendment 0008).

The BoD approved in April 2012 the request by Estonia to apply PPC towards the 2013-2016 Financial Year Operational Budget. In April 2014 the NAGSMO BoD approved for the Czech Republic to apply their PPC credits to their contribution to the 2015 NAGSMA Operational Budget.

The NAGSMO BoD authorized the USA Non-Financial Contributions (NFC) to be expensed from the Operational Budget from 2013 to 2017 upon confirmation of support costs incurred at Edwards Air Force base. At the BoD meeting in March 2013 the NFC proposal from Italy was accepted and Italy was granted authorization to expense the Non-Financial Contributions for the airworthiness certification (AWC) efforts. Italy agreed to submit the costs incurred for the airworthiness certification at year end and provide periodic reports on their AWC activities at each BoD meeting. These costs have been expensed in 2014 based on the presentation of invoices from nations of the actual costs incurred in support of the programmatic needs.

### *Major Achievements FY 2014:*

During the FY 2014 AGS Programme Schedule foresaw several important milestone events leading to complete AGS System Critical Design Review (CDR). The main achievements are the following:

- 4 Programme Management Reviews (PMRs) were conducted with the Contractor.
- Several meetings and a Technical Working group were held in coordination with AGS Contractor and Programme Stakeholders such as: User System Interface Working Groups (USIWGs), Operational User Groups (OUGs), System Safety WGs (SSWGs), AGS Interoperability Meetings, Verification Planning Working Groups (VPWGs), AWWG (Air Worthiness Working Groups) CIS & Training TIMs, Q4 User Group Meetings, ICT Meetings (monthly), Training IPT Meetings, Logistic IPT Meetings, Infrastructure IPTs (IB-IPTs).
- Preliminary Design Review (PDR) process and meetings were completed starting with entities Reviews (MGGS, Air Segment, TGGs/MOS) and finished with the System level PDR in November 2014 after resolution of outstanding open actions.
- CDR Process and meetings were initially foreseen to be initiated in May 2014. Due to the delay on finalising of the PDR open actions, the full CDR Process (including the Entity level CDRs) was rescheduled to start in September 2014. For MGGS and TGGs/MOS CDRs, all critical Entity design issues were resolved and actions closed to achieve “CDR Successful” for these three Entities – the relevant payment was executed at 80%, whereas

the remaining 20% will be paid upon closure of all other actions including the delivery of their formal Entity CDR baseline documentation. Considerable progress was made against the Air Segment CDR. Full System of System CDR will conclude with the delivery of the Entity and System CDR Baseline Document sets, thus declaring full CDR Successful – expected latest by early Q3 2015.

- NACT Demonstration successful completed.
- Work at Main Operating Base (MOB) in Sigonella for AGS Facility Infrastructures began in October 2014. The Facility will be used for hosting the AGS System and for System Installation, Tests and Acceptance leading to the operational phase.

All the Major Programme Events Scheduled and subject to Milestones payments are in line with the Milestone-Based Payment plan.

### **NAGSMA Assets**

Office space, including furniture, IT and other equipment is provided by the NCI Agency via the SSA.

### **NAGSMO & NAGSMA Acting as a Procurement Agent**

The North Atlantic Council (NAC) established NAGSMO by approving its charter. The Charter clearly establishes that NAGSMO is a subsidiary body of NATO and states that the objective is to procure the AGS Core which will be owned, controlled and operated by NATO. At the NAGSMO Finance Committee (FC) meeting in February 2014 the FC noted the presentation by the NAGSMA Acting Financial Controller re-affirming that NAGSMA is an entity acting as an agent with no control over the assets procured. The AGS Participating Nations reiterated the specific nature of the AGS Programme: temporary existence of the Agency and that the Agency will not own any asset. In order to comply with the NATO Accounting Framework, ACO will account for all NAGSMA procured assets in the future. NAGSMA will fully disclose and provide at the end of each reporting period to ACO all financial data regarding the assets procured. NAGSMA responded this year to ACO's request for information that no assets were procured for the financial year ending in December 2014.

**CERTIFICATION**

1. The NAGSMO 2014 Financial Statements are submitted to the International Board of Auditors for NATO.
2. The Financial Statements will be audited in accordance with the following reference documents:
  - a. The NAGSMO FMPD-FRP conform to the NFRs, Part II as approved by the North Atlantic Council (NAC) in C-M(81)30 and 31, as well as C-R(81)23 items II and III.
  - b. PO(2002)109, dated 23 July 2002: the document from the NAC adopting IPSAS, including the accrual and going concern assumptions, as the applicable accounting standards for all NATO entities effective for the financial year of 2006.
  - c. The NATO Accounting Framework has been developed to provide minimum requirements for financial reporting for all NATO Reporting Entities following approval of C-M(2013)0039 by the North Atlantic Council on 2 August 2013 of an IPSAS-adapted accounting framework for the Alliance.
3. The NAGSMO Financial Statements are certified by the NAGSMA Financial Controller to the best of her knowledge and according to the applicable accounting standards to give a true and fair view of the assets, liabilities, financial position and financial performance of NAGSMA and to be in accordance with the books and records maintained by the NCI Agency and NAGSMA.
4. The NAGSMO Financial Statements may be disclosed to the general public.



Grazia M. D'Arcangelo  
NAGSMA Financial Controller



## STATEMENT ON INTERNAL CONTROL

This statement of internal control applies to the Financial Statements of NAGSMA, as the executive body of NAGSMO, for the year ended 31 December 2014.

### Scope of responsibility

- The General Manager acknowledges responsibility to maintain a sound system of internal control that supports the achievement of NAGSMA's mandate under its NATO Charter.
- The Financial Controller acknowledges responsibility for the correct use of funds made available to NAGSMA and for maintaining a sound system of internal control that supports the achievement of NAGSMA's goals and objectives, whilst safeguarding the public funds and assets.
- Funds received are recorded, accounted and managed through the NCI Agency core financial system.

The NAGSMO Board of Directors approved the NAGSMO Financial Management Procedures Document-Financial Rules and Procedures (FMPD-FRPs) to provide guidance on the proper handling and reporting of public funds. The FMPD-FRPs sets out the relevant financial rules and procedures in accordance with the NATO Financial Regulations, emphasises the need for economy, efficiency and effectiveness, and promotes good practice and high standards of propriety.

### Purpose of the System of Internal Control

The system of internal control is designed to ensure that NATO assets are used for the purposes intended and that the transactions relating to their usage reflect the highest standards of integrity to justify continued confidence of the AGS Programme Participating Nations.

The process within NAGSMA accords with the NAGSMO FMPD-FRPs and has been in place for the year ending 31 December 2014 and up to the date of approval of the Financial Statements.

### Risk and Control Framework

The NAGSMA system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of NAGSMA goals and objectives, to evaluate the nature and extent of those risks and to manage them efficiently and effectively.

NAGSMA is committed to a process of continuous development and improvement: developing systems in response to any relevant reviews and developments in best practice in this area.

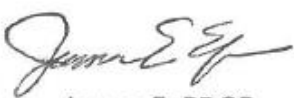
Since the NCI Agency carries out transactions on behalf of NAGSMA under the Service Support Agreement, NAGSMA's processes need to be compatible to the NCI Agency financial management system.

### **Review of Effectiveness**

The Financial Controller has responsibility for reviewing the effectiveness of the system of internal control. The review is informed by:

- The executive managers within the organisation who have responsibility for the development and maintenance of the internal control framework; and
- Comments made by the external auditors in their management letters and other reports.

Appropriate action is in place to address any weaknesses identified and to ensure the continuous improvement of the system. During 2014, no material instances of failure to the internal control system were reported that should be brought to your attention.



James E. EDGE  
NAGSMA General Manager



Grazia M. D'Arcangelo  
NAGSMA Financial Controller

**NAGSMA – Statement of Financial Position**  
**as at 31 December 2014**  
**(all amounts in Euro)**

|                                      | Notes   | Current Year       | Prior Year         |
|--------------------------------------|---------|--------------------|--------------------|
|                                      | ANNEX B | 31-Dec-14          | 31-Dec-13          |
| <b>ASSETS</b>                        |         |                    |                    |
| Cash and cash equivalents            | B01     | 208,509,930        | 218,789,925        |
| Short-term investments               | B02     | 99,032,548         | 0                  |
| Receivables from Nations             | B03     | 196,939,855        | 311,673,692        |
| Other current assets and prepayments | B04     | 335,537            | 137,267            |
| <b>Current assets</b>                |         | <b>504,817,870</b> | <b>530,600,885</b> |
| Long-term receivables                | B05     | 124,622            | 156,844            |
| <b>Non-current assets</b>            |         | <b>124,622</b>     | <b>156,844</b>     |
| <b>TOTAL ASSETS</b>                  |         | <b>504,942,492</b> | <b>530,757,728</b> |
| <b>LIABILITIES</b>                   |         |                    |                    |
| Advances from Nations                | B06     | 488,793,369        | 526,332,122        |
| Trade payables                       | B07     | 13,460,636         | 156,321            |
| Other payables                       | B08     | 2,563,865          | 4,112,441          |
| <b>Current liabilities</b>           |         | <b>504,817,870</b> | <b>530,600,885</b> |
| Provisions                           | B09     | 124,622            | 156,844            |
| <b>Non-current liabilities</b>       |         | <b>124,622</b>     | <b>156,844</b>     |
| <b>NET ASSETS/EQUITY</b>             |         |                    |                    |
| Accumulated surpluses/(deficits)     |         | 0                  | 0                  |
| <b>Net Assets/Equity</b>             |         | <b>0</b>           | <b>0</b>           |
| <b>TOTAL LIABILITIES</b>             |         | <b>504,942,492</b> | <b>530,757,728</b> |

**NAGSMA – Statement of Financial Performance**  
**for the year ended 31 December 2014**  
**(all amounts in Euro)**

|   | Notes   | Current Year     | Prior Year       |
|---|---------|------------------|------------------|
|   | ANNEX C | 2014             | 2013             |
| <b>REVENUE</b>                          |         |                  |                  |
| Revenue from non-exchange transactions  | C01     | 8,317,149        | 7,694,928        |
| <b>Revenue</b>                          |         | <b>8,317,149</b> | <b>7,694,928</b> |
| <b>EXPENSES</b>                         |         |                  |                  |
| Wages, salaries and employee benefits   | C02     | 6,257,410        | 5,905,533        |
| Supplies and consumables used           | C03     | 2,059,739        | 1,789,395        |
| <b>Expenses</b>                         |         | <b>8,317,149</b> | <b>7,694,928</b> |
| <b>NET SURPLUS/(DEFICIT)</b>            |         | <b>0</b>         | <b>0</b>         |
| <b>NET SURPLUS/(DEFICIT) ALLOCATION</b> |         |                  |                  |
| Reserves                                |         | 0                | 0                |
| Accumulated surpluses/(deficits)        |         | 0                | 0                |
| <b>Net surplus/(deficit) allocation</b> |         | <b>0</b>         | <b>0</b>         |

**NAGSMA – Cash Flow Statement (Indirect Method)**  
**for the year ended 31 December 2014**  
**(all amounts in Euro)**

|   | Notes   | Current Year        | Prior Year          |
|---|---------|---------------------|---------------------|
|   | ANNEX D | 2014                | 2013                |
| <b>CASH FLOW FROM OPERATING ACTIVITIES</b>                      |         |                     |                     |
| <b>Cash flow from operating and other activities</b>            |         |                     |                     |
| Net surplus/(deficit)   |         | 0                   | 0                   |
| <b>Total cash flow from operating and other activities</b>      |         | <b>0</b>            | <b>0</b>            |
| <b>Non-cash movements</b>                                       |         |                     |                     |
| Decr./((incr.) Other current assets and prepayments             |         | (198,270)           | (5,754)             |
| Decr./((incr.) Receivables from Nations                         |         | 114,733,837         | (76,734,772)        |
| Decr./((incr.) Short-term investments                           |         | (99,032,548)        | 0                   |
| Decr./((incr.) Long-term receivables                            |         | 32,222              | (71,155)            |
| <b>Total decrease/(increase) Current assets</b>                 |         | <b>15,535,241</b>   | <b>(76,811,682)</b> |
| <b>Increase/(decrease) Current liabilities</b>                  |         |                     |                     |
| Incr./((decr.) Provisions                                       |         | (32,222)            | 71,155              |
| Incr./((decr.) Other payables                                   |         | (1,548,576)         | 1,460,341           |
| Incr./((decr.) Trade payables                                   |         | 13,304,315          | 31,092              |
| Incr./((decr.) Advances from Nations                            |         | (37,538,753)        | 129,599,797         |
| <b>Total increase/(decrease) Current liabilities</b>            |         | <b>(25,815,236)</b> | <b>131,162,385</b>  |
| <b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>                  |         | <b>(10,279,995)</b> | <b>54,350,703</b>   |
| <b>NET CASH FLOW FROM INVESTING ACTIVITIES</b>                  |         | <b>0</b>            | <b>0</b>            |
| <b>NET CASH FLOW FROM FINANCING ACTIVITIES</b>                  |         | <b>0</b>            | <b>0</b>            |
| <b>NET INCREASE/(DECREASE) CASH AND CASH EQUIVALENTS</b>        |         | <b>(10,279,995)</b> | <b>54,350,703</b>   |
| <b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b> |         | <b>218,789,925</b>  | <b>164,439,222</b>  |
| <b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>       |         | <b>208,509,930</b>  | <b>218,789,925</b>  |

**NAGSMA – Statement of Changes in Net Assets/Equity  
for the year ended 31 December 2014  
(all amounts in Euro)**

|   |          |
|---|----------|
| <b>BALANCE AT 31-DECEMBER-2013</b>  | <b>0</b> |
| Net surplus for the period  | 0        |
| <b>BALANCE AT 31-DECEMBER-2014</b>  | <b>0</b> |
| <b>NET CHANGE IN ASSETS/EQUITY (OPERATING FUND) FOR THE YEAR ENDED 31-DECEMBER-2014</b> | <b>0</b> |

**NAGSMA Budget Execution Statement  
for the year ended 31 December 2014**  
(All amounts in Euro)

| Notes  | Initial Authorisation | Mid-year Review (MYR) | Final Approval - MYR | Transfers | Final Authorisation | Net Commitment | Expenses  | Total     | Carry Forward | Lapsed    |
|--|-----------------------|-----------------------|----------------------|-----------|---------------------|----------------|-----------|-----------|---------------|-----------|
|  |                       |                       |                      |           |                     |                |           |           |               |           |
| ANNEX E                                      | MYR                   |                       |                      |           |                     |                |           |           |               |           |
|  |                       |                       |                      |           | FA                  |                |           |           |               |           |
| Personnel                                    |                       |                       |                      |           |                     |                |           |           |               |           |
| E01 2013 - Personnel                         | 164,800               | 0                     | 164,800              | 0         | 164,800             | 0              | 126,645   | 126,645   | 0             | 38,155    |
| E02 2014 - Personnel                         | 8,415,334             | -1,357,846            | 7,057,488            | 0         | 7,057,488           | 131,826        | 6,162,987 | 6,294,813 | 131,826       | 762,675   |
| Total Personnel                              | 8,580,134             | -1,357,846            | 7,222,288            | 0         | 7,222,288           | 131,826        | 6,289,632 | 6,421,458 | 131,826       | 800,830   |
| Contractual supplies and services            |                       |                       |                      |           |                     |                |           |           |               |           |
| E03 2013 - Contractual supplies and services | 135,474               | 0                     | 135,474              | 0         | 135,474             | 0              | -1,258    | -1,258    | 0             | 136,732   |
| E04 2014 - Contractual supplies and services | 2,589,513             | 100,000               | 2,689,513            | 0         | 2,689,513           | 196,879        | 2,105,289 | 2,302,168 | 196,879       | 387,345   |
| Total Contractual supplies and services      | 2,724,987             | 100,000               | 2,824,987            | 0         | 2,824,987           | 196,879        | 2,104,031 | 2,300,910 | 196,879       | 524,077   |
| Capital and investment budgeting             |                       |                       |                      |           |                     |                |           |           |               |           |
| E05 2013 - Capital and investment budgeting  | 0                     | 0                     | 0                    | 0         | 0                   | 0              | 0         | 0         | 0             | 0         |
| 2014 - Capital and investment budgeting      | 30,000                | 0                     | 30,000               | 0         | 30,000              | 0              | 46        | 46        | 0             | 29,954    |
| Total Capital and investment budgeting       | 30,000                | 0                     | 30,000               | 0         | 30,000              | 0              | 46        | 46        | 0             | 29,954    |
| Budget contingencies                         |                       |                       |                      |           |                     |                |           |           |               |           |
| E06 2013 - Budget contingencies              | 0                     | 0                     | 0                    | 0         | 0                   | 0              | 0         | 0         | 0             | 0         |
| 2014 - Budget contingencies                  | 160,000               | 0                     | 160,000              | 0         | 160,000             | 0              | 0         | 0         | 0             | 160,000   |
| Total Budget contingencies                   | 160,000               | 0                     | 160,000              | 0         | 160,000             | 0              | 0         | 0         | 0             | 160,000   |
| TOTAL BUDGET EXECUTION                       | 11,495,121            | -1,257,846            | 10,237,275           | 0         | 10,237,275          | 328,705        | 8,393,709 | 8,722,414 | 328,705       | 1,514,861 |

NAGSMO Budget Execution Statement - Operational Budget Total  
for the year ended 31 December 2014  
(All amounts in Euro equivalent)

| Notes<br>Annex F  | Initial Authorisation | Mid Year - Review (MYR) | Final Approval - MYR | Transfers | Final Authorisation | Net Commit-ment | Actual Expenses | Total Spend | Carry Forward | Lapsed |
|---|-----------------------|-------------------------|----------------------|-----------|---------------------|-----------------|-----------------|-------------|---------------|--------|
|   | MYR                   |                         |                      |           | FA                  |                 |                 |             |               |        |
| AGS Core System Procurement<br>2012 - AGS Core System Procurement<br>2013 - AGS Core System Procurement<br>2014 - AGS Core System Procurement | 1,394,928             | 0                       | 1,394,928            | 0         | 1,394,928           | 853,700         | 541,229         | 1,394,928   | 853,700       | 0      |
|   | 136,650,724           | 0                       | 136,650,724          | 0         | 136,650,724         | 0               | 136,650,724     | 136,650,724 | 0             | 0      |
|   | 387,390,538           | 16,707,739              | 404,098,277          | 0         | 404,098,276         | 174,002,098     | 230,096,177     | 404,098,275 | 174,002,098   | 0      |
|   | 525,436,191           | 16,707,739              | 542,143,930          | 0         | 542,143,929         | 174,855,798     | 367,288,130     | 542,143,928 | 174,855,798   | 0      |
| TOTAL AGS Core System Procurement   |                       |                         |                      |           |                     |                 |                 |             |               |        |

ECB Rate avg. from Jan 1 2014 to Dec 31 2014 was 1.3285



**NAGSMO Budget Execution Statement - Operational Budget (EUR part)**  
for the year ended 31 December 2014  
All amounts in Euro

| Notes<br>Annex F  | Initial Authorisation | Mid Year - Review<br>(MYR) | Final Approval - MYR | Transfers         | Final Authorisation | Net Commit-<br>ment | Actual Expenses    | Total Spend        | Carry Forward     | Lapsed   |
|---|-----------------------|----------------------------|----------------------|-------------------|---------------------|---------------------|--------------------|--------------------|-------------------|----------|
|   |                       |                            |                      |                   |                     |                     |                    |                    |                   |          |
| <b>BL 6604011</b>   |                       |                            |                      |                   | <b>FA</b>           |                     |                    |                    |                   |          |
| <b>System Design, Development and Qualification</b>       |                       |                            |                      |                   |                     |                     |                    |                    |                   |          |
| 2013 - System Design, Development and Qualification       | 65,717,593            | 0                          | 65,717,593           | 0                 | 65,717,593          | 0                   | 65,717,593         | 65,717,593         | 0                 | 0        |
| 2014 - System Design, Development and Qualification       | 95,559,509            | 4,077,635                  | 99,637,144           | 11,199,718        | 110,836,862         | 65,030,350          | 45,806,512         | 110,836,862        | 65,030,350        | 0        |
| <b>Total System Design, Development and Qualification</b> | <b>161,277,102</b>    | <b>4,077,635</b>           | <b>165,354,738</b>   | <b>11,199,718</b> | <b>176,554,455</b>  | <b>65,030,350</b>   | <b>111,524,105</b> | <b>176,554,455</b> | <b>65,030,350</b> | <b>0</b> |
| <b>Production</b>   |                       |                            |                      |                   |                     |                     |                    |                    |                   |          |
| 2013 - Production   | 0                     | 0                          | 0                    | 0                 | 0                   | 0                   | 0                  | 0                  | 0                 | 0        |
| 2014 - Production   | 6,803,540             | 0                          | 6,803,540            | -1                | 6,803,539           | 4,836,250           | 1,967,289          | 6,803,539          | 4,836,250         | 0        |
| <b>Total Production</b>                                   | <b>6,803,540</b>      | <b>0</b>                   | <b>6,803,540</b>     | <b>-1</b>         | <b>6,803,539</b>    | <b>4,836,250</b>    | <b>1,967,289</b>   | <b>6,803,539</b>   | <b>4,836,250</b>  | <b>0</b> |
| <b>Management Reserve</b>                                 |                       |                            |                      |                   |                     |                     |                    |                    |                   |          |
| 2012 - Management Reserve                                 | 108,215               | 0                          | 108,215              | 0                 | 108,215             | 0                   | 108,215            | 108,215            | 0                 | 0        |
| 2013 - Management Reserve                                 | 0                     | 0                          | 0                    | 0                 | 0                   | 0                   | 0                  | 0                  | 0                 | 0        |
| 2014 - Management Reserve                                 | 6,247,976             | 0                          | 6,247,976            | -1,730,360        | 4,517,616           | 1,477,215           | 3,040,401          | 4,517,616          | 1,477,215         | 0        |
| <b>Total Management Reserve</b>                           | <b>6,356,191</b>      | <b>0</b>                   | <b>6,356,191</b>     | <b>-1,730,360</b> | <b>4,625,831</b>    | <b>1,477,215</b>    | <b>3,148,616</b>   | <b>4,625,831</b>   | <b>1,477,215</b>  | <b>0</b> |
| <b>CAFX</b>   |                       |                            |                      |                   |                     |                     |                    |                    |                   |          |
| 2012 - CAFX   | 0                     | 0                          | 0                    | 0                 | 0                   | 0                   | 0                  | 0                  | 0                 | 0        |
| 2013 - CAFX   | 269,338               | 0                          | 269,338              | 0                 | 269,338             | 0                   | 269,338            | 269,338            | 0                 | 0        |
| 2014 - CAFX   | 6,932,048             | 0                          | 6,932,048            | -6,112,199        | 819,849             | 360,986             | 458,863            | 819,849            | 360,986           | 0        |
| <b>Total CAFX</b>   | <b>7,201,386</b>      | <b>0</b>                   | <b>7,201,386</b>     | <b>-6,112,199</b> | <b>1,089,187</b>    | <b>360,986</b>      | <b>728,201</b>     | <b>1,089,187</b>   | <b>360,986</b>    | <b>0</b> |
| <b>ISS</b>  |                       |                            |                      |                   |                     |                     |                    |                    |                   |          |
| 2014 - ISS  | 3,357,157             | 0                          | 3,357,157            | -3,357,157        | 0                   | 0                   | 0                  | 0                  | 0                 | 0        |
| <b>Total ISS</b>  | <b>3,357,157</b>      | <b>0</b>                   | <b>3,357,157</b>     | <b>-3,357,157</b> | <b>0</b>            | <b>0</b>            | <b>0</b>           | <b>0</b>           | <b>0</b>          | <b>0</b> |
|   | <b>184,995,376</b>    | <b>4,077,635</b>           | <b>189,073,011</b>   | <b>0</b>          | <b>189,073,011</b>  | <b>71,704,800</b>   | <b>117,368,211</b> | <b>189,073,011</b> | <b>71,704,800</b> | <b>0</b> |

**NAGSMO Budget Execution Statement - Operational Budget (USD part)**  
for the year ended 31 December 2014  
All amounts in USD

| Notes   | Initial<br>Authorisation | Mid Year - Review<br>(MYR) | Final Approval -<br>MYR | Transfers          | Final<br>Authorisation | Net Commitment     | Actual Expenses    | Total Spend        | Carry Forward      | Lapsed   |
|---|--------------------------|----------------------------|-------------------------|--------------------|------------------------|--------------------|--------------------|--------------------|--------------------|----------|
| <b>Annex F</b>  |                          |                            |                         |                    |                        |                    |                    |                    |                    |          |
| <b>BL 6604010</b>   |                          |                            |                         |                    | FA                     |                    |                    |                    |                    |          |
| <b>System Design, Development and Qualification</b>       |                          |                            |                         |                    |                        |                    |                    |                    |                    |          |
| 2012 - System Design, Development and Qualification       | 75,000                   | 0                          | 75,000                  | 0                  | 75,000                 | 0                  | 75,000             | 75,000             | 0                  | 0        |
| 2013 - System Design, Development and Qualification       | 77,876,850               | 0                          | 77,876,850              | 0                  | 77,876,850             | 0                  | 77,876,850         | 77,876,850         | 0                  | 0        |
| 2014 - System Design, Development and Qualification       | 113,729,287              | 8,283,022                  | 122,012,309             | 44,712,695         | 166,725,003            | 103,253,002        | 63,472,001         | 166,725,003        | 103,253,002        | 0        |
| <b>Total System Design, Development and Qualification</b> | <b>191,681,137</b>       | <b>8,283,022</b>           | <b>199,964,159</b>      | <b>44,712,695</b>  | <b>244,676,853</b>     | <b>103,253,002</b> | <b>141,423,851</b> | <b>244,676,853</b> | <b>103,253,002</b> | <b>0</b> |
| <b>Production</b>   |                          |                            |                         |                    |                        |                    |                    |                    |                    |          |
| 2012 - Production   | 90,052                   | 0                          | 90,052                  | 0                  | 90,052                 | 0                  | 90,052             | 90,052             | 0                  | 0        |
| 2013 - Production   | 16,000,000               | 0                          | 16,000,000              | 0                  | 16,000,000             | 0                  | 16,000,000         | 16,000,000         | 0                  | 0        |
| 2014 - Production   | 213,431,645              | -624,278                   | 212,807,367             | -10,522,015        | 202,285,352            | 31,141,489         | 171,143,863        | 202,285,352        | 31,141,489         | 0        |
| <b>Total Production</b>                                   | <b>229,521,697</b>       | <b>-624,278</b>            | <b>228,897,419</b>      | <b>-10,522,015</b> | <b>218,375,404</b>     | <b>31,141,489</b>  | <b>187,233,915</b> | <b>218,375,404</b> | <b>31,141,489</b>  | <b>0</b> |
| <b>Management Reserve</b>                                 |                          |                            |                         |                    |                        |                    |                    |                    |                    |          |
| 2012 - Management Reserve                                 | 1,544,347                | 0                          | 1,544,347               | 0                  | 1,544,347              | 1,134,140          | 410,207            | 1,544,347          | 1,134,140          | 0        |
| 2013 - Management Reserve                                 | 0                        | 0                          | 0                       | 0                  | 0                      | 0                  | 0                  | 0                  | 0                  | 0        |
| 2014 - Management Reserve                                 | 20,765,745               | 3,120,348                  | 23,886,093              | -23,886,093        | 0                      | 0                  | 0                  | 0                  | 0                  | 0        |
| <b>Total Management Reserve</b>                           | <b>22,310,092</b>        | <b>3,120,348</b>           | <b>25,430,440</b>       | <b>-23,886,093</b> | <b>1,544,347</b>       | <b>1,134,140</b>   | <b>410,207</b>     | <b>1,544,347</b>   | <b>1,134,140</b>   | <b>0</b> |
| <b>CAPX</b>   |                          |                            |                         |                    |                        |                    |                    |                    |                    |          |
| 2013 - CAPX   | 0                        | 0                          | 0                       | 0                  | 0                      | 0                  | 0                  | 0                  | 0                  | 0        |
| 2014 - CAPX   | 125,000                  | 6,000,000                  | 6,125,000               | -1,666,890         | 4,458,110              | 1,507,469          | 2,950,641          | 4,458,110          | 1,507,469          | 0        |
| <b>Total CAPX</b>   | <b>125,000</b>           | <b>6,000,000</b>           | <b>6,125,000</b>        | <b>-1,666,890</b>  | <b>4,458,110</b>       | <b>1,507,469</b>   | <b>2,950,641</b>   | <b>4,458,110</b>   | <b>1,507,469</b>   | <b>0</b> |
| <b>IISS</b>   |                          |                            |                         |                    |                        |                    |                    |                    |                    |          |
| 2013 - IISS   | 0                        | 0                          | 0                       | 0                  | 0                      | 0                  | 0                  | 0                  | 0                  | 0        |
| 2014 - IISS   | 8,637,697                | 0                          | 8,637,697               | -8,637,697         | 0                      | 0                  | 0                  | 0                  | 0                  | 0        |
| <b>Total IISS</b>   | <b>8,637,697</b>         | <b>0</b>                   | <b>8,637,697</b>        | <b>-8,637,697</b>  | <b>0</b>               | <b>0</b>           | <b>0</b>           | <b>0</b>           | <b>0</b>           | <b>0</b> |
|   | <b>452,275,623</b>       | <b>16,779,092</b>          | <b>469,054,715</b>      | <b>0</b>           | <b>469,054,714</b>     | <b>137,036,101</b> | <b>332,018,613</b> | <b>469,054,714</b> | <b>137,036,101</b> | <b>0</b> |

## **Notes to the Financial Statements for the year ending 31 December 2014**

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- A. Basis of Preparation and Accounting Policies
- B. Notes to the Statement of Financial Position
- C. Notes to the Statement of Financial Performance
- D. Notes to the Cash Flow Statement
- E. Notes to the Budget Execution Statement – Administrative Budget
- F. Notes to the Budget Execution Statement – Operational Budget
- G. General Notes to the Financial Statements

## **ANNEX A Basis of Preparation and Accounting Policies**

### **A01 Basis of preparation**

The financial statements of the NAGSMA, the executive body of the NATO Alliance Ground Surveillance Management Organisation (NAGSMO), have been prepared on the accrual basis of accounting in accordance with the International Public Sector Accounting Standards (IPSAS) and based on International Financial Reporting Standards (IFRS/IAS), as decided by the North Atlantic Council in 2002, using the historic cost convention, except where IPSAS requires the revaluation of financial instruments to fair value.

The financial statements have been prepared in accordance with the NATO Accounting Framework, the NATO Financial Regulations (NFRs) and the Financial Rules and Procedures (FRPs) and the relevant entity directives and policies. In accordance with Article 2 of the NFRs, the financial year at NAGSMA begins on 1 January and ends on 31 December of the year.

The NAGSMA financial statements have been prepared on a going concern basis. During the Lisbon Summit in 2010 the Heads of State and Government approved the consolidation and rationalisation of the functions and programmes of the 14 NATO agencies into three agencies and the reorganisation of the military commands. NAGSMA is recognized as the NATO Procurement, Logistics and Support Organisation (NPLSO) in the framework of NATO Agencies' Reform initiative.

These financial statements represent the consolidated activities of the NATO Alliance Ground Surveillance Management Organisation (NAGSMO) and its executive body NAGSMA.

NAGSMA's significant accounting policies are set out below. The accounting policies have been applied consistently to all periods presented.

### **A02 Use of estimates**

In accordance with generally accepted accounting principles, the financial statements necessarily include amounts based on estimates and assumptions by management, based on historical experience as well as the most reliable information available, judgement and assumptions. Estimates include accrued revenue and expenses. The majority of goods and services are provided by third parties and other NATO entities; therefore, accrued expenses and the related revenue recognition are based on estimates. By nature, these estimates are subject to measurement uncertainty. Actual results could differ from those estimates. Changes in estimates are reflected in the period in which they become known.

### A03 Significant Accounting Policies

#### Accounting as a Procurement Agent

IPSAS draws a distinction between transactions that an entity undertakes on its own behalf (principal) and those on behalf of others (agent). The distinction is whether the economic benefits arising from the procurement effort accrue to the entity or to the extent that a fee may be levied for providing an agency service.

Agency activities are those activities carried out by the reporting entity, but which are not its own activities. Where an entity undertakes agency activities, it is identified as the agent in relation to those activities.

NAGSMA is considered as a procurement agent in respect of its operations since:

- It was created for the sole purpose of procuring the AGS Core System on behalf of the AGS Participating Nations;
- It does not bear any inventory risk before or after the customer order;
- It does not bear the credit risk for the amounts receivable from the customer;
- It does carry out acceptance of goods and services on behalf of Nations/NATO;
- It does not receive a fixed fee per transaction or a stated percentage of the amount billed, as it is reimbursed for the running costs of the Agency via the Administrative Budget.

NAGSMA provides contract administration function to NAGSMO. NAGSMA acts as an agent in accordance with a mandate set by the NAGSMO Participating Nations in the PMOU, which defines the role of the Agency in the procurement of a NATO owned and operated core AGS capability. NAGSMO is as well considered an Agent in respect of its operations, as a subsidiary body of NATO, with the sole objective to procure the AGS Core which will be owned, controlled and operated by the 28 Nations of NATO. NAGSMO and its executive body NAGSMA do not have and will not have control in the future of the assets procured as per the criteria in the NATO Accounting Framework. Transactions are treated accordingly in the NAGSMO Financial Statements.

#### Foreign Currency Translation

The functional and reporting currency of NAGSMA is the EUR. Transactions in currencies other than EUR are translated into EUR at the prevailing NATO rates of exchange at the time of transaction. Monetary assets and liabilities denominated in currencies other than EUR are translated into EUR at the prevailing NATO year-end closing rate. Resulting foreign exchange unrealised gains and losses are recognised as Advances from Nations. Realised exchange differences are recognised as Payables to Nations in the Statement of Financial Position.

#### Financial Instruments

Financial instruments are recognised at the contract date and initially measured at fair value. Their subsequent measurement depends on their classification. Loans and receivables and other liabilities are not re-valued (except for changes in exchange rates which are included in

the Statement of Financial Performance). Financial instruments are not recognised on expiry or when all contractual rights and obligations are transferred.

Management is aware of the risks associated with financial instruments and is bound by NAGSMO's Financial Rules and Procedures to keep these risks very low. NAGSMA uses only non-derivative financial instruments as part of its normal operations, such as bank accounts, deposit accounts.

**Currency risk:** To limit the exposure to foreign currency exchange risk, NAGSMA is forecasting the yearly expected expenditures in foreign currencies. In order to have the required funding, NAGSMA asks the Participating Nations to provide their contributions in the necessary currencies.

**Liquidity risk:** The liquidity risk is based on the assessment of 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 for the total approved budget. The accuracy of forecasts that result in the calls for contributions as well as the delay in payment represents the main liquidity risks. There is a clause in the NAGSMO FRP art. 15 Payment of Contributions, that deals with unpaid contributions giving the Agency the authority to determine the appropriate course of action in case of a delay or a non-payment and the financial consequences of such, borne by the Participating Nation.

**Credit Risk:** There is a very limited credit risk as the contributing Nations generally have a high credit rating.

#### Cash and Cash Equivalents

Cash and cash equivalents includes cash held with the bank in current/checking accounts.

#### Receivables

Receivables are stated at net realisable value, after provision for doubtful and uncollectible debts. No allowance for loss is recorded with respect to Member States' assessed contributions receivable except for exceptional and agreed technical reasons.

#### Other Current Assets

Other current assets include prepayments which are payments in advance of the period to which it pertains as well as bank interest receivable at year-end.

#### Payables

Payables are amounts due to third parties based on goods received or services provided that remain unpaid. This includes an estimate of accrued obligation to third parties for goods and services received but not yet invoiced.

#### Advances and Unearned Revenue

Advances are contributions called or received related to future years' budgets. Advances include future budget funding and unspent funding from prior periods.

Unearned revenue represents contributions from Nations and/or third parties that have been called for current or prior years' budgets but that have not yet been recognised as revenue. Funds are called in advance of their need because the entity has no capital that would allow it to pre-finance any of its activities.

#### Provisions and Contingent Liabilities

Provisions are recognised when NAGSMA has a present obligation as a result of a past event, and it is probable that NAGSMA will be required to settle that obligation. Provisions are measured at the General Manager's best estimate of the expenditure required to settle the obligation at the date of the statement of financial position, and are discounted to present value where the effect is material.

Other commitments, which do not meet the recognition criteria for liabilities, are disclosed in the notes to the financial statements as contingent liabilities when their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the control of NAGSMA.

#### Budget Execution Statement

The Board of Directors approves the annual budgets which include budgeted amounts for the administration of the Agency and Programme costs. Budgets may be subsequently amended by the Board of Directors or through the exercise of delegated authority. The budget execution statement provides a comparison of budgeted and actual amounts calculated on accrual basis.

#### Revenue and Expense Recognition

Revenue comprises contributions from Participating Nations to fund the entity's budgets. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be measured reliably. Where a transfer is subject to conditions that, if unfulfilled, require the return of the transferred resources, NAGSMA recognises a liability until the condition is fulfilled.

#### Revenue for the Administrative Budget

Contributions to the budget are initially recorded as advances from nations. They are recognised as revenue in the statement of financial performance when such contributions are used for their intended purpose as envisioned in its approved budget.

#### Interest

Interest receivable is credited as payables to Participating Nations in the statement of financial position.

#### Representation Allowance

As from 1 June 2013, a summary of the operations related to the Representation Allowance are included in the Financial Statements. Transactions occurring in respect of Representation Allowance are expensed in the period to which they relate, and were paid directly from payroll.

#### Post-employment benefits

##### Defined Contribution Plans

NAGSMA employees are members of the NATO-wide Defined Contribution Pension Scheme (DCPS). The assets of the plans are held separately from those of NAGSMA in funds under the control of trustees. NAGSMA is required to contribute a specified percentage of payroll costs to the DCPS to fund the benefits. Payments to the DCPS are recognised as an expense when employees have rendered service entitling them to the contributions. The only obligation of NAGSMA with respect to the DCPS is to make the specified contributions.

##### Defined Benefit Plans

NAGSMA 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 recognised in these financial statements.



## ANNEX B Notes to the Statement of Financial Position

| Notes Reference   | Current Year                                | Prior Year         |                    |
|---|---|--------------------|--------------------|
|   | 31-Dec-14                                   | 31-Dec-13          |                    |
| The Statement of Financial Position details the assets and liabilities of NAGSMA as of 31 December.   |   |                    |                    |
| <b>B01</b>  | <b>Cash and cash equivalents</b>            | <b>208,509,930</b> | <b>218,789,925</b> |
| Cash and Cash equivalents are short-term liquid assets.<br>NAGSMA operates highly reliable and interest bearing bank accounts: an administrative and an operational account that have three currency sub-accounts.  |   |                    |                    |
| <b>B02</b>  | <b>Short-term investments</b>               | <b>99,032,548</b>  | <b>0</b>           |
| Short-term investments are bank deposits maturing in less than one year.  |   |                    |                    |
| <b>B03</b>  | <b>Receivables from Nations</b>             | <b>196,939,855</b> | <b>311,673,692</b> |
| Accounts receivable are kept in separate sub-ledgers that provide detailed insight into the outstanding calls for contribution and provide accurate and up-to-date cash forecast information.<br>The receivables as of 31 December 2014 are primarily outstanding calls for contributions towards the Administrative Budget 2015 and the Operational Budget 2015 which are not yet past their due date. |   |                    |                    |
| <b>B04</b>  | <b>Other current assets and prepayments</b> | <b>335,537</b>     | <b>137,267</b>     |
| Other current assets are bank interest accrued relating to 2014 and received in 2014. The increase is related to the increase in the bank balance.<br>Prepayment relates to support contract payable in advance.  |   |                    |                    |
| <b>B05</b>  | <b>Long-term receivables</b>                | <b>124,622</b>     | <b>156,844</b>     |
| Long-term receivables match provisions for annual leave entitlements accrued but untaken at year-end.   |   |                    |                    |

|            |                              |                    |                    |
|------------|------------------------------|--------------------|--------------------|
| <b>B06</b> | <b>Advances from Nations</b> | <b>488,793,369</b> | <b>526,332,122</b> |
|------------|------------------------------|--------------------|--------------------|

Advances from Nations are funds called and/or received from Nations in respect of 2015 Administrative and Operational Budgets and unrealised exchange rate gains and losses.

Advances include future budget funding and unspent funding from prior periods.

|            |                       |                   |                |
|------------|-----------------------|-------------------|----------------|
| <b>B07</b> | <b>Trade payables</b> | <b>13,460,636</b> | <b>156,321</b> |
|------------|-----------------------|-------------------|----------------|

These short-term payables are open liabilities for goods and services received in 2014 such as consulting contracts, communication, travel and personnel related invoices. The increase is primarily due to accrued invoices related to the procurement effort.

|            |                       |                  |                  |
|------------|-----------------------|------------------|------------------|
| <b>B08</b> | <b>Other payables</b> | <b>2,563,865</b> | <b>4,112,441</b> |
|------------|-----------------------|------------------|------------------|

Other payables include lapsed credits 2014 and the 2014 financial result that will have to be refunded upon national decision.

|            |                   |                |                |
|------------|-------------------|----------------|----------------|
| <b>B09</b> | <b>Provisions</b> | <b>124,622</b> | <b>156,844</b> |
|------------|-------------------|----------------|----------------|

The provision represents annual leave entitlements accrued.

|                             |          |
|-----------------------------|----------|
| Balance at 1 January 2014   | 156,844  |
| Provision release           | (32,222) |
| Balance at 31 December 2014 | 124,622  |

|            |                               |
|------------|-------------------------------|
| <b>B10</b> | <b>Contingent Liabilities</b> |
|------------|-------------------------------|

NAGSMA is involved in an administrative proceeding in connection with certain events that have occurred in the year 2014, which could result in financial liability. However, the ultimate outcome of this matter cannot presently be determined.

## ANNEX C Notes to the Statement of Financial Performance

| Notes Reference  | Current Year        | Prior Year          |
|--|---------------------|---------------------|
|  | 2014                | 2013                |
| The Statement of Financial Performance details the revenue and expenses of NAGSMA incurred during the year ending 31 December.   |                     |                     |
| <b>C01 Revenue from non-exchange transactions</b>  | 8,317,149           | 7,694,928           |
| Revenue represents funding from Nations for expenses incurred during the financial year.   |                     |                     |
| <b>C02 Wages, salaries and employee benefits</b>   | 6,257,410           | 5,905,533           |
| The costs in this Chapter 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.   |                     |                     |
| NAGSMA had 49 staff members at the year-end 2014 (2013: 46 staff members).   |                     |                     |
| The breakdown of wages, salaries and employee benefits is as follows:  |                     |                     |
|  | Year ended 31/12/14 | Year ended 31/12/13 |
|  | EUR                 | EUR                 |
| Employee benefits expense, consultants and contractors   | 5,804,851           | 5,456,651           |
| Post-employment benefits (see note F01)  |                     |                     |
| for defined contribution pension scheme  | 484,781             | 410,035             |
| for defined benefit pension scheme   | 0                   | 0                   |
| Termination benefits   | 0                   | (32,308)            |
| Provision for annual leave entitlements accrued  | (32,222)            | 71,155              |
| <b>Total employee benefits expense</b>   | <b>6,257,410</b>    | <b>5,905,533</b>    |
| <b>C03 Supplies and consumables used</b>   | <b>2,059,739</b>    | <b>1,789,395</b>    |
| Supplies and consumables used are costs of goods and services used by NAGSMA associated with the general management and administrative activities under the SSA and SLA, information management, finance, human resources, building and facilities, security, etc. These costs are linked to the approved NAGSMA Staffing Plan. It also includes hospitality funds, communications services (i.e. telephones) and NATO Headquarters support (MOA). |                     |                     |

## **ANNEX D    Notes to the Cash Flow Statement**

The Cash Flow Statement is prepared using the indirect method.

The Cash Flow Statement summarises the cash movements in and out of the Agency during the financial year.

## ANNEX E Notes to the Budget Execution Statement – Administrative Budget

### NAGSMA - Budget Execution Statement for the year ended 31 December 2014 (All amounts in Euro)

| Notes Reference   | Initial<br>Authorisa-<br>tion | Mid Year -<br>Initial<br>Author. | FA - Mid-<br>Year Review | Transfers | Final<br>Authorisa-<br>tion | Net<br>Commit-<br>ment | Actual<br>Expenses | Total Spend      | Carry<br>Forward | Lapsed         |
|---|-------------------------------|----------------------------------|--------------------------|-----------|-----------------------------|------------------------|--------------------|------------------|------------------|----------------|
| <p>The Administrative Budget is prepared and presented using the accrual basis.<br/>The classification basis adopted for the Administrative Budget is to show expenditure in three chapters for Personnel costs, Contractual supplies and services costs as well as capital and investment expenditure.</p> <p>The actual expenses presented in the budget execution statement include accruals (expenses for goods and services delivered before the year-end but not yet invoiced) and therefore reconcile to the expenses in the statement of financial performance after deducting the release of the provision for annual leave entitlement of 32,221 EUR and the pre-payment for the LIS requirement of 44,338. The net commitments are those commitments for which a contractual obligation has been created before the year-end without the goods and services delivered before the year-end.</p> |                               |                                  |                          |           |                             |                        |                    |                  |                  |                |
| <b>E01 2013 - Personnel</b>   | <b>164,800</b>                | <b>0</b>                         | <b>164,800</b>           | <b>0</b>  | <b>164,800</b>              | <b>0</b>               | <b>126,645</b>     | <b>126,645</b>   | <b>0</b>         | <b>38,155</b>  |
| The lapses from prior years result from closing three consultancy contracts and lapsing the carry forward amount.   |                               |                                  |                          |           |                             |                        |                    |                  |                  |                |
| <b>E02 2014 - Personnel</b>   | <b>8,415,334</b>              | <b>-1,357,846</b>                | <b>7,057,488</b>         | <b>0</b>  | <b>7,057,488</b>            | <b>131,826</b>         | <b>6,162,987</b>   | <b>6,294,813</b> | <b>131,826</b>   | <b>762,675</b> |
| Lapses are due to fewer individuals recruited than foreseen in the staffing plan and reduced costs for removal due to renewal of contracts of current staff members.  |                               |                                  |                          |           |                             |                        |                    |                  |                  |                |
| <b>E03 2013 - Contractual supplies and services</b>   | <b>135,474</b>                | <b>0</b>                         | <b>135,474</b>           | <b>0</b>  | <b>135,474</b>              | <b>0</b>               | <b>-1,258</b>      | <b>-1,258</b>    | <b>0</b>         | <b>136,732</b> |
| The lapses from prior years result from closing the NSPA support agreement and lapsing the carry forward amount.  |                               |                                  |                          |           |                             |                        |                    |                  |                  |                |
| <b>E04 2014 - Contractual supplies and services</b>   | <b>2,589,513</b>              | <b>100,000</b>                   | <b>2,689,513</b>         | <b>0</b>  | <b>2,689,513</b>            | <b>196,879</b>         | <b>2,105,289</b>   | <b>2,302,168</b> | <b>196,879</b>   | <b>387,345</b> |
| Lapses are mainly due to reduced travel due to finding cost saving options as virtual meetings and sending fewer smses to Industry.   |                               |                                  |                          |           |                             |                        |                    |                  |                  |                |
| <b>E05 2014 - Capital and investment budgeting</b>  | <b>30,000</b>                 | <b>0</b>                         | <b>30,000</b>            | <b>0</b>  | <b>30,000</b>               | <b>0</b>               | <b>46</b>          | <b>46</b>        | <b>0</b>         | <b>29,954</b>  |
| Lapses are due to capital investment covered through the Service Support and Level Agreements with the NCI Agency.  |                               |                                  |                          |           |                             |                        |                    |                  |                  |                |
| <b>E06 2014 - Budget contingencies</b>  | <b>160,000</b>                | <b>0</b>                         | <b>160,000</b>           | <b>0</b>  | <b>160,000</b>              | <b>0</b>               | <b>0</b>           | <b>0</b>         | <b>0</b>         | <b>160,000</b> |
| Lapses are due to unused contingencies.   |                               |                                  |                          |           |                             |                        |                    |                  |                  |                |

## **ANNEX F    Notes to the Budget Execution Statement – Operational Budget**

The accounting basis used in preparation and presentation of the Operational Budget is the same as the one used in the financial statements, the accrual basis for recording of the actual expenditures. Due to the Agency's role as an agent acting with no control over the assets being procured, it is not accounting for the operational budget expenditures as an asset under construction. Rather, it is expected that the end-user, ACO, will account for the AGS Core System when the system will be transitioned to ACO.

The classification basis adopted for the Operational Budget is to show expenditure for AGS Core System Procurement. In 2014, there was no planned expenditure in respect of Initial In-Service Support and the funds were transferred to SDDQ as approved by Participating Nations during the End of Year process.

The exchange rate used to translate the USD portion of expenditure to the presentation currency EUR in the Operational Budget Total table is the average exchange rate in 2014 of 1.3285. There are no lapses in the 2014 Operational Budget.

The Operational Budget is presented to Participating Nations in two currencies EUR and USD. The Budget Execution Statements by currency show the Budget's net commitments and expenditures by sub-categories, as presented to and approved by Participating Nations.

### *System Design, Development and Qualification*

The AGS Core System Design, Development and Qualification covers the design and development for the AGS Core System. The Budget includes provisions for milestones which cover: Programme Design Review of the AGS Core System in accordance with the mandatory TRD requirements; Technical Interchange Meetings; the beginning of Critical Design Review and Working Group meetings and Programme design reviews.

### *Production*

Contractual milestones under the production sub-category are related to production progress payments and advance procurement authority to meet the contract timeline for production of deliverable SSS items and related placement of purchase orders for long-lead-time items. Long lead items include parts, components, equipment and sub-assemblies that must be ordered by the Contractor well in advance of actual final assembly such as the structural carbon fibre and metal components, nacelles, communication equipment, navigation equipment.

### *Management Reserve*

The Management Reserve was used to expense NAGSMO BoD approved Pre-PMOU Credits and Non-Financial Contributions, as well as allocating funding for Amendment 0008 and Wide Band Data Link (WBDL) as per the corresponding approved contractual milestones.

**CAFX**

Funds committed and expensed towards the Contracting Authority Furnished Equipment (CAFE) in 2014, were approved for designated support for training and other support for essential functionalities needed for the design and implementation of the Core System. RT-1990 radios were delivered to the contractor in time to keep the schedule on track in 2014. The original CAFX Crypto device orders were completed and training for the European Elcrodat and TCE devices was delivered to industry. The CIS Security Service Contract (NCIA) started to be utilized, providing TEMPEST testing, Document and Design analysis and Accreditation support. Due to some delays in procurement the funds originally foreseen for 2014 were moved with approval of the NAGSMO Finance Committee to SDDQ.

Carry forwards from 2012 in Management Reserve are commitments for payments for approved USA NFC. There are no Carry forwards from 2013.

Carry forwards from 2014 are mostly correlated to the postponement of closing all items linked to Critical Design Review (CDR) and training courseware in 2014 and postponing the complete certification of accomplishment to 2015. Consequently milestones linked to CDR successful due in October 2014 were shifted forward creating a significant carry forward from the 2014 Operational Budget into 2015. This shift has a considerable effect on the programme schedule and execution.

The Table below represents the cumulative NAGSMA Operational budget per year from 2012 to 2014 expended and carried forward in two currencies EUR and USD. The Budgets are presented below by currency showing the actual expenditures and carry forward as of the 31.12.2014.

**NAGSMA Operational Budget EUR**

| <b>BL6604011</b> | <b>Budget</b>      | <b>Actual Expenses</b> | <b>Carry Forward</b> |
|------------------|--------------------|------------------------|----------------------|
| <b>2012</b>      | 107,086,412        | 107,086,412            | 0                    |
| <b>2013</b>      | 137,794,865        | 137,794,865            | 0                    |
| <b>2014</b>      | 122,977,865        | 51,273,065             | 71,704,800           |
|                  |                    |                        |                      |
| <b>Total</b>     | <b>367,859,142</b> | <b>296,154,342</b>     | <b>71,704,800</b>    |

**NAGSMA Operational Budget USD**

| <b>BL6604010</b> | <b>Budget</b>      | <b>Actual Expenses</b> | <b>Carry Forward</b> |
|------------------|--------------------|------------------------|----------------------|
| <b>2012</b>      | 204,865,340        | 203,731,200            | 1,134,140            |
| <b>2013</b>      | 238,445,262        | 238,445,262            | 0                    |
| <b>2014</b>      | 373,468,465        | 237,566,505            | 135,901,960          |
|                  |                    |                        |                      |
| <b>Total</b>     | <b>816,779,067</b> | <b>679,742,967</b>     | <b>137,036,100</b>   |

Note to the table:

The Carry Forwards from the Financial Statements 2012-2013 which have been expended in 2014 have been added to the Actual Expenses of 2012 and 2013 respectively.

## ANNEX G General Notes to the Financial Statements

### G01 Related Party Disclosures

NAGSMO and NAGSMA have related party relationships with the Members of the NAGSMO Board of Directors and a number of other NATO bodies.

#### *Transactions with NATO bodies*

|  | <b>Current Year</b><br><b>2014</b> | <b>Prior Year</b><br><b>2013</b> |
|--|------------------------------------|----------------------------------|
|  | EUR                                | EUR                              |
| NATO Communications and Information Agency | 1,497,530                          | 1,233,641                        |
| NATO Support Agency                        | 131,000                            | 30,514                           |
| NATO International Staff                   | 136,661                            | 104,684                          |
| SHAPE                                      | 450                                | 450                              |
| NATO School                                | 450                                | 0                                |
|  | <b>1,766,091</b>                   | <b>1,369,289</b>                 |

In 2014, the NCI Agency performed certain administrative services for NAGSMA under the Service Support and Service Level Agreements, NATO IS performed other administrative services, NSPA performed additional administrative services for NAGSMA, SHAPE and NATO School provided training support.

#### *Compensation of key management personnel*

The remuneration of Directors and other members of key management personnel (NATO civilian grade A5 and above) is determined by the NATO salary scales and was as follows during the year:

|                                      | <b>Current Year</b><br><b>2014</b> | <b>Prior Year</b><br><b>2013</b> |
|--------------------------------------|------------------------------------|----------------------------------|
|                                      | EUR                                | EUR                              |
| Basic salaries                       | 685,338                            | 664,743                          |
| Allowances                           | 171,760                            | 198,702                          |
| Post-employment benefits             | 68,873                             | 66,691                           |
| Employer's contribution to Insurance | 93,004                             | 90,776                           |
|                                      | <b>1,018,975</b>                   | <b>1,020,912</b>                 |

The slight reduction in compensation of key management personnel is due to two main factors being step increases and reduction of installation allowances.



|   | Current Year<br>2014 | Prior Year<br>2013 |
|---|----------------------|--------------------|
| Number of individuals at year-end on a full time equivalent basis |                      |                    |
| General Manager   | 1                    | 1                  |
| Programme Manager   | 1                    | 1                  |
| Key management personnel  | 4                    | 4                  |
|   | 6                    | 6                  |

### G02 Representation Allowance

The purpose of the Representation Allowance is to help meet the reasonable representational expenses of certain designated high officials of the Organisation whose positions entail responsibility for establishing and maintaining relationships of value to NATO.

As from 1 June 2013, a new procedure is in place in respect of Representation Allowance; as all recipients are now reimbursed permitted expenses within the limits of their individual Representation Allowance allocation. All representation allowance disbursements for the 2014 reporting period were administered by the Agency.

|   |            |
|---|------------|
| <b>Expenditures</b>                                   | <b>EUR</b> |
| Rental Supplement                                     | 2,673      |
| Functions   | 2,210      |
| Total   | 4,883      |
| <b>Entitlements</b>                                   | <b>EUR</b> |
| Representation Allowance annual entitlement           | 10,692     |
| <i>of which: Rental Supplement annual entitlement</i> | 2,673      |
| <b>Transactions</b>                                   | <b>EUR</b> |
| Rental Supplement January-December                    | 2,673      |
| Dinners and Luncheons                                 | 2,210      |
| Total   | 4,883      |

### G03 Approval of Financial Statements

The financial statements were approved by the Financial Controller and authorised to be issued on 30 April 2015.



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NATO Alliance Ground Surveillance  
Management Organisation  
(NAGSMO)

NAGSMO  
NATO Headquarters  
1110 Brussels  
Belgium