

	NATO	NORTH ATLANTIC COUNCIL
	OTAN	CONSEIL DE L'ATLANTIQUE NORD

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24 November 2015

DOCUMENT
C-M(2015)0074-AS1

**IBAN REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS OF THE NATO
MEDIUM EXTENDED AIR DEFENCE SYSTEM MANAGEMENT ORGANISATION
(NAMEADSMO) FOR 2014**

ACTION SHEET

On 23 November 2015, under the silence procedure, the Council noted the IBAN report IBA-AR(2015)12 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(2015)0074.

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18 November 2015

DOCUMENT

C-M(2015)0074

Silence Procedure ends:

23 Nov 2015 18:00

**IBAN REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS OF THE NATO
MEDIUM EXTENDED AIR DEFENCE SYSTEM MANAGEMENT ORGANISATION
(NAMEADSMO) 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 Medium Extended Air Defence System Management Organisation (NAMEADSMO) 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 25 September 2015, recommends to Council that the IBAN report on the audit of NAMEADSMO for the year 2014, together with the related Financial Statements, be made available to the public (Annexes).
3. I consider that no further discussion regarding this report is required. Consequently, **unless I hear to the contrary by 18:00 hours on Monday 23 November 2015**, I shall assume that the Council has noted the IBAN report IBA-AR(2015)12 and agreed the RPPB recommendation regarding public disclosure.

(Signed) Alexander Vershbow

3 Annexes
1 Enclosure

Original: English

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**IBAN REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS OF THE NATO
MEDIUM EXTENDED AIR DEFENCE SYSTEM MANAGEMENT ORGANISATION
(NAMEADSMO) FOR THE YEAR ENDED 31 DECEMBER 2014**

Report by the Resource Policy and Planning Board

References: (A) IBA-A(2015)94 & IBA-AR(2015)12

(B) Cover letter to the 2014 NAMEADSMO Financial Statements, dated 7 April 2015

1. Council agreed with PO(2015)0052 that, in principle, unclassified IBAN audit reports, together with any related financial statements, should be made publicly available after they have been dealt with by Council.
2. The IBAN issued an unqualified audit opinion on the 2014 audit of the Financial Statements for NAMEADSMO. The unqualified audit report (reference (A)) will be forwarded to Council for notation, as per agreed procedures.
3. In reference (B), the NAMEADSMO Financial Controller concludes that the 2014 NAMEADSMO Financial Statements can be disclosed.
4. With regard to public disclosure, the RPPB concludes that the subject IBAN report does not contain information which, according to NATO Policy on Disclosure of NATO Information, 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 Medium Extended Air Defense
System Management Organization (NAMEADSMO)
for the year ended 31 December 2014**

The Board audited NATO Medium Extended Air Defense System Management Organization (NAMEADSMO), which aims to provide direction, co-ordination and execution of the MEADS Program. The MEADS is envisioned to be a tactically mobile and transportable air and missile defence system capable of countering a wide range of air threats such as cruise missiles and tactical ballistic missiles.

In 2014, NAMEADSMO's expenditures totalled U.S. Dollars (USD) 280.8 million, consisting of USD 8.3 million from the Administrative Budget and USD 272.5 million from the Operational Budget.

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

We draw your attention to Note 1 of the financial statements, where it is described that the United States decided to only continue funding the MEADS programme through the current Design & Development phase of the current Memorandum of Understanding. This phase of the programme is expected to be completed in 2015, after which there will be a period of liquidation. Final dissolution of NAMEADSMA is expected in January 2016. The opinion is not qualified in respect to this matter.

During the audit, the Board did not identify any observations.

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INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF

**THE NATO MEDIUM EXTENDED AIR DEFENSE SYSTEM MANAGEMENT
ORGANISATION**

(NAMEADSMO)

FOR THE YEAR ENDED 31 DECEMBER 2014

2014

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

Report on the Financial Statements

The International Board of Auditors for NATO (Board) audited the accompanying financial statements of NAMEADSMO, which comprised the Statement of Financial Position as at 31 December 2014, and the Statement of Financial Performance, Statement of Changes in Net Equity/Assets and the Statement of Cash Flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies. The Board also audited the Statement of Budget Execution for the year ended 31 December 2014.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Emphasis of Matter

We draw your attention to Note 1 of the financial statements, where it is described that the United States decided to only continue funding the MEADS programme through the current Design & Development phase of the current Memorandum of Understanding. This phase of the programme is expected to be completed in 2015, after which there will be a period of liquidation. Final dissolution of NAMEADSMA is expected in January 2016. Our opinion is not qualified in respect to this matter.

Opinion on Financial Statements

In our opinion, the financial statements present fairly, in all material respects, the financial position of NAMEADSMO 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, 29 March 2015

Dr Charilaos Charisis
Chairman

North Atlantic Treaty Organization

NATO Medium Extended Air Defense System Management Organization



Financial Statements

For the year ended

31 December 2014

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A. Overview of NATO MEADS Management Organization's Operations and Environment

General description of the NATO MEADS Management Organization (NAMEADSMO)

The North Atlantic Treaty Organization (NATO) Medium Extended Air Defense System Management Organization (NAMEADSMO) is a NATO Development, Production and Logistics Organization (NPLO), a subsidiary body of NATO created by the North Atlantic Council. NAMEADSMO shares the international characteristics of NATO and the jurisdictional autonomy by virtue of Article 4 of the Ottawa Agreement. NAMEADSMO was created to provide direction, coordination and execution of all phases of the MEADS program as delineated by the participating Nations. The participating Nations (Participants) are Germany, Italy and the United States. NAMEADSMO is comprised of a Board of Directors (BoD), composed of one representative from each of the Participants, and the NATO MEADS Management Agency (NAMEADSMA).

The current phase of the MEADS program is financed by assessed contributions of the Participants in accordance with the terms stipulated in the Design and Development (D&D) Memorandum of Understanding (MoU), approved by Italy and the US in September 2004 and by Germany in April 2005, and the associated Financial Management Policy Document (FMPD). The FMPD specifies the financial management policies and the funding schedule for the MEADS D&D phase and delineates the Participants' annual cumulative financial ceilings which are the basis for the NAMEADSMO annual budgets. The budgets consist of the Administrative and Operational Budgets. Germany, Italy and the US (GE/IT/US) percentage shares of the total contribution ceiling are 25.2%, 16.7% and 58.1%, respectively, including a portion of non-financial contributions as defined in the FMPD. The total contribution ceilings for Germany and Italy for the Operational Budget (OB) were reached in 2013 and for the Administrative Budget (AB) in 2014. The US will not reach their contribution ceilings for either budget as it was noted with BoD decision D14/08 that "no additional US funds will be provided for the remainder of the MEADS program."

The original objectives of the MEADS program were to design, develop, procure and in-service support the MEADS system, based on the Participants' operational requirements for an Anti-Tactical Ballistic Missile (ATBM) and air defense system capability. In 2011, in the light of a cost increase, a replan effort was conducted, resulting in a reorientation from a D&D effort towards a Demonstration of Capability (DoC). The MEADS program is at the end of this phase.

NAMEADSMO considers itself to be the "construction manager" of a project which is the design and development of the MEADS system. Contract costs are recognized as incurred. The cumulative D&D costs incurred until 31 December 2014 reached a total of 2,570 M US Dollars and 1,395 M Euros.

NAMEADSMO has no liens or encumbrances on the agency's assets.

NAMEADSMO has given no guarantees to third parties.

NAMEADSMO is located in Huntsville, Alabama, USA.

Role of the NATO MEADS Management Agency (NAMEADSMA)

NAMEADSMA is responsible for the planning, execution and overall management of the program with the goal to accomplish specific schedule, cost and performance objectives.

NAMEADSMA awarded a Letter Contract to MEADS International, the prime contractor, for the initial six months of the D&D effort. The D&D contract was definitized 31 May 2005. This contract is incrementally funded annually. With Amendment 26, the fee structure of the contract was modified from a cost plus incentive fee/performance incentive fee contract to a cost plus fixed fee contract. The main D&D phase and MI main contract effort were completed on 31 December 2014, while prime contract close out activities are expected to last until December 2015. This residual effort includes the completion of a “Data Archival” of all development documentation (drawings, reports, test results, etc.) and the distribution of part of the development residual material, as requested and agreed by the Participants.

NAMEADSMA contracts with other contractors for ancillary efforts. Lockheed Martin has been engaged in a “cooperative agreement” for the realization of a Low Frequency Sensor. EuroMEADS (which is also a sub-contractor of MEADS International) is retrofitting one of the two Multifunction Fire Control Radars. MBDA-GE received a contract to fulfill a “non common” requirement, funded by Germany only. MEADS, LLC provides support services for the D&D effort to the Agency, by conducting independent technical analyses of the MEADS Program system level performance, systems engineering activities, design, development, integration, fabrication, test, producibility, logistic, and programmatic activities.

After significant achievements recorded in 2013, (successful participation in the Joint Project Optic Windmill (JPOW) 2013 Theater Air-and-Missile Defense exercise, and accomplishment of an unprecedented simultaneous intercept of dual targets from opposite directions in White Sands Missile Range (WSMR), in 2014 the MEADS program continued along the same path of technical success. In the summer a system capability demonstration was conducted in Pratica di Mare AFB (IT) which showed the versatility, interoperability and friendliness of use of the system. Tactical hardware, operated by soldiers from two nations, was connected through a network to other assets and simulation centers located in Sabaudia (IT), Taranto (IT) and El Paso (US). These simulation centers could operate in a simulated tactical scenario, demonstrating how easily the MEADS system could successfully operate with different systems (Patriot, SAMP-T, and PAAMS). Successful demonstrations of the MEADS Multifunctional Fire Control Radar (MFCR) at industrial facilities in PdM (IT) and Freinhausen (GE) followed. In September and December, Design and Development Completion Reviews (DDCR) were held to summarize all achievements of the D&D phase. A final completion report summarizing achievements and capabilities demonstrated by the system was independently prepared by NAMEADSMA for the Participants. MEADS was confirmed to be a very flexible and interoperable system, capable to intercept with a single fire control sensor, targets from opposite azimuth directions and able to provide 360 degree defended coverage with a single fire unit.

In accordance with the D&D MoU, the Participants propose staff from their nations. In addition there are local hires employed. Most of the US personnel were detailed to the agency by the US government with the exception of those hired directly (the General Manager, Chief Engineer, Security Office Leader, Security Specialist, Executive Assistant and three Program Assistants). As of the end of September 2014, all US government personnel detailed to NAMEADSMA had returned to the US government. Other US staff members (the General Manager, Security Office Leader, Security Specialist, and Executive Assistant) remained employed on NATO contracts. The salary and emoluments for these

individuals are included in the Administrative Budget and the financial statements. The costs for the US government detailed personnel pay and benefits, not included in these financial statements, are included in the notes. There were also some support contractor personnel covering certain US positions as per BoD decision D14/07.

Compliance with Financial Regulations

NAMEADSMO follows standardized rules and regulations approved by the North Atlantic Council (NAC). Specifically, NAMEADSMO adheres to the NATO Financial Regulations (NFRs) and to the NATO Civilian Personnel Regulations (CPRs). Since the financial management of NAMEADSMO is separate and distinct from those of the International Staff or other NATO entities, NAMEADSMO also follows the NAMEADSMO Financial Rules and Regulations (FRR), as approved by the NAMEADSMO Board of Directors.

NAMEADSMO's mission, strategies and how they relate to its financial position, financial performance and cash flows.

NAMEADSMO does not have any objectives and strategies in relation to its financial position, performance and cash flows other than to have enough funding available to cover its administrative and operational costs. This is done while acting in the best interest of the three participating Nations, within the mission established by the NAMEADSMO Charter and the D&D MoU objectives, in accordance with guidance received from the BoD.

Risks and Uncertainties that affect NAMEADSMO's Financial Position and Performance

NAMEADSMO's performance is based on the MEADS program. As the MEADS program is nearing the end of DoC the need for NAMEADSMO will end as well.

Assets/Liabilities in regard of other NATO bodies

NAMEADSMO does not have any assets or liabilities in respect of other NATO entities.

B. Statement of Financial Position as at 31 December 2014 (in US Dollars)

	Notes	2014	2013
ASSETS			
Current Assets			
Cash	3		
Operational		91,657,637	398,851,965
Administrative		16,250,661	21,215,383
Total Cash		<u>107,908,298</u>	<u>420,067,348</u>
Receivables	4		
Operational		369,076	437,710
Administrative		21,086	22,482
Total Receivables		<u>390,162</u>	<u>460,192</u>
Prepayments	5		
Operational		-	3,186,239
Administrative		-	-
Total Prepaid Assets		<u>-</u>	<u>3,186,239</u>
Total Current Assets		<u>108,298,460</u>	<u>423,713,779</u>
Non-Current Assets			
Property, Plant and Equipment	6		
Operational		-	-
Administrative		3,509	176,513
Total Property		<u>3,509</u>	<u>176,513</u>
Total Non-Current Assets		<u>3,509</u>	<u>176,513</u>
TOTAL ASSETS		<u>108,301,969</u>	<u>423,890,292</u>
CURRENT LIABILITIES			
Accounts Payable	7		
Operational		23,478,536	55,546,226
Administrative		110,592	207,424
Total Accounts Payable		<u>23,589,128</u>	<u>55,753,650</u>
Payable to Nations	8		
Operational		110,738	1,953,736
Administrative		-	78
Total Accounts Payable		<u>110,738</u>	<u>1,953,814</u>
Unearned Revenue	9		
Operational		68,437,439	344,975,951
Administrative		16,164,664	21,206,876
Total Unearned Revenue		<u>84,602,103</u>	<u>366,182,828</u>
Total Current Liabilities		<u>108,301,969</u>	<u>423,890,292</u>
TOTAL LIABILITIES		<u>108,301,969</u>	<u>423,890,292</u>

C. Statement of Financial Performance for the period ending 2014 (in US Dollars)

	Notes	2014	2013
REVENUE	12		
Operational		272,551,862	394,219,882
Administrative		8,282,567	9,997,027
TOTAL REVENUE		280,834,429	404,216,909
EXPENSES	13		
Operational			
Prime Contract (MI)		259,787,163	369,543,251
Support (MEADS LLC)		8,434,936	8,227,101
Test & Targets		1,069,755	16,094,680
IT-Common Criteria		3,260,936	354,850
Miscellaneous		(928)	-
Total Operational Expenses		272,551,862	394,219,882
Administrative			
Personnel	14	6,122,047	7,460,301
Operating		1,987,517	2,171,337
Investing		173,003	365,389
Total Administrative Expenses		8,282,567	9,997,027
TOTAL EXPENSES		280,834,429	404,216,909

D. Statement of Cash Flows as of 31 December 2014 (in US Dollars)

	2014	2013
<i>Operational Budget</i>		
Cash Receipts from Nation Contributions	-	367,592,932
Cash Paid to Contractors	(298,847,008)	(401,041,774)
Bank Interest Received	119,124	150,942
Bank Interest Paid to Nations	(143,778)	(359,908)
Other Cash Receipts	927	-
Other Cash Payments	(12,227)	-
Total Operational Budget	(298,882,961)	(33,657,808)
<i>Administrative Budget</i>		
Cash Receipts from Nation Contributions	3,206,608	27,463,995
Bank Interest Received	-	78
Other Cash Receipts	33,747	167,000
Cash Paid to Suppliers and Employees	(8,273,350)	(9,616,172)
Cash Paid for Tax Advance	-	(173,799)
Bank Interest Paid to Nations	(56)	(1,154)
Other Cash Payments	-	(6,535)
Total Administrative Budget	(5,033,051)	17,833,413
Total Cash Flows from Operating Activities	(303,916,012)	(15,824,395)
Total Cash Flows from Investing Activities	-	-
Total Cash Flows from Financing Activities	-	-
Net Increase/Decrease in Cash	(303,916,012)	(15,824,395)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(8,243,038)	2,217,832
Cash at Beginning of Period	420,067,348	433,673,911
Cash at End of Period	107,908,298	420,067,348

E. Statement of Changes to Net Equity/Assets as of 31 December 2014 (in US Dollars)

	2014	2013
Equity at beginning of year	<u>0</u>	<u>0</u>
Net Surplus for the year	0	0
Net recognized revenue and expense for year	<u>0</u>	<u>0</u>
Equity at end of Year	<u><u>0</u></u>	<u><u>0</u></u>

F. Budget Execution Statement as of 31 December 2014 (in US Dollars)

Budget	Credits C/F 2013 to 2014	C/F Adjustments beginning 2014	2014 Authorized Credits	2014 Credit Amendments	Total 2014 Budget + C/F	Commitments	2014 Payments	C/F 2014 to 2015	Lapsed Credits
Operational									
Chapter 2 (PD-V)									
GE EURO	-	-	70,327	(58,234)	12,093	12,093	12,093	-	-
IT EURO	-	-	91,158	(91,158)	-	-	-	-	-
US USD	-	-	555,942	(275,634)	280,308	280,308	280,308	-	-
Chapter 2 (E-USD)	-	-	722,422	(429,647)	292,775	292,775	292,775	-	-
Chapter 3 Design/Dev									
GE EURO	49,718,062	(14,566,016)	11,603,426	21,112,589	67,868,061	57,637,026	37,530,674	20,106,352	10,231,035
IT EURO	8,556,287	4,847,949	7,445,868	(4,857,183)	15,992,921	13,494,236	13,425,244	68,991	2,498,685
US USD	133,474,230	6,829,412	158,595,787	(256,069)	298,643,360	267,457,138	221,216,085	46,241,053	31,186,222
Chapter 3 (E-USD)	202,820,705	(4,735,088)	181,264,446	19,087,865	398,437,928	352,103,340	281,853,629	70,249,711	46,334,588
Total Operational									
GE EURO	49,718,062	(14,566,016)	11,673,753	21,054,355	67,880,154	57,649,119	37,542,767	20,106,352	10,231,035
IT EURO	8,556,287	4,847,949	7,537,026	(4,948,341)	15,992,921	13,494,236	13,425,244	68,991	2,498,685
US USD	133,474,230	6,829,412	159,151,729	(531,703)	298,923,668	267,737,446	221,496,393	46,241,053	31,186,222
Total Ops GE/IT/US	202,820,705	(4,735,088)	181,986,868	18,658,218	398,730,703	352,396,115	282,146,404	70,249,711	46,334,588
Total Operational									
GE - E-USD	59,164,494	(17,333,559)	13,880,579	25,063,946	80,775,460	68,600,528	44,673,970	23,926,559	12,174,931
IT - E-USD	10,181,981	5,769,059	8,954,560	(5,874,025)	19,031,576	16,058,141	15,976,041	82,100	2,973,435
US USD	133,474,230	6,829,412	159,151,729	(531,703)	298,923,668	267,737,446	221,496,393	46,241,053	31,186,222
Total Ops GE/IT/US	202,820,705	(4,735,088)	181,986,868	18,658,218	398,730,703	352,396,115	282,146,404	70,249,711	46,334,588
Administrative									
Chapter 1 - Personnel									
GE	33,949	-	3,871,317	-	3,905,266	3,149,950	3,072,344	77,606	755,315
IT	22,498	-	2,247,950	-	2,270,448	1,848,189	1,817,049	31,140	422,259
US	286,900	-	1,613,433	130,800	2,031,133	1,431,639	1,323,302	108,337	599,494
Chapter 1 - Personnel	343,346	-	7,732,700	130,800	8,206,846	6,429,778	6,212,695	217,083	1,777,068
Chapter 2 - Admin / Svcs									
GE	51,362	-	711,377	-	762,739	568,060	556,803	11,257	194,679
IT	39,253	-	442,684	-	481,937	318,251	308,842	9,408	163,686
US	117,925	-	1,468,139	-	1,586,064	1,193,895	1,177,142	16,752	392,169
Chapter 2 - Admin / Svcs	208,540	-	2,622,200	-	2,830,740	2,080,206	2,042,788	37,418	750,534
Chapter 4 - Investments									
GE	1,735	-	57,840	-	59,575	10,991	10,688	302	48,584
IT	1,150	-	28,390	-	29,540	1,803	1,603	200	27,736
US	3,999	-	98,770	-	102,769	6,274	5,577	697	96,496
Chapter 4 - Investments	6,884	-	185,000	-	191,884	19,068	17,868	1,200	172,816
Total Administrative									
GE	87,045	-	4,640,534	-	4,727,579	3,729,001	3,639,835	89,166	998,578
IT	62,900	-	2,719,024	-	2,781,924	2,168,243	2,127,494	40,749	613,681
US	408,824	-	3,180,342	130,800	3,719,966	2,631,808	2,506,021	125,787	1,088,159
Total Admin GE/IT/US	558,770	-	10,539,900	130,800	11,229,470	8,529,051	8,273,350	255,701	2,700,418
Total Operational + Admin									
GE	59,251,539	(17,333,559)	18,521,113	25,063,946	85,503,039	72,329,529	48,313,804	24,015,725	13,173,510
IT	10,244,882	5,769,059	11,673,584	(5,874,025)	21,813,500	18,226,384	18,103,535	122,849	3,587,116
US	133,883,054	6,829,412	162,332,071	(400,903)	302,643,634	270,369,253	224,002,414	46,366,839	32,274,381
Total Ops/Admin GE/IT/US	203,379,475	(4,735,088)	192,526,768	18,789,018	409,960,173	360,925,166	290,419,754	70,505,413	49,035,007
* MOU exchange rates:									
Chapter 2 - 1 USD = 0.97 Euro									
Chapter 3 - 1 Euro = 1.19 USD									

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G. Budget Execution Statement as of 31 December 2013 (in US Dollars)

Budget	Credits C/F 2012 to 2013	C/F Adjustments beginning 2013	2013 Authorized Credits	Credit Adjustments	2013 Credit Transfers	Total 2013 Budget + C/F	Commitments	2013 Payments**	C/F 2013 to 2014	Lapsed Credits
Operational										
Chapter 2 (PD-V)										
GE EURO	-	-	40,000	-	-	40,000	-	-	-	40,000
IT EURO	-	-	25,000	-	-	25,000	-	-	-	25,000
US USD	-	-	50,000	-	-	50,000	-	(14,578)	-	64,578
Chapter 2 (E-USD)	-	-	117,010	-	-	117,010	-	(14,578)	-	131,588
Chapter 3 Design/Dev										
GE EURO	81,116,064	(53,437,252)	101,449,833	208,588	-	129,337,233	116,972,939	67,254,877	49,718,062	12,364,294
IT EURO	52,327,807	(25,938,472)	34,189,509	144,251	-	60,723,094	52,579,282	44,022,995	8,556,287	8,143,813
US USD	137,056,558	(74,933,954)	364,915,052	13,219,240	-	440,256,896	382,592,984	249,118,754	133,474,230	57,663,912
Chapter 3 (E-USD)	295,854,765	(169,391,066)	526,325,868	13,639,118	-	666,428,685	584,360,127	381,539,421	202,820,705	82,068,558
Total Operational										
GE EURO	81,116,064	(53,437,252)	101,449,833	208,588	-	129,377,233	116,972,939	67,254,877	49,718,062	12,404,294
IT EURO	52,327,807	(25,938,472)	34,214,509	144,251	-	60,748,094	52,579,282	44,022,995	8,556,287	8,168,813
US USD	137,056,558	(74,933,954)	364,965,052	13,219,240	-	440,306,896	382,592,984	249,104,176	133,474,230	57,728,490
Total Ops GE/IT/US	295,854,765	(169,391,066)	526,442,878	13,639,118	-	666,545,696	584,360,127	381,524,844	202,820,705	82,200,147
Total Operational										
GE - E-USD	96,528,116	(63,590,330)	120,766,538	248,220	-	153,952,544	139,197,797	80,033,303	59,164,494	14,754,746
IT - E-USD	62,270,091	(30,866,782)	40,711,288	171,659	-	72,286,256	62,569,345	52,387,364	10,181,981	9,716,910
US USD	137,056,558	(74,933,954)	364,965,052	13,219,240	-	440,306,896	382,592,984	249,104,176	133,474,230	57,728,490
Total Ops GE/IT/US	295,854,765	(169,391,066)	526,442,878	13,639,118	-	666,545,696	584,360,127	381,524,844	202,820,705	82,200,147
Administrative										
Chapter 1 - Personnel										
GE	16,008	-	3,907,048	-	-	3,923,056	3,635,978	3,602,029	33,949	287,078
IT	10,297	-	2,175,142	-	-	2,185,439	2,083,830	2,061,332	22,498	101,609
US	765,039	-	2,742,610	-	-	3,507,649	2,082,600	1,795,699	286,900	1,425,049
Chapter 1 - Personnel	791,343	-	8,824,800	-	-	9,616,143	7,802,407	7,459,061	343,346	1,813,736
Chapter 2 - Admin / Svcs										
GE	60,790	-	845,106	-	-	905,895	626,669	575,307	51,362	279,226
IT	36,291	-	201,282	-	-	237,573	172,214	132,961	39,253	65,359
US	126,257	-	2,047,412	-	-	2,173,669	1,537,766	1,419,841	117,925	635,904
Chapter 2 - Admin / Svcs	223,337	-	3,093,800	-	-	3,317,137	2,336,649	2,128,109	208,540	980,489
Chapter 4 - Investments										
GE	1,284	-	45,240	-	-	46,524	15,498	13,763	1,735	31,026
IT	851	-	7,164	-	-	8,015	2,912	1,763	1,150	5,102
US	2,960	-	82,596	-	-	85,556	17,476	13,476	3,999	68,080
Chapter 4 - Investments	5,094	-	135,000	-	-	140,094	35,886	29,002	6,884	104,208
Total Administrative										
GE	78,081	-	4,797,394	-	-	4,875,475	4,278,144	4,191,099	87,045	597,330
IT	47,438	-	2,383,588	-	-	2,431,026	2,258,957	2,196,056	62,900	172,070
US	894,255	-	4,872,618	-	-	5,766,874	3,637,841	3,229,017	408,824	2,129,033
Total Admin GE/IT/US	1,019,774	-	12,053,600	-	-	13,073,374	10,174,942	9,616,172	558,770	2,898,432
Total Operational + Admin										
GE	96,606,197	(63,590,330)	125,563,932	248,220	-	158,828,018	143,475,942	84,224,402	59,251,539	15,352,077
IT	62,317,529	(30,866,782)	43,094,876	171,659	-	74,717,282	64,828,302	54,583,420	10,244,882	9,888,980
US	137,950,814	(74,933,954)	369,837,670	13,219,240	-	446,073,770	386,230,826	252,333,193	133,883,054	59,857,522
Total Ops/Admin GE/IT/US	296,874,540	(169,391,066)	538,496,478	13,639,118	-	679,619,070	594,535,069	391,141,016	203,379,475	85,098,579
* MOU exchange rates:										
Chapter 2 - 1 USD = 0.97 Euro										
Chapter 3 - 1 Euro = 1.19 USD										
**Operational Payments include payments in the amount of €888,371 for Italian Trucks (GFE)										

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H. Notes to the Financial Statements

Note 1. Accounting Policies

Basis of preparation

These financial statements have been prepared in accordance with the NATO Accounting Framework which is based upon International Public Sector Accounting Standards (IPSAS). In addition, where certain reporting requirements are required by the NATO Financial Regulations (NFRs), these are also met.

The financial statements have been prepared on a non-going concern basis, in consideration of the events and decisions taken by the Participants.

In 2010 the United States decided to continue funding the MEADS program only through the Design & Development phase of the current Memorandum of Understanding (MoU). Hence no agreement could be reached for a subsequent Procurement Phase. In 2011 the scope of work was revised to maintain the total cost within the MoU limits, while still yielding meaningful results for Germany and Italy and a possible future option for the US.

Based on this situation, in 2012 the NAMEADSMO BoD requested a plan for the orderly transition to close out the Agency by mid-2014. Subsequently, in June 2014 the BoD approved a new plan to initiate the liquidation of the entity on 1 February 2015. As of today, the formal request to the Secretary General for the required NAC decision, in compliance with NATO regulations on the dissolution of entities, has not been sent yet by the BoD. After the request has been sent, and upon NAC decision, NAMEADSMO in Liquidation will operate through a Liquidator, supported by a small "Office of the Liquidator", until 31 January 2016 and any remaining activity may transition to NSPA as noted by the BoD. Discussions are on-going with NSPA for the award of a Service Agreement.

Changes in Accounting Standards

IPSAS 32 – *Service Concession Arrangements: Grantor* which became effective as of 1 January 2014 does not impact NAMEADSMO.

Changes in Accounting Policy

There have been no changes in accounting policy during 2014.

Revenue and Expense Recognition

Revenue comprises contributions from Participants to fund the entity's budgets. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be measured reliably. The revenue recognition is matched with the recognition of expenses. The different types of revenue within the entity are:

Administrative Budget

Administrative Budget contributions fund the costs of NATO contract personnel and the goods and services to be rendered toward the performance of tasks to be executed by the agency over an agreed period of time. Contributions are initially recorded as unearned revenue liabilities. They are recognized as revenue in the statement of financial performance when such contributions are used for their intended purpose as estimated in the Administrative Budget.

Operational Budget

NAMEADSMO considers itself to be the “construction manager” of a project which is the design and development of the MEADS system. Contract costs are recognized as incurred. The entity's construction activities and technical supervision have been contracted to the private sector, utilizing a cost plus fixed fee contract. Revenue related to cost reimbursement contracts is recognized by reference to the allowable costs incurred during the period. Contracts for the project are considered to be full cost recovery as funding of the authorized project is provided by the Participants in advance.

Budget Execution

Total budgetary resources are comprised of assessed contributions from the Participants. The budgets are Administrative (costs for agency personnel, supplies and services, furnishings and equipment), and Operational (costs associated with the MEADS system development and ancillary contracts). Costs are further categorized by chapters, items and sub-items within the separate budgets. In accordance with IPSAS 24, a Budget Execution Statement is presented at Note F.

Cash Flow Statements

NAMEADSMO has elected to use the direct method of presentation in these financial statements.

Foreign Currency

The reporting currency for the NAMEADSMO Financial Statements is the US Dollar (USD). However, the agency's financial transactions are made in both USD (\$) and EURO (€). Foreign currency transactions are accounted for at the average monthly NATO exchange rates, with the exception of Cross Border Financing, which is converted at the daily exchange rate. Monetary assets and liabilities at year-end which were denominated in foreign currencies were translated into USD using the NATO rates of exchange that were applicable at 31 December 2014. Both realized and unrealized gains and losses resulting from the settlement of such transactions and from the revaluation at the reporting dates of monetary assets and liabilities denominated in foreign currencies are recognized in the Statement of Financial Performance.

Cross Border Financing

The annual Operational Budget cash flow details the combination of currencies required based on projected invoices. If the available cash flow limit of a Participant's currency is reached and no additional funds are available, Cross Border Financing among Participants may apply, firstly within the same currency, and lastly in a different currency. Expenditures funded by another Participant due to Cross Border Financing are separately tracked and reported as a payable from the nation utilizing the

Cross Border Financing and a receivable to the nation providing the Cross Border Financing. The Cross Border Financing is repaid in the same currency as provided.

Financial Assets

The financial assets are cash and cash equivalents which are measured at fair value. Bank deposits denominated in foreign currencies are translated to reporting currency at the closing date NATO exchange rates. Changes in fair value are recognized in the Statement of Financial Performance.

Financial Liabilities

The financial liabilities are accounts payable and accruals, and advances and unearned revenue from Participants. They are measured at fair value. Changes in fair value are recognized in the Statement of Financial Performance.

Receivables

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

Prepayments

When NAMEADSMO makes advance payments to vendors these are reflected as prepayments in the Statement of Financial Position.

Accounts Payable and Accruals

Accounts Payable represent amounts for which goods and/or services, supported by an invoice, have been received at year-end but which remain unpaid. Accruals represent amounts for goods and/or services which are not yet supported by an invoice at year-end.

Unearned Revenue and Advances

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

Property, Plant and Equipment (PP&E)

PP&E is reported in the financial statements in accordance with NAMEADSMA's internal policy guidance for Property, Plant and Equipment for the Administrative Budget. PP&E is recognized in accordance with the criteria relating to control outlined in the NATO Accounting Framework.

After recognition as an asset, an item of PP&E is carried at its historical cost less any accumulated depreciation. Total cost consists of the asset purchase price plus any installation costs for bringing the asset to working condition for its intended use.

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As allowed under the NATO Accounting Framework, NAMEADSMO uses capitalization thresholds based on its activities and size. These thresholds are lower than the agreed NATO thresholds in the framework.

NAMEADSMO uses the straight-line method of depreciation (calculated by dividing the cost equally over the asset's useful life) with a half-year rule to recognize assets with six months depreciation in the first year regardless of the date the asset was received. The half-year rule treats all property acquired during the year as being acquired exactly in the middle of the year. This means that only half of the full-year depreciation is allowed in the first year, with the remaining balance being deducted in the final year of the depreciation schedule, or the year that the property is disposed.

The estimated useful lives for asset classes applicable to NAMEADSMO are listed in the table below. Note that for some items the useful life is longer than the estimated life of the Agency (January 2015). The depreciation expense was adjusted in 2012 and again in 2013 to the expected end of the life of the Agency. 2015 is the final depreciation year for all remaining assets.

Asset Class	Depreciation Method	Useful Life Years	Capitalization Threshold Dollars (\$)	Notes
Leasehold Improvements	Straight-Line	40	65,000	Major Building Renovations
Furniture & Fixtures	Straight-Line	10	1,000	Per item cost
Communication Systems	Straight-Line	3	1,000	Per item cost
Automated Information Systems	Straight-Line	3	1,000	Per item cost
Major Software	Straight-Line	3	65,000	Acquired Externally

Intangible Assets

NAMEADSMO does not have any intangible assets to disclose in the financial statements.

Retirement benefit plans: NATO Defined Contribution Pension Scheme (DCPS)

Contributions to the DCPS are charged to the statement of financial performance in the year to which they relate. NAMEADSMO is not exposed directly to any liabilities that may arise on the scheme and has no control over the assets of the scheme. The assets and liabilities for the NATO Pension Schemes are accounted for centrally by NATO IS.

Retirement benefit plans: NATO Defined Benefit Scheme

Contributions to the defined benefit scheme are charged to the statement of financial performance in the year to which they relate. NAMEADSMO is not exposed directly to any liabilities that may arise on the scheme and has no control over the assets of the scheme. The assets and liabilities for the NATO Pension Schemes are accounted for centrally by NATO IS.

Provisions

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

Contingent Liabilities

Contingent liabilities are possible obligations arising from past events whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the control of NAMEADSMO.

Reserves and Net Assets

NAMEADSMO operates on a “no profit, no loss” basis. As such, it does not have net assets; any surplus gained in the year becomes payable to the Participants while any deficit becomes a receivable from the Participants.

Note 2. Use of Estimates

In accordance with generally accepted accounting principles, the financial statements necessarily include amounts based on estimates and assumptions by management in accordance with the most reliable information available. Estimates include accrued revenue and expenses. The majority of the system development work is performed by third parties (private sector contractors and government entities); therefore, accrued expenses and the related revenue recognition are based on estimates. Actual results could differ from those estimates. Changes in estimates are reflected in the period in which they become known.

Note 3. Cash

2014:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational	35,509,448	-	6,955,784	-	39,378,690	91,657,637
Administrative		584,419		9,145	15,657,097	16,250,661
TOTAL	35,509,448	584,419	6,955,784	9,145	55,035,787	107,908,298

2013:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational	71,394,409	1,983,470	28,509,362	33,957	261,514,881	398,851,965
Administrative		2,090,061		971,408	18,153,914	21,215,383
TOTAL	71,394,409	4,073,531	28,509,362	1,005,366	279,668,795	420,067,348

The agency's cash includes deposits which are partly held in interest-bearing current bank accounts in immediately available funds. Current bank accounts are held in USD (\$) and Euro (€) currencies.

Note 4. Receivables**2014:**

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational						
Advances				30		30
Accrued Receivables					12,227	12,227
Contract Receivables		-		-	356,819	356,819
Total Operational	-	-	-	30	369,046	369,076
Administrative						
Miscellaneous		5,314		3,522	12,252	21,087
Total Administrative		5,314		3,522	12,252	21,087
TOTAL	-	5,314	-	3,552	381,298	390,163

2013:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational						-
Advances				30		30
WSMR Receivables		2,665		1,765	433,250	437,680
Total Operational	-	2,665	-	1,795	433,250	437,710
Administrative						-
Miscellaneous		5,666		1,342	15,475	22,482
Total Administrative		5,666		1,342	15,475	22,482
TOTAL	-	8,330	-	3,137	448,725	460,192

Operational accrued and contract receivables in 2014 include credits from the prime contractor and bank fees.

The WSMR receivable in 2013 were returns from the US Lower Tier Project Office (LTPO) of task order pre-paid funds. These returns were received in January 2014.

Note 5. Prepayments**2014:**

Prepayments for Administrative of \$11,329 are included in Receivables. There are no prepayments for Operational.

2013:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational/WSMR					3,186,239	3,186,239
Administrative						-
TOTAL	-	-	-	-	3,186,239	3,186,239

Prepayments for 2013 are advance payments made to US LTPO to fund activities carried out for the program by Government test support agencies, to include WSMR, Aberdeen Proving Ground, US Army Research, Development, and Engineering Center, US Army Corps of Engineers, and US Army Space and Missile Defense Command/Army Strategic Forces Command.

Note 6. Property, Plant and Equipment

The gross carrying amount and the accumulated depreciation at the beginning and end of the period can be seen in the table below. A reconciliation of the carrying amount at the beginning and end of the period is also displayed.

	Furniture & Fixtures		Communication Systems		Automated Information Systems		Major Software		Total	
Reporting Period	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Gross Carrying Amount, opening	51,027	51,027	33,484	33,484	280,316	280,316	850,128	850,128	1,214,955	1,214,955
Additions	-	-	-	-	-	-	-	-	-	-
Disposals	(11,898)	-	(20,062)	-	(60,380)	-	-	-	(92,340)	-
Loss on Disposals	(1,486)	-	-	-	-	-	-	-	(1,486)	-
Gross Carrying Amount, closing	37,643	51,027	13,422	33,484	219,936	280,316	850,128	850,128	1,121,129	1,214,955
Accumulated Depreciation, opening	38,601	30,323	31,247	23,429	260,154	194,237	708,440	425,064	1,038,442	673,053
Depreciation	7,888	8,278	2,237	7,818	19,705	65,917	141,688	283,376	171,518	365,389
Disposals	(11,898)	-	(20,062)	-	(60,380)	-	-	-	(92,340)	-
Accumulated Depreciation, closing	34,591	38,601	13,422	31,247	219,479	260,154	850,128	708,440	1,117,620	1,038,442
Net Carrying Amount	3,052	12,426	-	2,237	457	20,162	-	141,688	3,509	176,513

Note 7. Accounts Payable and Accruals**2014:**

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational						
Invoices Payable	1,870,286	-	1,855,745	-	4,241,726	8,828,843
Accrued Expenses	1,788,265	-	4,536,204	-	6,863,638	14,649,692
Total Operational	3,658,551	-	6,391,950	-	11,105,364	23,478,536
Administrative						
Accounts Payable		13,655		9,049	31,483	54,188
Accrued Expenses		14,214		9,419	32,771	56,404
Total Administrative		27,869		18,469	64,254	110,592
TOTAL	3,658,551	27,869	6,391,950	18,469	11,169,618	23,589,127

2013:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational						-
Invoices Payable		341,552	14,715	33,957	34,220,702	34,616,142
Accrued Expenses		179,929	16,052	1,765	20,726,648	20,930,084
Total Operational	-	521,481	30,767	35,722	54,947,350	55,546,226
Administrative						-
Accrued Expenses		34,213		8,254	164,956	207,424
Total Administrative		34,213		8,254	164,956	207,424
TOTAL	-	555,693	30,767	43,976	55,112,306	55,753,650

Payables to contractors and suppliers include invoices received from suppliers but not yet paid and estimated accrued expenses. The decrease in 2014 is due to the winding down of the program.

Note 8. Payable to Nations**2014:**

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational						
Interest Payable	62,479		4,822		27,884	110,738
Total Operational	62,479	-	4,822	-	27,884	110,738
Administrative						
Interest		-		-	-	-
Total Administrative		-		-	-	-
TOTAL	62,479	-	4,822	-	27,884	110,738

2013:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational						-
Interest Payable	87,618		1,767		32,492	153,564
Italian Truck Payable			1,329,031			1,800,172
Total Operational	87,618	-	1,330,798	-	32,492	1,953,736
Administrative						
Interest		23		13	43	78
Total Administrative		23		13	43	78
TOTAL	87,618	23	1,330,798	13	32,534	1,953,814

Payables to Nations include interest to be returned to Participants.

Italy (IT) signed a contract with NSPA (formerly NAMSA) to procure Italian Trucks (to be provided as GFE to the program) and chose to deposit the funds with NAMEADSMA in order to make the payment. NAMEADSMA only executes a treasury function for this effort, in that the Agency receives the funds from Italy and pays the invoices in accordance with Steering Committee authorization (currently the BoD), but NAMEADSMA has no true responsibility for the contract administration, deliveries, or acceptance of end items. The total contract amount for the IT Trucks is €10,719,787. Total invoiced through 2012 for the Italian Truck contract is €9,390,756. In 2013, no activity occurred and NAMEADSMA requested clarification from NSPA regarding the close-out of the Italian Trucks contract. In 2014 it was confirmed that the remaining €1,329,031, formerly considered payable to Italy was no longer needed as the contract had been closed by NSPA. Since the Italian Trucks were provided to the program against a financial credit to total contribution, the financial credit recognized in the FMPD did not require an increase and the remaining €1,329,031 has been accounted for in the unearned revenue balance.

Note 9. Unearned Revenue and Advances**2014:**

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational						
Advanced Contributions	-		-			-
Unearned Revenue	31,788,418	-	559,012	30	28,614,487	68,437,439
Total Operational	31,788,418	-	559,012	30	28,614,487	68,437,439
Administrative						
Advanced Contributions		-		-	-	-
Unearned Revenue		564,402		9,145	15,591,116	16,164,664
Total Admin		564,402		9,145	15,591,116	16,164,664
TOTAL	31,788,418	564,402	559,012	9,175	44,205,604	84,602,103

2013:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational						
Advanced Contributions	10,733,591		19,673,053			41,185,799
Unearned Revenue	60,573,199	1,464,654	7,474,744	30	210,154,528	303,790,152
Total Operational	71,306,790	1,464,654	27,147,797	30	210,154,528	344,975,951
Administrative						
Advanced Contributions		1,407,311		746,926	15,620,401	17,774,639
Unearned Revenue		698,336		298,238	2,435,663	3,432,237
Total Admin		2,105,647		1,045,164	18,056,065	21,206,876
TOTAL	71,306,790	3,570,302	27,147,797	1,045,194	228,210,593	366,182,828

Unearned revenue includes lapses and interest income earned that Participants have instructed remain on the program accounts rather than be returned to the respective national treasuries.

Note 10. Cross Border Financing

Cross Border transactions between Participants occurred in 2007, 2008, and 2009. In 2007, US industry costs in the amount of €6,519,209 were financed using funds held in the Italian bank account. In 2008, US industry costs in the amount of €29,469,040 were financed using funds in the German bank account. In 2009, US industry costs in the amount of €3,264,433 and \$2,065,455 were financed using funds in the Italian bank accounts. In accordance with NAMEADSMO's FMPD these transactions must be tracked by NAMEADSMA and have to be rebalanced in the same currency as the original transaction. \$345,961 were rebalanced from US account to IT during 2010. In 2011, \$3,492 (equivalent €2,682 at year-end-rate) was rebalanced from US account to German industry. In 2012, €58,533,349 and \$1,702,213.07 was rebalanced from US account to Italian industry. Also, €29,469,040 was rebalanced from US account to German industry. In 2013, the remaining outstanding balance of €1,250,292 and \$17,281 was paid in full. There was no activity in 2014.

Note 11. Contingencies

NAMEADSMA has been informed by MEADS International (MI) on 1 Dec 2014 that in accordance with the D&D prime contract, they propose a Request for Equitable Adjustment (REA) relating to programmatic delays. The REA prepared by MEADS International assesses a total cost impact of \$7,782,400. NAMEADSMA challenges this estimate. Considering the claimed possible delays causing the estimated additional costs, the possibility that the current contractual liability limit will not be sufficient to cover the full scope of the D&D contract close-out is extremely low and it is very unlikely that an outflow of resources will be required. Nevertheless, NAMEADSMA has sufficient uncommitted funds to cover the possible additional cost caused by the claimed delays.

Note 12. Revenue**2014:**

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational	39,518,372	1,464,654	27,917,816	-	184,046,576	272,551,862
Administrative		3,658,236		2,139,776	2,484,556	8,282,567
TOTAL	39,518,372	5,122,890	27,917,816	2,139,776	186,531,132	280,834,429

2013:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational	48,052,643	4,869,230	30,840,790	3,551,142	282,012,923	394,219,882
Administrative		4,302,609		2,218,788	3,475,630	9,997,027
TOTAL	48,052,643	9,171,840	30,840,790	5,769,930	285,488,553	404,216,909

Note 13. Expenses**2014:**

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational						
Prime Contract (MI)	36,741,880	1,464,654	26,837,609		176,194,444	259,787,163
Support (MEADS LLC+LFS+FMS)	947,957		945,412		5,966,134	8,434,936
Target						-
Test					1,069,755	1,069,755
IT-Common Criteria/MFCR#2/TOC	1,828,608		135,467		816,244	3,260,936
Miscellaneous	(72)		(673)			(928)
Total Operational	39,518,372	1,464,654	27,917,816	-	184,046,576	272,551,862
Administrative						
Personnel		3,065,725		1,812,662	1,243,660	6,122,047
Operating		548,914		298,222	1,140,381	1,987,517
Depreciation		43,597		28,892	100,515	173,003
Total Admin		3,658,236		2,139,776	2,484,556	8,282,567
TOTAL Ops / Admin	39,518,372	5,122,890	27,917,816	2,139,776	186,531,132	280,834,429

2013:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational						
Prime Contract (MI)	47,103,095	3,833,785	29,982,027	2,682,781	261,626,340	369,543,251
Support (MEADS LLC+LFS)	877,426		680,966	162,927	6,013,130	8,227,101
Target					1,686,078	-
Test		1,035,446		685,764	12,687,375	16,094,680
IT-Common Criteria/GE Mat.	72,122		177,797	19,671		354,850
Miscellaneous						-
Total Operational	48,052,643	4,869,230	30,840,790	3,551,142	282,012,923	394,219,882
Administrative						
Personnel		3,618,223		2,065,102	1,776,977	7,460,301
Operating		592,309		131,873	1,447,155	2,171,337
Depreciation		92,078		21,814	251,497	365,389
Total Admin		4,302,609		2,218,788	3,475,630	9,997,027
TOTAL Ops / Admin	48,052,643	9,171,840	30,840,790	5,769,930	285,488,553	404,216,909

Administrative depreciation expense includes depreciation expense and any loss on disposal of assets.

Note 14. Personnel Expenses

The figures disclosed below represent the costs of NATO personnel including salary, allowances, complementary insurance, and pension plan contributions. Please note that Personnel Expense amount in the Statement of Financial Performance is greater than the employee benefits expense defined in this note because Personnel Expense in the Statement of Financial Performance includes all Chapter 1 budget Personnel items such as recruitment/separation, home leave, contractor personnel expense, etc.

	2014	2013
Employee Benefits Expense	\$ 5,282,792	\$ 6,159,568
Post-employee benefits (DCPS)	\$ 412,775	\$ 490,448

NAMEADSMA does not accrue untaken leave. In accordance with NAMEADSMA's policy and per the Agency's Operating Instruction 4.7.3 and Articles 42.3.3 and 42.3.4, untaken leave must be taken within the time period it is accrued or will be forfeited.

NAMEADSMA does not have any termination benefits because the Agency expects to honor all existing NATO personnel contracts.

NATO Pension Schemes are accounted for centrally at NATO Headquarters and therefore are not recognized in these financial statements. NATO IS manages these systems centrally on behalf of the other NATO entities.

Note 15. Leases

NAMEADSMA has an operational lease with BR Cummings Research Park Portfolio III, TIC-1, LLC. For lease termination, the tenant (NAMEADSMA) must notify the landlord not later than seven months prior to the anticipated date of termination and provide documentation that the Participants have decided that NAMEADSMA: i) relocate its offices to a government owned/leased facility; or ii) cease to exist as a agency.

NAMEADSMA will pay the landlord an amount equal to the unamortized cost of the lease improvements done by the landlord calculated at an annual percentage rate of ten percent (10%) and a term which shall take into account the date in which the landlord expended the monies for such improvements. In January 2014, NAMEADSMA paid a relinquishment fee of \$16,500.

The current operating lease runs through 31 January 2016. The obligated base lease payments from 01 January 2015 through 31 January 2016 total \$378,518. In addition, NAMEADSMA pays monthly operating expenses which are estimated to be \$65,684 for the same period.

NAMEADSMA does not have any financial leases.

Note 16. Budget Execution Reconciliation

This table reconciles the expenses in the Budget Execution Statement to the expenses in the Statement of Cash Flows. All Euro figures are in equivalent US dollars.

Budget	2014 Payments (Cash Flows)	Foreign Exchange Differences (see below)	Other Adjustments (Note 4)	2014 Budget Payments*
Operational				
Total Operational				
GE (note 1)	48,764,576	(4,090,606)		44,673,969
IT (note 2)	27,963,077	(2,274,161)	(9,712,875)	15,976,041
US (note 3)	222,119,356	(10,335,838)	9,712,875	221,496,393
Total Ops GE/IT/US	298,847,008	(16,700,605)	-	282,146,403
Administrative				
Total Administrative				
GE	3,639,835	-		3,639,835
IT	2,127,494	-		2,127,494
US	2,506,021	-		2,506,021
Total Admin GE/IT/US	8,273,350	-		8,273,350
Total Operational + Admin				
GE	52,404,410	(4,090,606)		48,313,804
IT	30,090,571	(2,274,161)		18,103,535
US	224,625,377	(10,335,838)		224,002,414
Total Ops/Admin GE/IT/US	307,120,359	(16,700,605)		290,419,754

*The cash based Budget is limited for each currency by the FMPD ceiling at the MOU rates:

Chapter 2 - 1 USD = .97 Euro
Chapter 3 - 1 Euro = 1.19 USD

Notes:

Note 1: \$4,090,606 difference arising from MOU rate vs applied NATO average monthly rates.

Note 2: \$2,274,161 difference arising from MOU rate vs applied NATO average monthly rates.

Note 3: \$10,335,838 exchange losses paying for EURO invoices from US dollar account and returns.

Note 4: In 2014, Italy's budget credit limit (at MOU rates) was reached. However, there was still \$9,712,875 of available cash in bank that had been earned from foreign exchange gains on prior years' cross border financing that Italy had provided to the US. These resources were used to fund 2014 budget payments. This adjustment allocated an equal amount of budget payments from Italy to the US.

Note 17. Explanation of Carry Forward and Lapsed Credits

In the Budget Execution Statement, the carry forward from 2014 to 2015 for Chapter 3 (Design and Development) totaled \$70,249,711 (in equivalent Dollars) with the US Dollars portion carrying the largest amount of \$46,241,053. This is mostly due to the restructuring of the prime contract with a contract amendment signed in December 2013. This resulted in focusing short term effort on execution of the System Demo in PdM and shifting considerable close-out effort to the future.

The amount of lapsed credits totaled \$46,344,588 (in equivalent Dollars). These funds were mostly budgeted for additional planned scope under the prime contract.

For the Administrative Budget, Chapter 1 – Personnel and Chapter 2 – Admin/Services carry forward amounts of \$254,501 are primarily due to funds committed in 2014 for removals occurring in December 2014 and January 2015.

Lapsed credit amounts for Chapter 1 – Personnel are mainly due to the early departure of staff members and the de-commitment of funds for the closed out LLC US Only contract. Lapsed credit amounts for Chapter 2 – Admin/Services are mainly due to the decrease of rental space, discontinuation of the intranet portal, and less travel than budgeted.

Note 18. Budget Transfers

For the Administrative Budget, transfers of credits between budget chapters can be made after approval of the BoD. The General Manager may authorize transfers within any chapter between items and among sub-items within an item concerning recurring expenditure and within any item concerning capital expenditure. In accordance with the NATO Financial Regulations (NFR III Art. 10), a statement of Administrative Budget budgetary transfers recorded in 2014 is presented in the following table:

Item	Name	2014 Transfers within AB
Budget 802 - 2 Nations (GE/IT Only)		
1110	Basic Salary	(17,625)
1123	Installation Allowance	17,625
Budget 803 - 3 Nations (GE/IT/US)		
1131	Dependent Allowance	116
1132	Recruitment/Separation	(116)
2510	Transportation	125,000
2520	Subsistence Allowance	(125,000)
Budget 805 - 1 Nation (GE Only)		
1132	Recruitment/Separation	(1,300)
1136	Education Allowance	1,300

For the Operational Budget, transfers of credits between budget chapters and items can be made after approval by the BoD. The General Manager may authorize transfers between sub-items within any chapter item. In 2014 there were no Operational Budget transfers authorized by the GM. All transfers were approved by way of an amendment to the Operational Budget approved by the BoD.

Note 19. Draw Down of Operations

As a result of the Participants' decisions, NAMEADSMA continues to draw down operations.

Consistent with previous years and to avoid any transportation and/or disposal cost, NAMEADSMA continues to donate administrative property to charitable organizations with no revenue proceeds. In consideration of this and the non-going concern basis, NAMEADSMA adopted a modified depreciation schedule for the years 2012 through 2015 in order to fairly allocate depreciation costs based on the shortened life of the Agency.

For the purpose of the prime contract scope (D&D), the prime contractor and all sub-contractors separately maintain control and accountability of all material purchased or assembled. The Participants will continue to review an agreed upon dissolution process for D&D. NAMEADSMA's role in this process is to serve as a facilitator.

Note 20. Write-Off

In accordance with the NAMEADSMO Financial Rules and Regulations (FRR Section VIII, 127), there were 8 write-offs of capitalized assets recorded in 2014, for a total book value of \$1,485. In the same period, NAMEADSMA disposed 443 non-capitalized items for a total acquisition cost of \$417,222. These assets included office furnishings and IT equipment.

Note 21. Employee Disclosure

The costs for US detailed personnel, related to salaries and benefits, are paid directly by the US Government, and, therefore, are not budgeted by NAMEADSMA. The US Government costs for the US personnel detailed to the agency for January through September 2014 were \$2,413,457.

Note 22. Financial Risks

NAMEADSMA is minimally exposed to a variety of financial risks, including market risk (foreign exchange), credit and liquidity risks. NAMEADSMA uses only non-derivative financial instruments as part of its normal operations. These financial instruments include, cash bank accounts and accounts receivable and payable.

a. Money Market (Transaction) risk

NAMEADSMA receives contributions from the Participants in USD (\$) and EURO (€), based on the FMPD. Generally, expenses are paid in the same currency as the receipts. Since total obligations for each currency do not match the available resources in the same currency, there is some foreign exchange risk from fluctuations in currency rates. To mitigate this risk, the BoD authorized (decision D15/09) to pay all invoices in Euros using available Dollars until total obligations in Euros will be lower than available resources in Euros.

b. Credit risk

NAMEADSMA holds bank account balances with registered banking institutions in USA, Germany and Italy. Wells Fargo (US) and Sparkasse (Germany) have a very low long term credit risk rating, and Unicredit (Italy) has a moderate long term credit risk rating. In accordance to Moody's, the following are the latest long term credit risk ratings assigned:

- Wells Fargo: Aa3
- Sparkasse: Aa2
- Unicredit: Baa2

c. Liquidity risk

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

NAMEADSMA does not expect to encounter any difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash. The Agency utilizes cash only and does not have any other type of financial instrument to convert into cash which are restricted.

Looking forward, for the Administrative Budget, the final German and Italian administrative funds were received in 2014. The last funding support provided by the US was in 2013 and no additional contribution will be provided for the remainder of the MEADS program, as noted by the BoD with decision D14/08. Current available funding covers the current contractual liabilities.

For the Operational Budget, Germany and Italy reached their contribution limits in 2013, while no additional US funds will be provided for the remainder of the MEADS program, as noted by the BoD with decision D14/08. Current available funding covers the current contractual liabilities.

Note 23. Related Parties

NAMEADSMA is under direct control of NAMEADSMO's Board of Directors.

The key management personnel of NAMEADSMA and the BoD have no significant party relationships that could affect the operation of this reporting entity. Board members receive no remuneration and senior management is remunerated in accordance with the published NATO pay scales. Neither receives loans that are not available to all staff.

NATO IS, who deals with NATO pensions on behalf of other NATO entities, is a related party due to NAMEADSMA's pension plans being handled centrally at NATO HQ. NATO IS performed administrative support services for NAMEADSMA, for which a total fee of \$46,864 (€37,836) was charged and paid. The fee charged was an appropriate allocation of costs incurred.

There are three key management personnel: the General Manager, Deputy General Manager/Director Business, and Director Technical Integration. The aggregate remuneration of key management personnel includes salary, allowances, and complementary insurances and was as follows during the year:

	2014	2013
Aggregate remuneration	\$ 583,673	\$ 686,096
Post-employment benefits (DCPS)	\$ 49,581	\$ 52,409

Note 24. Representation Allowance

Effective 1 June 2013, as required by PO(2013)0154 dated 27 March 2013, NAMEADMSA adopted a new management policy for transactions regarding Representation Allowance. Specifically, management of representation allowance moved from a situation where recipients receive the representation allowance as an advance and return unspent funds to NATO to a situation where all recipients are reimbursed permitted expenses within the limits of their individual representation allowance allocation. The following table provides a summary of operations related to the representation allowance. The General Manager's total entitlement to representation allowance in 2014 was \$14,193. Actual expenses incurred were:

	2014	2013
Rental Supplement	-	1,478
Hospitality and other	9,947	12,585
Total Expenses	\$ 9,947	\$ 14,063

Note 25. Events after the Reporting Period

On 24 January 2015 in accordance with FLCC Action Item 09/11, the BoD approved the reallocation of 4.5 million USD from the Administrative bank account to the Operational bank account. The funds were transferred on 18 February 2015.

There have been no other events between the reporting date and 02 April 2015 that would affect the amounts recognized in these financial statements.

Note 26. Approval of Financial Statements

The financial statements were approved by the Financial Controller and authorized for issue by the Acting General Manager on 02 April 2015.

I. Report of Management

The North Atlantic Treaty Organization (NATO) Medium Extended Air Defense Missile System Management Organization's (NAMEADSMO) Financial Statements have been prepared in accordance with the NATO Accounting Framework, the International Public Sector Accounting Standards (IPSAS) and the Organization's Financial Regulations and Regulations. The Agency's system of internal financial control is designed to provide reasonable assurance regarding the reliability of financial reports and the preparation of financial statements.

The NAMEADSMO Financial Statements are certified by the Financial Controller to the best of his 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 NAMEADSMO and to be in accordance with the books and records maintained.

FOR THE GENERAL MANAGER



Lucio Provenzani
Financial Controller

02 April 2015

Annex I: Budget Calls and Receipts

NAMEADSMO FINANCIAL STATEMENTS Budget Calls and Receipts 2014 As at 31 December 2014

The Operational and Administrative Budget contributions are called based on cash requirements and within the FMPD schedule and limits. The Operational Budget reached the contribution ceiling in 2013 and as such there were no calls made in 2014. The Administrative Budget reached the contribution ceiling in 2014. The following table shows the calls for the Administrative Budget:

	GE	IT	US
Bank Balance 1 Jan 14 (funds available)**	2,091,707.85	971,785.61	18,158,369.67
2013 C/F	87,045.19	45,697.80	426,026.75
2014 AB Cash Flow	4,640,534.00	2,713,572.40	3,180,342.00
2014 Total AB	4,727,579.19	2,759,270.20	3,606,368.75
To call for 2014 Cash Flow	2,635,871.34	1,787,484.59	(14,552,000.92)
Prior Year 2013 Outstanding Calls			
DATE	GE	IT	US
Total Prior Year Outstanding	-	-	-
CALLED in 2014			
DATE	GE	IT	US
18-Mar-14		1,098,121.00	
16-Jun-14	1,000,000.00		
10-Jul-14	290,199.00		
31-Oct-14	818,285.00		
Total Called for 2014	2,108,484.00	1,098,121.00	-
Total Called with Prior	2,108,484.00	1,098,121.00	-
RECEIVED in 2014			
DATE	GE	IT	US
2-Jun-14		1,098,121.00	
7-Jul-14	1,000,000.00		
3-Sep-14	290,179.00		
17-Nov-14	818,285.00		
Total Received for 2014	2,108,464.00	1,098,121.00	-