

	NATO	NORTH ATLANTIC COUNCIL
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30 August 2016

DOCUMENT
C-M(2016)0045-AS1 (INV)

**IBAN REPORT ON THE AUDIT
OF THE NATO AIRBORNE EARLY WARNING & CONTROL PROGRAMME
MANAGEMENT AGENCY FINANCIAL STATEMENTS FOR 2014**

ACTION SHEET

On 26 August 2016, under the silence procedure, the Council noted the IBAN report IBA-AR(2015)22 and agreed the recommendations, including on public disclosure, contained in the RPPB report attached to C-M(2016)0045 (INV).

(Signed) Alexander Vershbow
Deputy Secretary General

NOTE: 1. This Action Sheet is part of, and shall be attached to C-M(2016)0045 (INV).

2. This Action Sheet may be considered NATO UNCLASSIFIED when separated from the document which it refers.

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1 August 2016

DOCUMENT
C-M(2016)0045 (INV)
Silence Procedure ends:
26 Aug 2016 16:00

**IBAN REPORT ON THE AUDIT
OF THE NATO AIRBORNE EARLY WARNING & CONTROL PROGRAMME
MANAGEMENT AGENCY FINANCIAL STATEMENTS 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 Airborne Early Warning & Control Programme Management Agency (NAPMA) for the year ended 31 December 2014.
2. The IBAN has issued a qualified opinion on the NAPMA financial statements for 2014 and an unqualified opinion on compliance for the financial year 2014. The IBAN report and the qualification continue to highlight the difficulties in reconciling the expenditures related to the United States System Programme Office (indirect contracting under the US Government Acquisition Agreement) that has formed the basis for qualifications on the NAPMA Financial Statements since 2010.
3. The IBAN report has been reviewed by the Resource Policy and Planning Board (RPPB), which has provided its comments and recommendations on the report (see Annexes). The RPPB concludes that changes in the NATO Accounting Framework¹ should enable future financial statements to avoid qualification on the basis of the way in which purchases under the United States System Programme Office (indirect contracting under the US Government Acquisition Agreement) are treated.
4. I consider that no further discussion regarding this report is required. Consequently, **unless I hear to the contrary by 16:00 hours on Friday, 26 August 2016**, I shall assume that the Council has noted the IBAN report IBA-AR(2015)22 and agreed the recommendations, including on public disclosure, contained in the enclosed the RPPB report.

(Signed) Alexander Vershbow

4 annexes
1 Enclosure

Original: English

¹ C-M(2016)0023



**IBAN REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS OF THE NATO
AIRBORNE EARLY WARNING & CONTROL PROGRAMME MANAGEMENT AGENCY
(NAPMA) FOR 2014**

Report by the Resource Policy and Planning Board (RPPB)

References:

- (a) IBA-A(2015)0126 & IBA-AR(2015)22
- (b) BC-D(2016)0078

Background

1. The present report by the Resource Policy and Planning Board (RPPB) contains the RPPB's observations and recommendations concerning the International Board of Auditors for NATO (IBAN) report (reference (a)).
2. The report takes full account of the review of the IBAN report provided by the Budget Committee (BC) (reference (b)).

Discussion

3. The Board notes that there were no audit observations related to the NAPMA financial statements for 2014 *per se* and that the qualified opinion stems from unresolved observations and qualifications from previous years audits.
4. The IBAN submitted a qualified opinion on the NAPMA financial statements for 2014 and an unqualified opinion on compliance for the financial year 2014. This follows on from a qualified opinion on the NAPMA Financial Statements for 2013², which highlighted the difficulties in reconciling the expenditures related to the United States System Programme Office (indirect contracting under the United States Government Acquisition Agreement) that formed the basis for qualifications on the NAPMA financial statements since 2010. The Head of Financial Reporting Policy (HFRP) has since examined the issue and presented recommendations to the Board.
5. The Board, also noting the BC report, therefore considers that the qualification on the 2014 NAPMA financial statements stemming from the continuing observation related to the United States System Programme Office (indirect contracting under the US Government Acquisition Agreement) is likely to be resolved on the basis of the Board's review of the HFRP proposals in the NATO Accounting Framework³. Coupled with sufficient disclosure in NAPMA's financial statements, as required by the NATO Accounting Framework, this should aid the resolution of the issue for NAPMA where the inability to represent accrued costs has led to qualification since 2010.
6. The Board also notes there are three other observations from previous years IBAN reports that remained outstanding in 2014. The remaining three observations deal with the way cash holdings and calls are dealt with by NAPMA and its Board of Directors (BOD).

² C-M(2015)0076

³ C-M(2016)0023

6.1. For two of the observations the NAPMA BOD had indicated it concurs with the IBAN and revisions to its Financial Regulations were expected to resolve the observations in 2015. The Board therefore expects the IBAN audit of the 2015 financial statements to show these observations as settled.

6.2. The final outstanding observation dates from 2003. The IBAN observed that NAPMA should reduce its cash holdings to comply with the then extant NATO Financial Regulation 13. NAPMO while concurring with the observation noted NAPMA's cash holdings were a direct function of programme execution and calls were executed in accordance with agreed regulations. In their report, the BC notes that as part of the review and agreement of the NATO Financial Regulations (NFRs)⁴, the principle related to currency holding restrictions was removed. The Board therefore considers the issue to be closed, and that this should be confirmed as part of the IBAN audit of the 2015 NAPMA financial statements.

7. With regard to public disclosure, NAPMA and the NAPMO BOD conclude that their financial statements contain commercially sensitive information⁵, which, according to the NATO Policy on Public Disclosure of NATO Information⁶, is one of the ten NATO Exemptions that shall be withheld from public disclosure. NAPMA has nonetheless provided a public release version of the 2014 NAPMO financial statements.⁷ The IBAN has reviewed the adapted version and confirmed that the findings reflected in their original audit report remain valid.⁸ The Board recalls that the same approach was taken for the 2013 NAPMO financial statements to allow public disclosure. Further that NAPMA, as of the financial year 2015, has adapted the template of the financial statements to allow public disclosure.

RPPB Conclusions

8. Based on stakeholder input, the Board concludes that changes in the NATO Accounting Framework should enable future financial statements to avoid qualification on the basis of the way in which purchases under the US Government Acquisition Agreement are treated.

9. The Board considers that the lack of observations on the NAPMA financial statements for 2014 represents a very positive outcome; given the work by NAPMA to address prior year IBAN recommendations concerns and the issuance of new NATO Financial Regulations (NFRs)⁹, the 2015 IBAN audit report should reflect similar progress in resolving longstanding observations.

10. After due consideration of the arguments presented by NAPMA and the NAPMO BOD regarding public disclosure, and noting the IBAN view on the matter, the Board, in line

⁴ C-M(2015)0025

⁵ Confidential Commercial Information is any financial, business, scientific or technical information, including trade secrets and intellectual property that is entrusted to NATO and whose public disclosure could reasonably be expected to negatively affect the competitive position of a natural or legal person.

⁶ C-M(2008)0116; AC/324-D(2014)0010-REV1

⁷ NAPMA/FC(15)50-00/086

⁸ E-mail from Mr Brett Hare, IBAN Senior Auditor, 9 September 2015.

⁹ C-M(2015)0025

with PO(2015)0052, recommends to Council the publication of the public release version of the 2014 NAPMO financial statements and the associated IBAN report.

RPPB recommendations

11. The Resource Policy and Planning Board (RPPB) recommends that Council:
 - (a) note the IBAN report IBA-AR(2015)22 along with the present report;
 - (b) endorse the conclusions outlined in paragraphs 8 through 9;
 - (c) invite NAPMA to implement the IBAN recommendations;
 - (d) note that in the context of the new NATO Accounting Framework, temporary adaptation has been granted to deal with expenditures related to the United States System Programme Office (indirect contracting under the United States Government Acquisition Agreement); without it, NATO entities will continue to receive qualified audit opinions on an issue that it is beyond their ability to resolve;
 - (e) note that the Resource Committees intend to continue to monitor the status of outstanding audit observations;
 - (f) in line with the agreed policy in PO(2015)0052, agree to the public disclosure of the public release version of the NAPMO 2014 financial statements and the associated IBAN report (IBA-AR(2015)22).

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**Summary Note for Council
by the International Board of Auditors for NATO (Board)
on the audit of the Financial Statements of the
NATO Airborne Early Warning & Control Programme Management Agency (NAPMA)
for the year ended 31 December 2014**

The NATO Airborne Early Warning & Control Programme Management Organisation (NAPMO), including the NATO Airborne Early Warning & Control Programme Management Agency (NAPMA) was established to assume the direction, co-ordination, and the execution of the co-ordinated acquisition programme of the NATO Airborne Early Warning and Control (NAEW&C) system. The management of the program consists of overseeing the acquisition of the operating assets needed to establish NAEW&C capability and subsequent acquisitions of enhancements thereof. NAPMA expenditure in 2014 – including additions to modernisation assets – was approximately USD 68 million.

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

The reason for the qualified opinion is that the Board is unable to obtain sufficient and appropriate audit evidence related to transactions contracted through the United States' System Program Office (SPO). As at 31 December 2014, the total amount of such expenditures recorded in Project Expenses in the Statement of Financial Performance was approximately USD 0.4 million and the total amount of such expenditures that were capitalised as Work in Progress in the Statement of Financial Position was approximately USD 19.2 million.

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

The Board also followed up on the status of observations from previous years' audits and noted that two were settled and four remain outstanding. Out of the four outstanding observations, one impacted the audit opinion of the financial statements (Valuation of work in progress assets acquired via System Program Office).

NAPMO's Formal comments have been included in the Letter of Observations (Annex 4).

25 September 2015

AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF THE

NATO AIRBORNE EARLY WARNING AND CONTROL
PROGRAMME MANAGEMENT AGENCY

(NAPMA)

FOR THE YEAR ENDED 31 DECEMBER 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 the NATO Airborne Early Warning and Control Programme Management Agency (NAPMA), which comprised the Statement of Financial Position as at 31 December 2014, the Statement of Financial Performance, the Statement of Changes in Net Assets / Equity, the Cash Flow Statement for the year then ended, and Notes to the Financial Statements, including a Statement of Accounting Policies. The Board also audited the Statement of Budget Execution for the year ended 31 December 2014.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion on the Financial Statements

The Board is unable to obtain sufficient and appropriate audit evidence related to transactions contracted through the United State's System Program Office (SPO). The Board understands that NAPMA receives a monthly expenditure report from SPO that cannot be reconciled with delivery reports. As a result of that, the Board cannot assess the accuracy and completeness of these transactions. As at 31 December 2014, the total amount of such expenditures recorded in Project Expenses in the Statement of Financial Performance was approximately USD 0.4 million and the total amount of such expenditures that were capitalised as Work in Progress in the Statement of Financial Position was approximately USD 19.2 million.

Opinion on Financial Statements

In our opinion, except for the possible effects of the matters described in the *Basis for Qualified Opinion on the Financial Statements*, the Financial Statements present fairly, in all material respects, the financial position of NAPMA as of 31 December 2014, and of its financial performance and its cash flows for the year then ended are in accordance with the NATO Accounting Framework.

Report on Compliance

Management's Responsibility for Compliance

In addition to the responsibility for the preparation and presentation of the Financial Statements described above, management is also responsible for ensuring that the financial transactions and information reflected in the financial statements are in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations as 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, 25 September 2015

Lyn Sachs
Chairman

LETTER OF OBSERVATIONS AND RECOMMENDATIONS
FOR THE NATO AIRBORNE EARLY WARNING AND CONTROL
PROGRAMME MANAGEMENT AGENCY
(NAPMA)

FOR THE YEAR ENDED 31 DECEMBER 2014

Introduction

The International Board of Auditors for NATO (Board) audited the NATO Airborne Early Warning and Control Programme Management Agency (NAPMA) Financial Statements for the year ended 31 December 2014, and issued a qualified opinion on those financial statements due to scope limitation, and an unqualified opinion on compliance.

Observations and Recommendations

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

The Board followed up on the status of observations from its previous years' audits and noted that two were settled and four still remain outstanding. Out of the four outstanding observations, one impacted the audit opinion of the financial statements (Valuation of work in progress assets acquired via System Program Office).

The Board issued a Management Letter (reference IBA-AML(2015)09) to the General Manager, NAPMA.

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>1. Audit Report FY 2012 IBA-AR(2013)39, paragraph 4.1 Valuation of work in progress asset</p> <p>Observation The Board was unable to obtain sufficient and appropriate audit evidences on the expenditures conducted via the U.S. System Programme office (SPO). Therefore the Board was not able to assess the completeness and accuracy of the expenditures and related capitalizations that occurred during the year.</p> <p>Board's recommendation The Board recommended that NAPMA and the U.S. authorities continue their efforts to provide the Board with sufficient evidence to support the value of all work undertaken by U.S. contractors. In the Board's view, this should focus on the more timely delivery of DD250s to match physical deliverables with expenditure in a given year. In addition, NAPMA should explore with the U.S. authorities the possibility of providing additional information related to evidence of the delivered services.</p>	<p>The Board observed that despite attempts from NAPMA to reconcile information from several sources of information, the result was not satisfactory. The Board understands that no further improvement is foreseen by NAPMA and as such, the audit opinion will continue to be qualified based on a limitation on scope on SPO-related transactions.</p>	<p>Observation Outstanding.</p>
<p>Formal comments of the NAPMO Board of Directors</p> <p>NAPMO takes note of the outstanding observations from previous audits.</p> <p>1. Valuation of work in progress assets:</p> <p><i>NAPMO concurs with the recommendation. NAPMA and the US authorities will continue efforts to provide the IBAN with evidence to support the value of all work undertaken by US contractors, i.e. FUP. However, it should be recognized that such evidence can only be provided in accordance with the legal framework of NAPMO which determines the scope of the audit¹. The scope limitation does not warrant a qualified opinion as this would imply, due to the nature of the limitation, we will carry this qualification forever.</i></p> <p>¹ NAPMO Charter Annex III "Audit of the Account". The Authority of the Board of Auditors does not extend to auditing internal records of member states; however,</p>		

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<i>member states will make vouchers available to that Board in support of expenditure claimed by them on the NAPMO.</i>		
Board's position The Board maintains its position that the financial statements are qualified due to a scope limitation in respect to this issue.		
2. Audit Report FY 2012 IBA-AR(2013)39, paragraph 4.2 Statement of Comparison of Budget and Actual Amounts Observation The Board noticed inaccurate budgetary data on commitments and obligations carried forward in 2011. In 2012, the Board concluded that the carry forwards into 2012 on the prior year Statement of Comparison of Budget and Actual Amounts proved to be incorrect given the material correction to the carry forward into 2012 disclosed in the notes to the 2012 financial statements. Board's recommendation The Board recommended that the agency continue to investigate and correct any residual errors in the SAP budget reporting module to ensure that no material errors still exist within the system.	The Board observed that the budget obligations carried forward from 2013 into 2014 were corrected, for an immaterial value of 61,136 USD. As such, the information disclosed on the budget in the 2013 financial statement was inaccurate. As the value is immaterial, the Board will not report this issue as an Other Matters paragraph in its Auditor's Report. The Board also understands that proactive investigations for errors in prior years' budget carry forwards have ended and that in principle NAPMA does not expect any further material errors related to this issue.	Observation Settled.
3. Audit Report FY 2012 IBA-AR(2013)39, paragraph 4.3 Call for Funds Observation The Board found that the total call against CNS-ATM budget for 2012 exceeded authorized credit (by USD 5,368,242). The article 17.5 of NAPMO Financial Regulations states that on exceptional basis, calls may be based on a BoD approved method of calculation such as a fixed contribution ceiling by calendar/financial year.	The Board observed that one Nation made an early payment on its future contribution requirement also in 2014. The Board does not believe that the Board of Directors specifically approved this contribution, as required by the NAPMO Financial Regulations.	Observation Outstanding.

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p>The Board did not believe that the BoD has specifically approved the call that was over budget authority but within overall contract authority</p> <p>Board's recommendation The Board recommended that the agency ensure, in future, that all calls are made in accordance with its financial regulations and, if necessary, obtains approval from the BoD in accordance with art. 17.5 of its financial regulations</p>	<p>Previous year recommendation on similar issue was that NAPMA should ensure to follow its own regulations. This observation is still outstanding for 2014 audit.</p> <p>Nevertheless, NAPMO BOD approved on its 92nd Meeting, held on 2-4 December 2014, a revised wording of Article 17.5 of NAPMO Financial Regulations, as follows: "On a exceptional basis with the concurrence of nations involved, contribution call may be requested up to the approved contract authority".</p>	
<p>Formal comments of the NAPMO Board of Directors</p> <p><i>NAPMO concurs with the recommendation for 2014 calls. NAPMO Financial Regulations are revised and approved by the Board of Directors in BOD 92 which took place 2-4 December 2014 to clarify the conditions under which contributions may be called. Article 17.5 became effective with BOD 92 approval.</i></p> <p><i>Recommend closure.</i></p>		
<p>Board's position</p> <p>In next year's audit, the Board will review whether the revised Article 17.5 is in compliance with the revised NATO Financial Regulations that came into effect in 2015.</p> <p>The observation will remain outstanding.</p>		
<p>4. Audit Report FY 2005 IBA-AR(2006)21, paragraph 4.2 Inconsistent calls for contributions letters</p> <p>a) NAPMA should issue consistent contribution letters to all nations and not tailor the overall cash requirement figure for the convenience of each nation; and</p> <p>b) NAPMA should ensure that the contribution letters explicitly state which amounts are over and above actual cash requirements.</p>	<p>a) To facilitate the nations who chose to pay higher amounts, different overall cash requirements are stated on 2014 call letters.</p> <p>b) The call letters sent by NAPMA did not state to what extent the contribution call was over and above actual cash requirements. The Board, however, noted that NAPMA instituted a standardized invoice/letter as of 2014 for all calls for contributions.</p>	<p>a) Observation Outstanding.</p> <p>b) Observation Outstanding.</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
Formal comments of the NAPMO Board of Directors <i>NAPMO concurs with the recommendation. NAPMA has instituted a standardized invoice/letter as of 2014 for all calls for contributions however it has not stated to what extent the contribution call was over and above actual cash requirements. With the draft revision of NAPMO Financial Regulations the future calls for contribution and therefore the contribution letters will be strictly in line with the Medium Term Financial Plan. Over and above amounts will not be requested by the Agency. The draft revision of the NAPMO FR needs to be approved before end of 2015. Recommend closure when draft NAPMO FR's are approved by BOD.</i>		
5. Audit Report FY 2003 IBA-AR(2004)21, paragraph 4.1 Unnecessarily high holdings of cash NAPMA should reduce its holdings of cash-at-bank.	Cash held at year end 2014 amounts to USD 327.1 million, which represents an increase of USD 85.3 million in comparison to prior year. Cash represents 63.8% of the total assets. The Board observed that the level of cash at the end of the year amounts to more than 480% of the expenditures of the year. Per the NFRs, this continues to represent an excessive level of cash.	Observation Outstanding.
Formal comments of the NAPMO Board of Directors <i>NAPMO concurs with the recommendation. NAPMA's cash holdings is a direct function of how quickly or slowly our multi-year acquisition programmes are executing and being billed. The calls are in accordance with Article 17 of the NAPMO Financial regulations and the current cash status is briefed in every Board cycle.</i>		
Board's position The Board maintains its position that cash holdings are excessive according to the NATO Financial Regulations.		
6. Audit Report FY 2013 IBA-AR(2014)28, Letter of Observations and recommendations, paragraph 1.2 Improvements needed in process of identifying related party relationships and transactions		

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p>Observation</p> <p>The Board observed that NAPMA has a procedure in place to identify related party relationships and transactions whereby members of the governing bodies and certain members of staff have been asked to sign statements attesting to the fact that they don't have any related party relationships or transactions, or reporting those that they do have. However, the Board found that such signed statements could not be found for six governing body representatives. Without such statements, NAPMA is not in a position to fully ensure the completeness of the related party disclosures made in its financial statements, thus reducing the usefulness of the financial statements for transparency and accountability purposes.</p> <p>Board's recommendation</p> <p>The Board recommends NAPMA to follow-up with those governing body members whose statements attesting to the fact that they do not have any related party relationships or transactions, or reporting those that they do have, could not be found.</p> <p>NAPMA should also integrate how the receipt of such statements fits into their overall internal control environment in respect to the prevention and detection of fraud, including proper monitoring procedures and internal reporting mechanisms.</p>	<p>NAPMA requested at year-end 2014 signed statements of all members of the governing bodies and key staff members attesting they don't have any related party relationships or transactions.</p> <p>The Board checked all the mentioned statements during the audit fieldwork.</p>	<p>Observation Settled.</p>

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NAPMA FINANCIAL STATEMENTS FOR
FINANCIAL YEAR 2014

Public releasable version

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Contents NAPMA Financial Statements

1. Overview	Page 2 - 4
2. Statement of Financial Position	Page 5
3. Statement of Financial Performance	Page 6
4. Statement of Changes in Net Assets/Equity	Page 7
5. Cash Flow Statement	Page 8
6. Accounting Policies	Page 9 - 14
7. Notes to the Financial Statements	Page 15 - 26
8. Annex A Budget Execution Statement	Page 27

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1. OVERVIEW

Overview of the NAEW & C Programme Management Organisation's Operations and Environment (NAPMO)

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

In December 1978, a number of NATO Nations joined together to establish and implement the NATO NAEW&C Programme. As a result of the international agreements formally ratified at that time, the NAEW&C Programme Management Organisation (NAPMO) was created as a NATO Production and Logistics Organisation and established as a NATO civil organisation under the provisions of the 1951 Ottawa Agreement i.a.w. its charter.

Nations agreed to operate and support the NAEW&C Force under a single Force Commander subordinate to the Strategic Commanders (SCs). The Supreme Allied Commander Europe (SACEUR) acts as the executive agent for the SC's in NAEW&C matters. However with regard to the maintenance and supply concept the NAPMO retained responsibility to represent the NAPMO Nations' interest, in particular the NAPMO BOD is responsible for the Depot Level Maintenance (DLM) policy and its execution, while NAPMO at the same time is responsible for the achievement of industrial benefits. Moreover NAPMO exercises the ownership rights on the NATO E-3A aircraft and related assets acquired.

Currently, the NATO NAEW&C Programme is comprised of 16 Nations participating as full member – Belgium, Czech Republic, Denmark, Germany, Greece, Hungary, Italy, Luxembourg, The Netherlands, Norway, Poland, Portugal, Romania, Spain, Turkey, and the United States.

The United Kingdom exercises limited participation as a NAPMO member; but her fleet of E-3D aircraft is an integral part of the NAEW&C Force.

France has an observer role and maintains continual coordination to ensure her four E-3F aircraft remain interoperable with the other E-3 fleets. France also often assists in coordinated operations with the NAEW&C Force.

Role of the NAEW&C Programme Management Agency (NAPMA)

As NAPMO executive agent, the NAEW&C Programme Management Agency (NAPMA) is accountable to the Board of Directors for planning and coordinating acquisition strategy, managing projects associated with modernisation of the E-3A fleet, providing sustainment support services, and overseeing the technical aspects of the NAEW&C airworthiness programme.

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NAPMA is a programme management and budgetary organization funded through contributions made by the participating nations. In 2014, there were 16 participating nations including: Belgium, Czech Republic, Denmark, Germany, Greece, Hungary, Italy, Luxembourg, The Netherlands, Norway, Poland, Portugal, Romania, Spain, Turkey and the United States. Although represented on the Board of Directors (BOD), the United Kingdom does not financially contribute to the modernization programme since it has its own AWACS capability.

NAPMA's Peace Establishment (PE) is 116 posts, manned by seconded military officers and civilian personnel drawn from all of the Nations participating in the Programme. While most are located in Brunssum, the Netherlands, a small number perform their duties at the NATO Headquarters in Brussels, Belgium; in Seattle and in Boston, the United States of America. The legal status of NAPMA, as an integral part of the North Atlantic Treaty Organisation, is laid down in the Ottawa Agreement as of 20 September 1951. Based on this agreement, NAPMA is, inter alia, exempt from all taxes and customs duties. The NAPMA GM is responsible for the Technical Airworthiness of the NAEW&C Fleet.

How NAPMA's operating environment affects its financial statements

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

NAPMO has an agreement with the US Government that they can act as an exclusive general agent which has responsibility and authority to procure and manage the aircraft modernisation efforts. This gives NAPMO also a special arrangement in the Foreign Military Sales (FMS) process but more specifically the USG acts as the Agent for NAPMO resulting in Agent Contracts between NAPMO and US industry. The System Program Office (SPO) at Hanscom Airforce Base, Massachusetts to perform the day-to-day functions for the US Agent.

Compliance with Financial Regulations

NAPMA Financial Statements have been prepared in accordance with the accounting requirements of the NAPMO Financial Regulations (NFRs) and the Financial Implementing Rules and Procedures (FRP).

The NAPMA Financial Statements have also been prepared on the accrual basis of accounting in accordance with the NATO Accounting Framework which is based upon the International Public Sector Accounting Standards (IPSAS).

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How NAPMA's mission and strategies relate to its financial position, financial performance and cash flows

NAPMA's mission is to plan, acquire and deliver improvements to the NATO AEW&C capabilities following the guidance of the NAPMO nations taking into account the life cycle considerations.

In relation to the financial position NAPMA has several separate multi-year projects, both direct and indirect (administered by US agent), which require maintaining cash levels other than annual cash requirements.

Analysis of NAPMA's Financial Statements

Key points to note in respect of the financial statements are:

- NAPMA's functional and reporting currency used throughout these Financial Statements is stated in USD (\$) equivalent. Therefore realised and unrealised gains and losses resulting from the translation into USD and from the revaluation at the reporting dates of monetary assets and liabilities in currencies other than USD are recognised in the Statement of Financial Performance.
- Existing funds (revenue recognised in previous years) are used to cover dedicated project expenditures which are recognised in the Statement of Financial Performance.

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

Currently there are no specific risks that affect NAPMA's financial position and performance.

2. NAPMA STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014
(IN USD EQUIVALENT)

ASSETS	Notes	2014	2013
Current Assets			
Cash and Cash Equivalents	1	327,163,543	241,811,092
Receivables	2	46,339,753	43,989,229
Advances	3	6,319,799	10,093,750
Accruals/Deferrals	4	390	4,020
Non Current Assets			
Work in progress	5	131,889,074	90,606,495
Fixed Admin assets	6	729,165	846,610
TOTAL ASSETS		512,441,724	387,351,197
LIABILITIES			
Current Liabilities			
Accounts Payable	7	914,966	1,197,314
Accruals/Deferrals	8	2,187,365	1,027,920
Unearned Contributions	9	292,802,615	256,450,752
Non Current Liabilities			
Advance Contributions	10	83,597,349	30,158,953
Reimbursables NATO Entities	10	1,022,209	4,448,456
Deliverable to NAEW&C	11	131,889,074	90,606,495
TOTAL LIABILITIES		512,413,578	383,889,891
NET ASSETS		28,146	3,461,306
TOTAL LIABILITIES AND NET ASSETS		512,441,724	387,351,197

**3. NAPMA STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 DECEMBER 2014
(IN USD EQUIVALENT)**

REVENUE	Notes	2014	2013
Revenue from Contributions	12	23,744,808	25,047,039
Financial Revenue		0	0
Other Revenue		604,526	404,488
Total Revenue		24,349,334	25,451,527
EXPENSES			
Project Expenses	13	2,764,118	6,936,596
Administrative Expenses	13	22,206,813	22,556,733
Depreciation and amortization expenses	13	138,287	1,315,735
Financial Expenses	13	740,761	284,722
Total Expenses		25,849,978	31,093,786
SURPLUS/(DEFICIT) FOR THE YEAR	14	(1,500,645)	(5,642,258)

4. NAPMA STATEMENT OF CHANGES IN NET ASSETS / EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014
(IN USD EQUIVALENT)

	Restricted	Unrestricted	Accumulated Surpluses/ (Deficits)	Investment in Capital Assets	Accumulated Currency Transactions	Total 2014	Total 2013
Net Assets, beginning of year	19,716,685	8,977,542	(25,627,093)	846,610	(452,436)	3,461,306	9,992,944
Prior period adjustment: WIP Mid-Term incorrectly capitalized under fixed admin assets	0					0	79,974
Adjusted Net Assets, beginning of year						3,461,306	10,072,918
Surplus/-Deficit for the year (excl. Depreciation)			(1,362,358)			(1,362,358)	(4,326,523)
Excess of Revenue over Expenditure	642,439	(642,439)				0	0
Transfer for Expenses		53,550				53,550	(1,333,620)
Net change in Investment in Capital Assets	(20,842)			(117,445)		(138,287)	(1,139,742)
Revaluation adjustment for current period					(1,986,065)	(1,986,065)	188,273
Net Assets, end of year	20,338,282	8,388,653	(26,989,451)	729,165	(2,438,501)	28,146	3,461,306

5. NAPMA CASH FLOW STATEMENT FOR YEAR ENDED 31 DECEMBER 2014
(IN USD EQUIVALENT)

	2014	2013
Cash Flow from Operating Activities		
Surplus/(Deficit) from Operating Activities	(1,500,645)	(5,642,258)
Add: Non-Cash Movements		
Depreciation	138,287	1,315,735
Increase in Receivables	(2,350,524)	3,905,849
Decrease in Advance Payments	3,773,951	(1,323,913)
Decrease in Accruals/Deferrals	(35,944)	36,134
Increase in Payables	(282,348)	(2,499,161)
Increase in Unearned Contributions	36,351,862	35,760,246
Decrease in Advances Received	50,012,149	(9,827,426)
Change of Value in Asset Deliverable	43,342,466	71,701,991
Decrease in Goods Receipt	1,199,020	(144,570)
Net Cash Flow from Operating Activities	130,648,273	93,282,625
Cash Flow from Investing Activities		
Purchase of Assets	(20,842)	(295,953)
Correction to Assets	0	199,934
Purchase of Assets in Progress	(43,342,466)	(71,701,991)
Net Cash Flow from Investing Activities	(43,363,307)	(71,798,010)
Cash Flow from Financing Activities		
Fund Transfer from Net Assets	53,550	(1,157,627)
Effect of Currency Valuations		
Currency Valuation Operating Activities	0	0
Currency Valuation Financing Activities	(1,986,065)	188,273
Total Currency Valuations	(1,986,065)	188,273
Net Increase (Decrease) in Cash/Cash Equival.	85,352,451	20,515,261
Cash and Cash Equiv. Beginning of Period	241,811,092	221,295,830
Cash and Cash Equiv. End of Period	327,163,543	241,811,092

6. ACCOUNTING POLICIES

Accounting Period

The 2014 Financial Statements are based on the accounting records of NAPMA as of 31 December 2014. In accordance with the NAPMO Financial Regulations (NFR), the financial year at NAPMA begins on 1 January and ends on 31 December.

Reporting Currency

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

Basis of Preparation

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

Financial Reporting Framework

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

The NAPMA Financial Statements have also been prepared on the accrual basis of accounting in accordance with the NATO Accounting Framework which is based upon International Public Sector Accounting Standards (IPSAS) issued by the IPSAS Board (IPSASB) and relevant to NAPMA as decided by the North Atlantic Council in 2002.

IPSAS relating to IPSAS 12 – Inventories, IPSAS 17 - Property, Plant and Equipment and IPSAS 31 - Intangible Assets were adapted by the North Atlantic Council (the "NAC") in August 2013 for reporting periods beginning on 1 January 2013.

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

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

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Cash Flow Statement

IPSAS 2 – Cash Flow Statement allows the choice between presenting the cash flow based on the direct method or indirect method. NAPMA has elected to use the indirect method of presentation in these financial statements.

Revenue and Expense Recognition

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

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

Changes in Accounting Policy

In 2014 NAPMA changed its accounting policy for the treatment of PP&E. In previous periods, the entity had capitalized all costs related to fixed admin assets. As of 2014 NAPMA decided to set appropriate thresholds for capitalization of fixed admin assets. Any amount that is less than the threshold will be immediately recognized (expensed).

Regarding all capital purchased prior to 01 January 2014 the old accounting policy has been applied and will be fully depreciated until it has reached its useful life. For all purchases after the 01 January 2014 the changed accounting policy will apply.

For the rest of 2014 Financial Statements the accounting policies have been applied consistently throughout the reporting period.

Foreign Currency Transactions

Transactions in currencies, other than the functional currency, are translated into USD at the NATO exchange rates prevailing at the time of the transaction. Monetary assets and liabilities at year-end, which are in currencies other than USD, were translated into USD using the NATO exchange rates that were applicable on 31 December 2014.

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

Assets – Current Assets

NAPMA holds the following types of current assets:

a. Cash and Cash Equivalents

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

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b. Receivables

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

In accordance with IPSAS, receivables are broken down into amounts receivable from Nations, NATO Entities, Non-NATO Entities, Staff Members and miscellaneous receivables.

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

c. Advance Payments and Accrued Interest

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

Assets – Non - Current Assets

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

a. Work in Progress

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

b. Property, Plant and Equipment

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

All property, plant and equipment are stated at historical acquisition value less accumulated depreciation.

PP&E categorizations for purposes of determining the appropriate depreciable life of the assets is listed in the table below as well as the associated capitalisation thresholds per item.

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

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The table for purchases prior to 01 January 2014 were as follows:

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

As stated in the change of accounting policies NAPMA changed its accounting policy related to Property, Plant and Equipment. As of 01 January 2014 capitalization thresholds have been set.

The table for purchases after 01 January 2014 (changed accounting policy) were as follows:

PPE Category	Description	Threshold per item	useful life
Buildings	Building	200,000	40
Installed Equipment	Equipment/building improvements as part of the building such as heating & cooling systems, security systems, renovation, replacements and fixtures	30,000	10
Vehicles	Transportation equipment	10,000	5
Furniture	Desks, Chairs, Cabinets, Safes, etc.	5,000	10
Automated Information Systems	NIMS, major Hardware and Software	20,000	5
Communication and IT Equipment	Equipment/Tools required for daily office operations such as PC's, Laptops, Software, etc.	5,000	3
Government Furnished Equipment	Miscellaneous Equipment provided to Contractors	50,000	10

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Current Liabilities

a. Payables and Accruals

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

b. Unearned Contributions

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

Liabilities – Non - Current Liabilities

a. Advance Contributions

Advances received from NATO Entities to support Third Party Projects. Funds are received and expended on behalf of other NATO entities, predominantly the NAEW&C Force, for execution of projects and activities for Operations and Support. Advances on contributions represent the amounts of funds held on behalf of the Contributing Nations, which arise from a variety of sources including calls for the first quarter of the following fiscal year, interest earnings on Nations' cash balances, sales of residual assets and R&D recoupment.

b. Deliverables to NAEW&C Force

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

c. Net Assets

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

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

Therefore it is recognized as a transfer from unrestricted to restricted net assets in the column of "excess of revenue over expenditure".

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

Invested capital is the accumulated amount of fixed admin assets. This includes all purchases less disposals and depreciation. The fixed admin assets purchases during the year are reflected in the column titled "Net change in Investment in Capital Assets".

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Revenue and Expense Recognition

a. Revenue

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

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

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

Bank interests earned and accrued as of 31 December 2014, exchange rate revenue due to transactions in foreign currency (unrealised – changes in valuations only) and realized exchange rate revenue in accordance with IPSAS 4 – Effect of the foreign exchange rate, are recognized as financial revenue.

b. Expenses

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

Exchange rate losses due to transaction in foreign currency (unrealised – changes in valuations only) and realized exchange rate losses in accordance with IPSAS 4 – Effect of the foreign exchange rate, are recognized as financial expenses.

Surplus or Deficit for the Period

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

7. Notes to the Financial Statements

INDEX

A. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

B. NOTES TO STATEMENT OF FINANCIAL POSITION

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

C. NOTES TO STATEMENT OF FINANCIAL PERFORMANCE

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

D. EVENTS AFTER THE REPORTING DATE

E. RELATED PARTIES DISCLOSURE

F. BUDGET EXECUTION

G. WRITE OFF

H. FINANCIAL INSTRUMENTS DISCLOSURE

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A. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

B. NOTES TO STATEMENT OF FINANCIAL POSITION

Assets – Current Assets

1. Cash and Cash Equivalents

<u>Cash and cash equivalents</u>	<u>2014</u>	<u>2013</u>
Petty Cash and Advances	0	22
Current Bank Accounts	128,943	102,516
Investment/Deposit Accounts	327,034,600	241,708,555
Total	327,163,543	241,811,092

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

The Medium Term Financial Plan (MTFP) approved by the Board of Directors (BOD) increased from 2013 to 2014 in order to ensure consistent calls to the Nations to smooth out the cash requirements over the life of the programmes.

2. Accounts Receivable

<u>Accounts receivable</u>	<u>2014</u>	<u>2013</u>
Receivable from Nations	46,257,484	43,839,979
Receivables from NATO Entities	75,079	96,499
Receivables from Non-NATO Entities	0	52,751
Receivables from Staff Members	7,190	0
Other Receivables/Recoverable	0	0
Total	46,339,753	43,989,229

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Most receivables are due from the contributing nations. Receivables from NATO Entities are due from the NATO Support Agency. It is deemed that all accounts receivable will be received within 12 months from the end of the reporting period. No provisions are made against debts as they are deemed to be collectible.

3. Advances

<u>Advances</u>	<u>2014</u>	<u>2013</u>
Advance payments to NATO Entities	1,074,301	761,677
Advance payments to Non-NATO Entities	5,245,498	9,332,073
Total	6,319,799	10,093,750

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

4. Accruals

<u>Accrued Interests</u>	<u>2014</u>	<u>2013</u>
Accrued interests	390	4,020
Total	390	4,020

Accrued interest is the interest earned that has been recognised but was not received in the bank account yet.

Assets - Non-Current Assets

5. Work in Progress (WIP)

<u>Work in Progress</u>	<u>2014</u>	<u>2013</u>
WIP	131,889,074	90,606,495
Total	131,889,074	90,606,495

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

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

	Work in Progress (WIP)	Totals
Opening Balance (01 January 2014)	90,606,495	90,606,495
Additions	43,342,466	43,342,466
Transferred to NAEW&C	2,059,887	2,059,887
Disposals/Corrections	0	0
Closing Balance (31 December 2014)	131,889,074	131,889,074
Gross Carrying Amount	1,891,698,313	1,891,698,313
Accumulated Transfers	1,759,809,239	1,759,809,239
Net Carrying Amount	131,889,074	131,889,074

6. Property, Plant and Equipment

During 2014, additions to PP&E were for automated information system and office furniture. Acquisitions for the year ended 31 December 2014 totalled USD 20,842. As stated on page 6 (changes in accounting policy), all purchases (incl. obligations) prior to 01 January 2014 were capitalized. All purchases after 01 January 2014, the appropriate threshold for capitalization was applied.

Additions in PP&E (according to the former accounting policies) of USD 20,842 are reported in the Statement of Financial Position and the depreciation expense for the year of USD 138,287 is reported in the Statement of Financial Performance.

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

	Automated Inf. System (NIMS)	Office Furniture	Vehicles	Property / Structure	Installed and misc. Equipment	Gov. Furnished Equipment	Totals
Opening Balance (01 January 2014)	235,936	114,088	24,203	463,291	9,093	0	846,610
Additions	15,388	5,453	0	0	0	0	20,842
Disposals/Corrections	0	0	0	0	0	0	0
Depreciation	62,062	47,285	12,627	15,097	1,215	0	138,287
Closing Balance (31 December 2014)	189,263	72,256	11,575	448,194	7,878	0	729,165
Gross Carrying Amount	7,821,791	660,483	63,137	603,899	12,149	79,974	9,241,433
Accumulated Depreciation	7,632,529	588,227	51,562	155,705	4,271	79,974	8,512,268
Net Carrying Amount	189,262	72,256	11,575	448,194	7,878	0	729,165

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Liabilities – Current Liabilities

7. Payables

<u>Payables</u>	<u>2014</u>	<u>2013</u>
Payable to NATO Entities	141,121	0
Payable to Non-NATO Entities	633,028	802,429
Payable to Suppliers	103,200	355,615
Payable to Staff	37,617	39,271
Total	914,966	1,197,314

Payable to NATO Entities

Payables to NATO Entities include primarily invoices received from JFC HQ Brunssum that were not settled but accrued per reporting date.

Payable to Non-NATO Entities

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

Payable to Supplier

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

Payable to staff members

Amounts due to staff members such as travel expenses.

8. Accruals/Deferrals

<u>Accruals/Deferrals</u>	<u>2014</u>	<u>2013</u>
Accrued Bank charges	327	834
Deferred income	0	39,067
Goods receipt – Invoices to be received	2,187,038	988,019
Total	2,187,365	1,027,920

Accrued bank charges is the amount to be paid in 2014 but not yet debited in the bank accounts.

Goods receipt – Invoices to be received is the amount based on estimates and assumptions made for goods that were delivered/services performed during fiscal year 2014 but not invoiced by the 31 December 2014.

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9. Unearned Contributions

<u>Unearned Contributions</u>	<u>2014</u>	<u>2013</u>
Unearned Contribution	292,802,615	256,450,752
Total	292,802,615	256,450,752

Unearned contributions represent the balance of Nations' called contributions which are identifiable to the various programmes and are called for administrative support. As already stated under B.1 on page 16 the budgets and associated calls to the budgets based on the Medium Term Financial Plan (MTFP) approved by the Board of Directors (BOD) increased from 2013 to 2014 and accordingly the calls with it.

Liabilities – Non-Current Liabilities

10. Advanced Contributions and Reimbursable NATO Entities

<u>Advances on Nations' Contributions</u>	<u>2014</u>	<u>2013</u>
Advance Nation accounts	83,597,349	30,158,953
Total	83,597,349	30,158,953

Advances on Nations' contribution are funds held on behalf of the Contributing Nations which arise from a variety of sources including calls for the first quarter of the following fiscal year, interest earnings on Nations' cash balances, sales of residual assets, R&D recoupment for the Radar System Improvement Project (RSIP).

Based on IBAN recommendation made in 2014, the first call for 2015 is now recorded on advances on nations' contributions and will be adjusted in the corresponding year accordingly to unearned contributions.

<u>Reimbursables</u>	<u>2014</u>	<u>2013</u>
Reimbursable NATO Entities	1,022,209	4,448,456
Total	1,022,209	4,448,456

This account tracks the financial activities to support Third Party NATO Entities. Funds are received and expended on behalf of other NATO entities predominantly the NAEW&C Force for execution of projects and activities for Operations and Support.

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11. Deliverables

<u>Deliverable to NAEW&C Force</u>	<u>2014</u>	<u>2013</u>
Deliverable	131,889,074	90,606,495
Total	131,889,074	90,606,495

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

Changes in Deliverables for the year were as follows:

	Deliverables	Totals
Opening Balance (01 January 2014)	90,606,495	90,606,495
Additions	43,342,466	43,342,466
Transferred to NAEW&C	2,059,887	2,059,887
Disposals/Corrections	0	0
Closing Balance (31 December 2014)	131,889,074	131,889,074
Gross Carrying Amount	1,891,698,313	1,891,698,313
Accumulated Transfers	1,759,809,239	1,759,809,239
Net Carrying Amount	131,889,074	131,889,074

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C. NOTES TO STATEMENT OF FINANCIAL PERFORMANCE

12. Revenue

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

<u>Revenue</u>	<u>2014</u>	<u>2013</u>
Revenue from Contributions	23,744,808	25,047,039
Financial Revenue	0	0
Other Revenue	604,526	404,488
Total	24,349,334	25,451,527

Revenue from Contributions was used to pay expenses related to project and administrative activities. There's no financial income in 2014 because due to transactions made in foreign currencies during the year, an exchange rate loss was created and therefore reported under financial expenses. Other revenue from "Advances on Nations' contribution" was used to pay for the "Canadian Sources of Repair Relocation" (CANSORREL) requirement.

13. Expenses

Expenses are recognized by nature within the following groups.

<u>Project Expenses</u>	<u>2014</u>	<u>2013</u>
Project Expenditures	2,764,118	6,936,596
Total	2,764,118	6,936,596

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

<u>Administrative expenses</u>	<u>2014</u>	<u>2013</u>
Personnel Expenditures	19,142,286	19,227,043
Operational Expenditures	3,064,527	3,329,690
Total	22,206,813	22,556,733

The majority of the administrative expenses relate to personnel expenses, in support of common funded activities. The amounts include expenses for salaries and emoluments for approved NATO permanent civilian positions and temporary personnel, for other salary related and non-related allowances including overtime, medical examinations, recruitment, installation, removal, and training.

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Furthermore the General Manager is entitled to receive a representation allowance due to the requirements to represent NAPMA at events. The amount spent in 2014 was 9,239 USD equivalent. Expenditure made against this allowance is supported by invoices.

The remaining part of the administrative expenses relate to operational activities.

Capital

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

<u>Financial Expenses</u>	<u>2014</u>	<u>2013</u>
Financial Expenses	740,761	284,722
Total	740,761	284,722

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

14. Surplus or Deficit for the Period

The 2014 loss results from using existing funds to cover project expenditures, the financial expenses including the currency translation adjustments at the end of the year in accordance with IPSAS 4, and the depreciation expenses of the fixed administrative assets.

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D. EVENTS AFTER THE REPORTING DATE

NAPMA's reporting date is 31 December 2014 and its financial statements were authorized for issue by the General Manager on 30 March 2015. No material events, favourable or unfavourable, which would have impacted upon the statements have been incurred between the reporting date and the date on which the financial statements were authorized for issue.

E. RELATED PARTIES DISCLOSURE

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

The BOD members receive no remuneration and do not receive loans. Based on the BOD annual declarations for 2014, received from all the BOD Members, no significant party relationships could be identified which could affect the operation of NAPMA.

Based on the annual declaration for 2014 received from the key management personnel of NAPMA, there were no significant party relationships identified which could affect the operation of NAPMA.

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

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

Remuneration of Key Management Personnel For Period ended December 31, 2014			
Number	Grade	Gross Salary (Euro)	USD Equiv. (At End Year Rate)
1	A7	161,328	198,611
3	A6	541,745	666,942
8	A5	1,086,736	1,337,881
9	A4	1,090,711	1,342,774
21		2,880,520	3,546,208

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F. BUDGET EXECUTION

Following the newly approved NFR's, the Statement of Budget Execution shall be an annex to the Financial Statements with immediate effect. The execution of the budget during fiscal year 2014 is shown in annex A.

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

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

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

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

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

Reconciliation between budget expenditures and expenditures reported in the statement of financial performance:

The following reconciliation shows the differences between the budgetary results and the financial statements after accounting adjustment: Comparison of Budget Execution and Statement for Financial Performance:

	BES	Financial Statements		Expense Difference BES to Fin Stmts (\$EQ)	Explanation		
	BES Expense at Program Rate (\$EQ)	Financial Stmnt Expense at Market Rate (LC)	Financial Stmnt Expense at Program Rate (\$EQ)		CCH Difference	Accrual Difference	Net Difference
PROJECT	45,997,412	46,106,584	45,583,329	(414,084)	1,528,547	(1,114,507)	44
ADMIN	21,583,053	22,227,654	21,684,357	101,304	0	(101,304)	0
TOTAL	67,580,466	68,334,238	67,267,686	(312,780)	1,528,547	(1,215,811)	44

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G. WRITE OFF

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

H. FINANCIAL INSTRUMENTS DISCLOSURE

NAPMA uses only non-derivative financial instruments as part of its normal operations. These financial instruments include petty cash, bank accounts, deposit accounts, accounts receivable. All financial instruments are recognized in the financial statements. In 2014 NAPMA on behalf of NAPMO Nations only drew advantage from "risk free investment" bank accounts.

**8. NAPMA STATEMENT OF BUDGET EXECUTION 2014
(IN USD EQUIVALENT)**

	BOD authorizations current Budget Year (\$EQ)	Total Changes to Previous Budget Authorizations (\$EQ)	Commitments Carried Forward from Previous FY (\$EQ)	Obligations Carried Forward from Previous FY (\$EQ)	Lapse in current FY (\$EQ)	Total Authorities Available FY (\$EQ)	Expense at Program Rate (\$EQ)	Commitments Carried Forward (\$EQ)	(TOTAL) Obligations Carried Forward into Following FY (\$EQ)	Total Authorities Used FY (\$EQ)	Delta (\$EQ)
PROJECT	133,570,426	45,607	43,023,253	144,308,728	0	320,948,015	45,997,412	(84,973,036)	(189,916,646)	(320,887,095)	60,920
ADMIN	23,513,592	0	32,609	112,314	(1,464,248)	22,194,267	21,583,053	(410,909)	(200,088)	(22,194,051)	216
TOTAL	157,084,018	45,607	43,055,862	144,421,042	(1,464,248)	343,142,282	67,580,466	(85,383,945)	(190,116,735)	(343,081,146)	61,136