

	NATO	NORTH ATLANTIC COUNCIL
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1 December 2016

DOCUMENT
C-M(2016)0065-AS1 (INV)

**IBAN AUDIT ON THE 2015 FINANCIAL STATEMENTS OF THE NATO MEDIUM
EXTENDED AIR DEFENCE SYSTEM MANAGEMENT ORGANISATION (NAMEADSMO)**

ACTION SHEET

On 30 November 2016, under the silence procedure, the Council noted the IBAN report on the 2015 financial statements of NAMEADSMO and agreed the RPPB recommendation regarding public disclosure.

(Signed) Rose E. Gottemoeller
Deputy Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2016)0065 (INV).

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16 November 2016

DOCUMENT
C-M(2016)0065 (INV)
Silence Procedure ends:
30 Nov 2016 18:00

**IBAN AUDIT ON THE 2015 FINANCIAL STATEMENTS OF THE NATO MEDIUM
EXTENDED AIR DEFENCE SYSTEM MANAGEMENT ORGANISATION (NAMEADSMO)**

1. I attach the International Board of Auditors for NATO (IBAN) report on the audit of the 2015 financial statements of the NATO Medium Extended Air Defence System Management Organisation (NAMEADSMO).
2. The IBAN report on NAMEADSMO sets out an unqualified opinion on the financial statements and an unqualified opinion on compliance.
3. The IBAN report has been reviewed by the Resource Policy and Planning Board (RPPB) (see Annexes) which notes the decision taken by Council on 22 April 2016 to formally dissolve NAMEADSMO and put it into liquidation which is expected to last until at least 2019.
4. I do not believe that this matter requires discussion in the Council. Consequently, **unless I hear to the contrary by 18:00 hours on Wednesday, 30 November 2016**, I shall assume that the Council has noted the IBAN report on the 2015 financial statements of NAMEADSMO and agreed the RPPB recommendation regarding public disclosure.

(Signed) Rose E. Gottemoeller

4 Annexes

1 Appendix
1 Enclosure

Original: English

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**IBAN AUDIT ON THE 2015 FINANCIAL STATEMENTS OF THE NATO MEDIUM
EXTENDED AIR DEFENCE SYSTEM MANAGEMENT ORGANISATION (NAMEADSMO)**

Report by the Resource Policy and Planning Board

References:

- a) IBA-A(2016)79 – IBAN report
- b) PFA-2690-37584-OL – letter from NAMEADSMO Financial Controller
- c) PO(2015)0052 – Wales Summit tasker on transparency and accountability

Introduction

1. This report contains the RPPB's observations and recommendations on the IBAN audit of the 2015 financial statements of the NAMEADSMO (reference a)).

Discussion

2. The Board is pleased to note that the IBAN have issued an unqualified opinion on the financial statements of the NAMEADSMO and an unqualified opinion on compliance for the 2015 financial year. The Board also notes that there are also no outstanding observations from previous years' audit.

3. The IBAN audit contains an emphasis of matter paragraph¹ to draw attention to the decision taken by Council on 22 April 2016 to formally dissolve NAMEADSMO and put it into liquidation which is expected to last until at least 2019.

4. The Board notes the two observations made by the IBAN for the participating Nations in NAMEADSMO to take into consideration in the liquidation phase.

5. Taking into account the opinion of the NAMEADSMO Financial Controller at reference b), the RPPB concludes that the subject IBAN report and the related financial statements of NAMEADSMO do not contain information which, according to the NATO Policy on Disclosure of NATO Information, should be withheld from public disclosure.

Recommendation

6. The RPPB recommends that Council:

- a) note the IBAN report on the 2015 financial statements of the NAMEADSMO together with this report by the Board;
- b) agree to the public disclosure of this report, the IBAN audit (reference a)) and the associated 2015 financial statements of NAMEADSMO, in line with the policy set out at reference c).

¹ An emphasis of matter paragraph is included by the auditor to draw attention to something in the financial statement which is of such importance that it is fundamental to the users' understanding of the financial statement.

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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 2015**

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 2015, NAMEADSMO's expenditures totalled U.S. Dollars (USD) 50.5 million, consisting of USD 3.7 million from the Administrative Budget and USD 46.8 million from the Operational Budget.

During the audit, the Board identified two observations and issued an unqualified opinion on the 2015 financial statements and on compliance for the year ended 31 December 2015. The observations are:

1. Improvements to certain internal controls needed to address risks of NAMEADSMO approaching the liquidation phase.
2. Identification of the recipients of donated Property, Plant & Equipment (PP&E).

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

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

We draw your attention to Note 1 of the financial statements, where it is described that in June 2014, the BoD approved a new plan to initiate the liquidation of the entity on 1 February 2015. As of the day the financial statements were issued, on 7 March 2016, the formal request to dissolve NAMEADSMO and put it into liquidation was not yet made. On 4 April 2016, a formal request was sent by the Chairman of the NAMEADSMO Board of Directors requesting that the North Atlantic Council approve the dissolution of NAMEADSMO and putting it into liquidation as from 1 July 2016. This request was approved on 22 April 2016. Our opinion is not qualified in respect to this matter.

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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 2015

**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 2015, 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 2015.

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 in June 2014, the BoD approved a new plan to initiate the liquidation of the entity on 1 February 2015. As of the day the financial statements were issued, on 7 March 2016, the formal request to dissolve NAMEADSMO and put it into liquidation was not yet made. On 4 April 2016, a formal request was sent by the Chairman of the NAMEADSMO Board of Directors requesting that the North Atlantic Council approve the dissolution of NAMEADSMO and putting it into liquidation as from 1 July 2016. This request was approved on 22 April 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 2015, 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, 28 July 2016

Lyn Sachs
Chairman

INTERNATIONAL BOARD OF AUDITORS FOR NATO

LETTER OF OBSERVATIONS AND RECOMMENDATIONS

FOR THE NATO MEDIUM EXTENDED AIR DEFENSE SYSTEM
MANAGEMENT ORGANISATION

(NAMEADSMO)

FOR THE YEAR ENDED 31 DECEMBER 2015

Introduction

The International Board of Auditors for NATO (Board) audited the NATO Medium Extended Air Defense System Management Organisation (NAMEADSMO) Financial Statements (dated 4 March 2016) for the year ended 31 December 2015, and issued an unqualified opinion on the financial statements and an unqualified opinion on compliance.

Observations and Recommendations

During the audit, the Board identified two observations and provided two recommendations.

They are summarised herein:

1. Improvements to certain internal controls needed to address risks of NAMEADSMO approaching the liquidation phase.
2. Identification of the recipients of donated Property, Plant & Equipment (PP&E)

There were no observations from the previous audit to follow up.

1. IMPROVEMENTS TO CERTAIN INTERNAL CONTROLS NEEDED TO ADDRESS RISKS OF NAMEADSMO APPROACHING THE LIQUIDATION PHASE

Reasoning

1.1 On 22 April 2016, the North Atlantic Council (Council) agreed to put NAMEADSMO into liquidation as from 1 July 2016. Based on current information from NAMEADSMA, it is expected that the liquidation phase will continue until at least 2019. In C-M(66)9, Council approved rules governing the dissolution of NATO Production Organisations, which states that until the liquidation is complete, the Charter of the organisation will continue to apply. It also states that the Board of Directors (BoD) of the organisation shall ensure that the liquidation is completed as soon as possible.

1.2 Article 11 of the NATO Financial Regulations (NFRs) states the Secretary General, the Supreme Commanders, subordinate commanders by delegation and the other Heads of NATO bodies shall a) ensure effective, efficient and economical risk management procedures are in place to support the achievement of objectives as set by the Nations, and b) Identify, assess and mitigate the risks to the achievement of these objectives.

1.3 Article 12 of the NFRs states that the Secretary General, the Supreme Commanders, subordinate commanders by delegation and the other Heads of NATO bodies shall ensure the necessary internal management functions are in place to support effective internal control, designed to provide reasonable assurance that the NATO body will achieve its objectives.

1.4 According to Article 24 of the NAMEADSMO Financial Rules and Regulations, supplementary budgets may be submitted in the same manner as set out in paragraph 21. Article 21 describes the process for preparation, submission and approval of the Operational Budget.

Observations

1.5 Due to NAMEADSMO's upcoming dissolution on 30 June 2016, and the future liquidation phase currently planned until 2019, the Board would like to highlight several risks relating to this to the participating Nations. The Board is not aware whether the Nations have already identified the above mentioned risks, and decided to either accept or mitigate them. The risks are as follows:

Unclear process or documentation budget approvals

1.5.1 The Board reviewed the process for approving budget amendments and found that the 2nd amendment was approved on 13 November 2015 by silence procedure. During the audit, the Board was provided with two different versions of the 2nd amendment. Specifically, there were significant differences between the amount carried forward from prior years and the requirements by the BoD (about 74 million USD in the first version versus USD 70.3

million in the second version). The Board was able to assure itself that the second version was the correct version. However, because the 2nd amendment was approved by the Nations by silence procedure, it was not possible for the Board to determine which version was actually presented for approval.

1.5.2 Furthermore, using a silence procedure to approve significant amendments to the budget implies a risk, since it is unclear what is the visibility and the understanding for the Nations on the decision they make. The risk is increased due to the fact that NAMEADSMA does not use the financial system to record transactions of the Operational Budget. Rather, all accounting and budget records are done manually by the accounting officer in spreadsheets, with most part of the figures typed manually. This increases the risk of error or fraud.

Unclear definition of the framework and authority of the future Liquidator

1.5.3 The Board found that it is still not clear what is the framework and authority of the future Liquidator. For example, it is not yet clear whether the NFRs and NAMEADSMO Financial Rules will continue to be applicable during the liquidation phase, or what limits there are to the Liquidator's contract authority. Furthermore, the small size of the office of the Liquidator means that risks due to the lack of adequate segregation of duties will be elevated. For example, this might create a situation of high risk for the safeguard and use of the funds, especially if the limits on the Liquidator's authority are not very well defined.

Lack of clarity on the use of the remaining programme funds

1.5.4 The amount of cash remaining in July 2016 is expected to be around USD 10 to 20 million. Out of that amount, around USD 3 million is expected to be unallocated budget, with the rest being used for the remaining operational and administrative expenses. It is assumed that these funds will be returned to the Nations at the end of the liquidation phase.

Recommendations

1.5.5 The Board recommends that the NAMEADSMO Board of Directors:

- 1) comply with the NAMEADSMO Financial Rules and Regulations in respect to budget approval and amendments, avoiding wherever possible the use of silence procedures. This will help to ensure clarity as to what is approved, especially as the Organisation enters liquidation.
- 2) ensure that there are detailed rules and regulations governing the activities and limitations on the authority of the Liquidator. This will help to ensure that it is very clear what is expected of the Liquidator and what is his level of authority.
- 3) set clear expectations on the use of the expected remaining funds. In liquidation, it is generally not expected that additional funding will be provided or that additional contracts or contract amendments will be entered into.

2. IDENTIFICATION OF THE RECIPIENTS OF DONATED PROPERTY, PLANT & EQUIPMENT (PP&E)

Reasoning

2.1 Paragraph 6.5.2 of the NAMEADSMA Operating Instructions states that: "Every decision on a write-off application, on the subsequent disposal and on a reimbursement claim has to be clearly documented and justified in writing".

Observation

2.2 NAMEADSMA is actively writing-off its administrative assets (e.g. furniture) and a considerable part of them is being donated to different organisations. Write-off is formalized in the Property Write-off Form. The form includes cells, where the information on Donation Recipient is indicated. In many instances, the Board was unable to identify the person who actually received the donated items of PP&E, as there was no explanation of signature (Name, Surname) and no stamp of the receiving organisation. Moreover, in some cases, there were 2 recipients (2 different organisations) stated on one write-off form and it was not indicated which donated items were given to which organisation.

Recommendations

2.3 The Board recommends NAMEADSMA to include more details on donation recipients, in order to ensure the transparency and auditability. Amongst other elements, the Property Write-off Form should contain:

- 1) printed name and surname of the person, who physically received the donated assets;
- 2) receiving organisation stamp;
- 3) clear distinction, which items relate to which receiving organization, if more than one receiving organization is mentioned in the Property Write-off Form.

**NATO MEDIUM EXTENDED AIR DEFENSE SYSTEM MANAGEMENT ORGANIZATION
(NAMEADSMO).
FORMAL COMMENTS ON THE
LETTER OF OBSERVATIONS AND RECOMMENDATIONS AND THE
INTERNATIONAL BOARD OF AUDITORS (BOARD) POSITIONS**

OBSERVATION 1:

**IMPROVEMENTS TO CERTAIN INTERNAL CONTROLS NEEDED TO ADDRESS RISKS
OF NAMEADSMO APPROACHING THE LIQUIDATION PHASE**

NAMEADSMO's Formal Comments

Unclear process or documentation budget approvals

The amendment authorization was requested via email (see Attachment 6, which identified all detailed individual changes but did not include the OB document itself). The OB increase was based on the fact that uncommitted funds were available (already contributed to the Agency) and no additional contribution was due. The carry forward update introduced in the second amendment did not have any effect on the expenses, nor on the uncommitted funds available. Carry forward information was not relevant to the Amendment approval decision.

The version presented for approval well before the silence procedure ending date (13 November 2015) is the one included in Attachment 7. The other version provided during the audit at first was a draft in which the carry forward from 2014 to 2015 had not been updated.

The use of the silence procedure for Amendment 2 was supported by the following considerations:

- the only budget changes were related to a German only (non common) activity, funded with German national funds;*
- the other two participating Nations did not have any direct interest in this single Nation requirement funded with national funds; and*
- a delay of the approval would have negatively affected the schedule.*

Delays in the approval process can sometimes result in schedule disruption and additional costs. On a case by case basis, depending on a specific analysis of the risks involved in the possibility of a decision taken in an untimely fashion, the silence procedure has been adopted in the best interest of participating Nations.

Depending on the complexity of the change proposed, an adequate amount of time to break the silence is normally provided. Nations are aware of the fact that this is done only when an offer proposal is close to expiration date or if the schedule would be negatively affected by a non-response of one of the participating Nations, causing damages or additional

liabilities. Furthermore, if Nations require additional information regarding the decision, they will come forward and ask for clarification. No decision is made without the understanding of consequences related to either the program or the budget.

NAMEADMA has always taken into consideration the risk related to the manual accounting process and extra care and adequate internal verification procedures have always been applied. The audits over the past years have shown that these additional procedures are working.

Unclear definition of the framework and authority of the future Liquidator

During the Liquidation phase the NFRs and the NAMEADSMO Financial Rules will continue to be applicable. The organizational structure for the Office of the Liquidator provides for the segregation between the official functions of authorisation and payment. The liquidation activities to be accomplished, expected length, security concerns, available funds, location and change management issues have all been factored into a risk analysis which was brought to the attention of TSC, FLCC and BoD.

In accordance with C-M(66)9, the Liquidator's authority will be limited to completing all current business, fulfilling all open obligations of the entity, recovering any debts due to the entity and distributing any remaining liquidity to the Nations. Any financial transaction will be subject to the normal budgeting, commitment and authorization process. The FLCC and BoD will continue to authorize contractual activities and to monitor financial status.

Within these limits, segregation of duties will be applied to the maximum extent possible.

Lack of clarity on the use of the remaining programme funds

For the Operational Budget the allocated funds cover all open obligations. Most of the open contracts are of the MCost Plus Fixed Fee" type, and any unexpended funds will be returned to Nations. The close out process, subject to rate adjustments and possible national rates audits, may require 4 or 5 years to be completed due to the specific US regulation. It is not expected to return any funds to the Nations at this point.

For the Administrative Budget, the existing unallocated funds are designated to cover risks related to the uncertainty of the duration of the Liquidation phase (and contracts close out) and on possible legal disputes. Any funds unused at the time of entity dissolution will be returned to the Nations.

In summary, the amount of cash remaining at July 2016 is estimated to be adequate to cover all contractual obligations and to satisfy the accepted risk related to the uncertainty of the duration of the liquidation phase.

Board's position

The Board reiterates its recommendation that the NAMEASDMO BoD should strengthen certain internal controls and ensure clarity in all decisions made concerning the activity of NAMEADSMA in liquidation. This is crucial to mitigate the limited segregation of duties within the reduced staff remaining in the agency in liquidation. It should also be remembered that the NATO Financial Regulations (NFRs) cannot be fully applied to an entity in liquidation, since the activities of entities in liquidation are by their nature more limited than an entity operating on a going-concern basis. As a consequence, a liquidator's authority is more limited than what is established in the NFRs for the Head of NATO Bodies.

OBSERVATION 2:

IDENTIFICATION OF THE RECIPIENTS OF DONATED PROPERTY, PLANT AND EQUIPMENT (PP&E)

To date the NAMEASDMO write-off form does not require the printed name of the receiver or the organization's stamp. It also does not prohibit multiple receiver organizations. A new version of the write-off form, which addresses the concerns raised in the observation, has been prepared and will be used in the future.

North Atlantic Treaty Organization



NATO Medium Extended Air Defense System Management Organization



Financial Statements

For the year ended

31 December 2015

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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. The cumulative D&D costs incurred until 31 December 2015 reached a total of 2,597 M US Dollars and 1,414 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 (MI), 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 “Data Archival” of all development documentation (drawings, reports, test results, etc.) and the distribution of the development residual material, as requested and agreed by the Participants, will last until mid 2016. Remaining contractual and administrative close out activities are expected to continue until final settlement.

NAMEADSMA also 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 (a sub-contractor of MEADS International) is retrofitting one of the two Multifunction Fire Control Radars (MFCR). 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) Theater Air-and-Missile Defense exercise, and accomplishment of an unprecedented simultaneous intercept of dual targets from opposite directions at White Sands Missile Range (WSMR)), the MEADS program continued along the same path of technical success. In the summer of 2014 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, Texas (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 MFCR at industrial facilities in PdM (IT) and Freinhausen (GE) followed. In September and December 2014, 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.

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 (FRRs), 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 results and deliveries that can be achieved with the resources spent. As the MEADS program is close to the end the financial position of NAMEADSMO is not affected by any significant risk.

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 2015
(in equivalent US Dollars)

	Notes	2015	2014
Assets			
<i>Current Assets</i>			
Cash and Cash Equivalents	2	36,144,283	107,908,298
Receivables	3	4,607	390,162
Prepayments	4	250,304	-
		<u>36,399,194</u>	<u>108,298,460</u>
<i>Non-Current Assets</i>			
Property, Plant and Equipment	5	-	3,509
Total Assets		<u>36,399,194</u>	<u>108,301,969</u>
Liabilities			
<i>Current Liabilities</i>			
Accounts Payable and Accruals	6	7,120,465	23,589,128
Deferred Revenue and Advances	7	29,278,729	84,602,103
Other Current Liabilities	8	-	110,738
		<u>36,399,194</u>	<u>108,301,969</u>
Total Liabilities		<u>36,399,194</u>	<u>108,301,969</u>

C. Statement of Financial Performance

for the year ended 31 December 2015
(in equivalent US Dollars)

	Notes	2015	2014
Revenue	10		
Operational		46,856,839	272,551,862
Administrative		3,671,926	8,282,567
Total Revenue		50,528,765	280,834,429
Expense	11		
Operational		46,856,839	272,551,862
Administrative		3,671,926	8,282,567
Total Expense		50,528,765	280,834,429
Net Result for the Year		-	-

D. Statement of Cash Flows

for the year ended 31 December 2015
(in equivalent US Dollars)

	2015	2014
<i>Operational Budget</i>		
Cash Receipts from Nation Contributions	-	-
Cash Paid to Contractors	(63,166,157)	(298,847,008)
Bank Interest Received	4,900	119,124
Bank Interest Paid to Nations	(106,579)	(143,778)
Other Cash Receipts	11,220,101	927
Other Cash Payments	(6,708,439)	(12,227)
Total Operational Budget	(58,756,174)	(298,882,961)
<i>Administrative Budget</i>		
Cash Receipts from Nation Contributions	189,878	3,206,608
Other Cash Receipts	-	33,747
Cash Paid to Suppliers and Employees	(3,647,513)	(8,273,350)
Bank Interest Paid to Nations	-	(56)
Other Cash Payments	(3,000)	-
Transfers between Budgets	(4,500,000)	-
Total Administrative Budget	(7,960,635)	(5,033,051)
Total Cash Flows from Operating Activities	(66,716,809)	(303,916,012)
Total Cash Flows from Investing Activities	-	-
Total Cash Flows from Financing Activities	-	-
Net Increase/Decrease in Cash	(66,716,809)	(303,916,012)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(5,047,206)	(8,243,038)
Cash at Beginning of Period	107,908,298	420,067,348
Cash at End of Period	36,144,283	107,908,298

E. Statement of Changes to Net Assets/Equity

for the year ended 31 December 2015
(in equivalent US Dollars)

	Capital assets	Reserves	Accumulated surplus/deficit	Total
Balance at the end of the period 2013	-	-	-	-
Net gains/(losses) recognised directly in net assets/equity	-	-	-	-
Surplus/(deficit) for the period	-	-	-	-
Change in net assets/equity for the year ended 2014	-	-	-	-
Balance at the end of the period 2014	-	-	-	-
Net gains/(losses) recognised directly in net assets/equity	-	-	-	-
Surplus/(deficit) for the period	-	-	-	-
Change in net assets/equity for the year ended 2015	-	-	-	-
Balance at the end of the period 2015	-	-	-	-

F. Notes to the Financial Statements

Note 1. Significant Accounting Policies

Basis of preparation

The financial statements of NAMEADSMO have been prepared in accordance with the International Public Sector Accounting Standards (IPSAS) and the NATO accounting framework, adopted by NAC in 2013. The application of the NATO accounting framework has had no material impact on the disclosures or on the amounts recognised in the NAMEADSMO financial statements.

The financial statements comply with the accounting requirements of the NATO Financial Regulations (NFRs), and the relevant NAMEADSMO financial rules and regulations. They are 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 D&D phase of the current 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 yet been sent 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".

Accounting estimates and judgments

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

The estimates and underlying assumptions are reviewed on an ongoing basis. These estimates and assumptions affect the amounts of assets, liabilities, revenue 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 are not likely to be significant to the financial statements.

Changes in accounting policy

The same accounting policies are applied within each period and from one period to the next, unless a change in accounting policy meets one of the criteria set in IPSAS 3. For the 2015 financial statements, the accounting policies have been applied consistently throughout the reporting period. There have been no changes in accounting policy during 2015.

Restatements

NAMEADSMO has not restated any balances; however the 2014 comparative figures have been presented differently than in the 2014 NAMEADSMO Financial Statements in order to conform to the new NATO common financial statement layout.

Changes in pronouncements

Some new standards, alignments of standards and interpretations were issued but have not been applied by NAMEADSMO in preparing the financial statements:

IPSAS	Name	Effective date for periods beginning on or after
IPSAS 33	First-time Adoption of Accrual Based IPSASs	01 January 2017
IPSAS 34	Separate Financial Statements	01 January 2017
IPSAS 35	Consolidated Financial Statements	01 January 2017
IPSAS 36	Investments in Associates and Joint Ventures	01 January 2017
IPSAS 37	Joint Arrangements	01 January 2017
IPSAS 38	Disclosure of Interests in Other Entities	01 January 2017

None of these are expected to have a significant effect on the financial statements of NAMEADSMO.

Foreign Currency

These financial statements are presented in US Dollars (USD), which is NAMEADSMO's reporting currency. EURO (€) currency transactions are translated into equivalent USD at the average monthly NATO exchange rates, with the exception of foreign exchange transactions, which are converted at the daily exchange rate. Monetary assets and liabilities denominated in foreign currencies at year-end are translated into USD using the NATO exchange rates applicable at 31 December 2015. Resulting realized and unrealized gains and losses are recognized in the Statement of Financial Performance.

Financial Instruments disclosure/presentation

NAMEADSMO uses only non-derivative financial instruments as part of its normal operations. These financial instruments include cash and cash equivalents, accounts receivable, provisions and liabilities. Financial instruments are recognized in the Statement of Financial Position at fair value.

Financial risk factors

NAMEADSMO is minimally exposed to a variety of financial risks, including credit, liquidity and currency risks.

a. Credit risk

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

- Wells Fargo Bank: AA+
- Sparkasse Koblenz: A+

b. Liquidity risk

NAMEADSMA does not expect to encounter any difficulty in meeting obligations associated with financial liabilities. There is limited exposure to liquidity risk because of the budget mechanism that guarantees funds for the total approved budget.

c. Currency risk

NAMEADSMA received contributions from the Participants in USD (\$) and EURO (€), based on the FMPD. Generally, expenses are paid in the same currency as the receipts. For the Operational Budget, total obligations for each currency may not match the available resources in the same currency, yielding some foreign exchange risk from fluctuations in currency rates. However, the BoD authorized foreign exchange money market operations, if necessary, to maintain adequate funding level in each currency to hedge this risk (decision D15/09). The exposure of financial instruments to foreign currency exchange risk associated with the Administrative Budget is insignificant as contributions and expenditure is made in USD only.

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 in Annex I.

Cash Flow Statements

NAMEADSMO has elected to use the direct method of presentation in these financial statements, in accordance with IPSAS.

Financial Assets

The financial assets are cash and cash equivalents, accounts receivable and prepayments. They are measured at fair value. Bank deposits denominated in foreign currencies are translated to reporting currency at the closing date NATO exchange rate. 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 fair value in the Statement of Financial Position. No provision for doubtful debts is necessary as all receivables are deemed to be collectible.

Prepayments

Advance payments to vendors 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.

Deferred Revenue

Deferred 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.

Property, Plant and Equipment (PP&E)

PP&E is reported in the financial statements in accordance with NAMEADSMO'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.

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:

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

Note that for some items the useful life is longer than the estimated life of the Agency. The depreciation expense was adjusted in 2012 and again in 2013 to the estimated expected end of the life of the Agency. The final year of depreciation for all remaining assets is 2015.

Intangible Assets

NAMEADSMO does not have any intangible assets.

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

Contributions to the NATO defined contribution pension scheme are charged to the Statement of Financial Performance in the year to which they relate. NAMEADSMO is not directly exposed 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 International Staff (IS).

Retirement benefit plans: NATO Defined Benefit Scheme

Contributions to the NATO defined benefit scheme are charged to the Statement of Financial Performance in the year to which they relate. NAMEADSMO is not directly exposed 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 recognized 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. Cash and Cash Equivalents**2015:**

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational	10,431,240	-	-	-	16,463,120	27,878,026
Administrative		229,026		8,158	8,029,073	8,266,257
TOTAL	10,431,240	229,026	-	8,158	24,492,193	36,144,283

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

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. Effective March 2015, the current bank accounts no longer pay interest.

Note 3. Receivables**2015:**

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational						
Advances						-
Accrued Receivables						-
Contract Receivables		-		-		-
Total Operational	-	-	-	-	-	-
Administrative						
Miscellaneous					4,607	4,607
Total Administrative		-		-	4,607	4,607
TOTAL	-	-	-	-	4,607	4,607

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

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

Note 4. Prepayments**2015:**

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational					250,304	250,304
Administrative					-	-
TOTAL	-	-	-	-	250,304	250,304

2014:

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

Note 5. 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	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Gross Carrying Amount, opening	\$ 37,643	\$ 51,027	\$ 13,422	\$ 33,484	\$ 219,936	\$ 280,316	\$ 850,128	\$ 850,128	\$1,121,129	\$ 1,214,955
Additions	-	-	-	-	-	-	-	-	-	-
Disposals	(3,700)	(11,898)	-	(20,062)	(17,063)	(60,380)	(850,128)	-	(870,891)	(92,340)
Loss on Disposals	-	(1,486)	-	-	-	-	-	-	-	(1,486)
Gross Carrying Amount, closing	33,943	37,643	13,422	13,422	202,873	219,936	-	850,128	250,238	1,121,129
Accumulated Depreciation, opening	34,591	38,601	13,422	31,247	219,479	260,154	850,128	708,440	1,117,620	1,038,442
Depreciation	3,052	7,888	-	2,237	458	19,705	-	141,688	3,510	171,518
Disposals	(3,700)	(11,898)	-	(20,062)	(17,063)	(60,380)	(850,128)	-	(870,891)	(92,340)
Accumulated Depreciation, closing	33,943	34,591	13,422	13,422	202,873	219,479	-	850,128	250,238	1,117,620
Net Carrying Amount	\$ -	\$ 3,052	\$ -	\$ -	\$ -	\$ 458	\$ -	\$ -	\$ -	\$ 3,509

Note 6. Accounts Payable and Accruals**2015:**

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational						
Invoices Payable	1,497,209	-		-	2,380,450	4,018,846
Accrued Expenses	1,509,863	-		-	1,358,128	3,010,371
Total Operational	3,007,072	-	-	-	3,738,578	7,029,217
Administrative						
Accounts Payable		460		56	37,532	38,048
Accrued Expenses					53,200	53,200
Total Administrative		460		56	90,732	91,248
TOTAL	3,007,072	460	-	56	3,829,310	7,120,465

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

Payables to contractors and suppliers include invoices received from suppliers but not yet paid and estimated accrued expenses. The continued decrease in 2015 is due to the winding down of the program.

Note 7. Deferred Revenue and Advances**2015:**

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational						
Advanced Contributions	-		-			-
Deferred Revenue	7,424,168	-	-	-	12,974,846	21,099,113
Total Operational	7,424,168	-	-	-	12,974,846	21,099,113
Administrative						
Advanced Contributions		-		-	-	-
Deferred Revenue		229,026		8,158	7,942,432	8,179,616
Total Administrative		229,026		8,158	7,942,432	8,179,616
TOTAL	7,424,168	229,026	-	8,158	20,917,278	29,278,729

2014:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational						
Advanced Contributions	-		-			-
Deferred 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		-		-	-	-
Deferred Revenue		564,402		9,145	15,591,116	16,164,664
Total Administrative		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

Deferred revenue includes uncommitted funds and lapses that Participants have instructed remain on the program accounts rather than be returned to the respective national treasuries.

Note 8. Other Current Liabilities**2015:**

There are no other current liabilities as the banks ceased to yield interest on the cash balances in 2015.

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

In 2014, other current liabilities included interest to be returned to Participants.

Note 9. Provisions and Contingent Liabilities

NAMEADSMA does not have any provisions or contingent liabilities to report.

Note 10. Revenue**2015:**

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational	18,364,250	-	558,953	-	26,893,514	46,856,839
Administrative		524,499		987	3,146,440	3,671,926
TOTAL	18,364,250	524,499	558,953	987	30,039,954	50,528,765

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

Note 11. Expenses**2015:**

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational						
Prime Contract (MI)	10,879,774		-		18,847,403	29,993,301
Support (MEADS LLC+LFS+FMS)	1,031,000		317,655		4,297,643	5,758,632
Test and Target	-		-		(1,776)	(1,776)
MFCR#1 and MFCR#2	2,883,959		239,236		3,750,243	6,917,299
IT-Common Criteria and GE Rec	3,569,517		2,017		-	4,189,333
Miscellaneous			44			50
Total Operational	18,364,250	-	558,953	-	26,893,514	46,856,839
Administrative						
Personnel		388,164		-	2,406,707	2,794,871
Operating		136,335		987	736,223	873,545
Depreciation					3,510	3,510
Total Administrative		524,499		987	3,146,440	3,671,926
TOTAL	18,364,250	524,499	558,953	987	30,039,954	50,528,765

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
Test and Target					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 Administrative		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

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

Note 12. Personnel Expenses

The figures disclosed below represent the costs of NATO personnel including salary, allowances, complementary insurance, and pension plan contributions. The amount for Personnel Expense in Note 11 is greater than the employee benefits expense defined in this note because Note 11 includes all Chapter 1 budget Personnel items such as recruitment/separation, home leave, contractor personnel expense, etc.

	2015	2014
Employee Benefits Expense	\$ 2,374,150	\$ 5,282,792
Post-employee benefits (DCPS)	\$ 173,014	\$ 412,775

NAMEADSMA does not accrue untaken leave. In accordance with CPR Article 42.3, untaken leave must be taken within the allowed time period or will be forfeited.

NAMEADSMA does not have any termination benefits because the Agency expects to honour 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 13. Leases

NAMEADSMA has an operational lease with BR Cummings Research Park Portfolio III, TIC-1, LLC which terminates on 30 April 2019. The obligated base lease payments from 01 January 2016 through 30 April 2019 total \$261,916. In addition, NAMEADSMA pays monthly operating expenses which are estimated to be \$32,512 for 2016 and yet to be determined for the remainder.

The tenant (NAMEADSMA) retains the right to terminate and cancel the lease on 31 December 2017. In the event this right is exercised, the tenant must provide written notice no later than 1 October 2017, and remit an early termination fee in the amount of \$6,137 within thirty days of giving notice.

NAMEADSMA does not have any financial leases.

Note 14. 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 2015, NAMEADSMA donated capital and non-capital assets whose total acquisition cost was \$196,815. These assets included office furnishings and IT equipment. The donations are in accordance with the FLCC decision FD10/02, 19 May 2015, which authorized the donation of surplus property assets in compliance with Article 17 of the NFRs.

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 15. Write-Off

In accordance with the NATO Financial Regulations (NFRs) Article 17 and the NAMEADSMO Financial Rules and Regulations (FRR Section VIII, 127), there were 12 capitalized items written off in 2015 whose gross carrying amount was \$870,891 and whose net book value was zero. These assets included office furnishings, IT equipment, and software.

Note 16. Employee Disclosure

During 2015, there was no US government personnel detailed to the agency.

Note 17. 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 \$43,337 (€39,730) was charged and paid.

In 2015 there are two key management personnel: the General Manager (acting) and the Director Business (acting). The aggregate remuneration of key management personnel includes salary, allowances, and complementary insurances and was as follows during the year:

	2015 (~2 people)	2014 (3 people)
Aggregate remuneration	\$ 396,767	\$ 583,673
Post-employment benefits (DCPS)	\$ 37,026	\$ 49,581

Note 18. Representation Allowance

Expenditure on the representation allowance by the one qualifying official totalled \$3,757 (2014: \$9,947).


Note 19. Events after the Reporting Date

There have been no other events between the reporting date and the date the financial statements are authorized for issue that would affect the amounts recognized in these financial statements.


G. 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 International Public Sector Accounting Standards (IPSAS) and the NATO accounting framework adopted by NAC in 2013. 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 and approved by the General Manager and the Financial Controller to the best of their knowledge and according to the applicable accounting standards to give a true and fair view, in all material respect, of the assets, liabilities, financial position and financial performance of NAMEADSMO and to be in accordance with the books and records maintained.



Michael Goldstein
General Manager (acting)
04 March 2016



Lucio Provenzani
Financial Controller
04 March 2016

Annex I – Budget Execution**Statement of Budget Execution for 2015**

Equivalent USD	Budget	Budget Amendment 1	Budget Amendment 2	Budget Amendment 3	Final budget	Commitments	2015 Payments	Carry forward to 2016	Lapsed
Budget 2015 Operational									
Chapter 3	44,169,360	1,144,164	121,380	-	45,434,904	20,873,967	8,739,248	12,134,719	24,560,932
Total FY 2015	44,169,360	1,144,164	121,380	-	45,434,904	20,873,967	8,739,248	12,134,719	24,560,932
Budget 2015 Administrative									
Chapter 1 Personnel	4,104,500				4,104,500	2,660,486	2,648,486	12,000	1,444,014
Chapter 2 Admin/Svcs	1,922,300	30,000	30,000		1,982,300	821,158	779,958	41,200	1,161,142
Chapter 4 Investments	115,000			181,200	296,200	-	-	-	296,200
Total FY 2015	6,141,800	30,000	30,000	181,200	6,383,000	3,481,644	3,428,444	53,200	2,901,356
Budget 2014 Operational									
Chapter 3	69,840,676	54,513	-	-	69,895,189	69,895,194	57,352,432	12,542,691	71
Total FY 2014	69,840,676	54,513	-	-	69,895,189	69,895,194	57,352,432	12,542,691	71
Budget 2014 Administrative									
Chapter 1 Personnel	194,083				194,083	166,729	166,729	-	27,354
Chapter 2 Admin/Svcs	32,825				32,825	27,152	27,152	-	5,672
Chapter 4 Investments	1,200				1,200	1,200	1,200	-	-
Total FY 2014	228,108	-	-	-	228,108	195,082	195,082	-	33,026
Budget 2013 Operational									
Chapter 3	409,035				409,035	60,702	58,546	-	350,489
Total FY 2013	409,035	-	-	-	409,035	60,702	58,546	-	350,489
Budget 2013 Administrative									
Chapter 1 Personnel	23,000				23,000	23,000	23,000	-	-
Chapter 2 Admin/Svcs	4,593				4,593	987	987	-	3,606
Total FY 2013	27,593	-	-	-	27,593	23,987	23,987	-	3,606
Total Operational	114,419,071	1,198,677	121,380	-	115,739,128	90,829,863	66,150,226	24,677,410	24,911,492
Total Administrative	6,397,501	30,000	30,000	181,200	6,638,701	3,700,713	3,647,513	53,200	2,937,988
Total all budgets	120,816,572	1,228,677	151,380	181,200	122,377,829	94,530,576	69,797,739	24,730,610	27,849,481

Explanation of Carry Forward and Lapsed Credits*Operational Budget:*

In the Budget Execution Statement, the carry forward from 2015 to 2016 for Chapter 3 (Design and Development) totals \$24,677,410 (in equivalent Dollars). This is mostly due to additional restructuring of the prime contract which extended the period of performance until 2016.

The amount of lapsed credits totaled \$24,911,492 (in equivalent Dollars). These funds were mostly budgeted for additional planned scope under the prime contract.

Administrative Budget:

Carry forward amount of \$53,200 is primarily due to funds committed in Chapter 2 – Admin/Services for the shipment of the IT servers to Italy.

Lapsed credit amounts for Chapter 1 – Personnel are mainly due to a reduction in removal expenses as personnel remained in place due to the Agency not entering Liquidation on the 1st of February, and vacant posts. Lapsed credit amounts for Chapter 2 – Admin/Services are mainly due to less travel and legal services necessary than budgeted. Lapsed credit amounts for Chapter 4 relate mainly to planned German only budget equipment purchases that did not occur.

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 2015 is presented in the following table:

Item	Name	2015 Transfers within AB
Budget 803 - 3 Nations (GE/IT/US)		
1132	Recruitment/Separation	(20,000)
1133	Home Leave	20,000
Budget 805 - 1 Nation (GE Only)		
1110	Basic Salary	(150)
1121	Expatriation Allowance	(94)
1122	Household Allowance	(158)
1125	Complementary Insurance	519
1126	New Pension	(116)
2520	Subsistence Allowance	(2,600)
2510	Transportation	2,600

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 2015 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.

Budget Execution Reconciliations

- A.** Reconciliation of expenses in the Statement of Cash Flows to the expenses in the Budget Execution Statement. All Euro figures are in equivalent US dollars.

	Administrative	Operational
Statement of Cash Flow - Cash paid to Contractors/ Suppliers and Employees	\$ 3,647,513	\$ 63,166,157
Less:		
Euro payments at Nato Average Fx rate		(29,045,644)
Plus:		
Euro payments at MOU rate 1.19		30,900,239
Credit memos used for GE and US Dollar invoices		1,015,154
Gains and losses on actual foreign exchange transactions		81,048
Returns		33,272
BES Expenses	\$ 3,647,513	\$ 66,150,226

- B.** Reconciliation of the expenses in the Statement of Financial Performance to the expenses in the Budget Execution Statement. All Euro figures are in equivalent US dollars.

	Administrative	Operational
Statement of Financial Performance Expenses	\$ 3,671,926	\$ 46,856,839
Plus:		
Euro payments at MOU rate 1.19		30,900,239
Opening accruals	56,404	24,136,700
Closing receivables and prepaids	4,607	250,304
Gains and losses on actual foreign exchange transactions		81,048
Less:		
Euro payments at Nato Average Fx rate		(29,045,644)
Closing accruals	(53,200)	(7,029,216)
Opening receivables and prepaids	(28,714)	
PP&E - depreciation	(3,510)	
Miscellaneous Italian expenses		(44)
BES Expenses	\$ 3,647,513	\$ 66,150,226

Annex II: Budget Calls and Receipts

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 2015. The Administrative Budget reached the contribution ceiling in 2014. There was one call to Germany in 2015 for a Germany only budget line related to “non-common” activities in the amount of \$189,878.

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.

On 11 June 2015 the BoD approved with decision D19/02, a cross currency exchange to eliminate the currency imbalance of \$6.73M. Consequently, on 16 June 2015, €6M was exchanged into dollars.