

NATO SANS CLASSIFICATION

1^{er} février 2016

DOCUMENT
C-M(2016)0005-AS1

**RAPPORT DU COLLÈGE INTERNATIONAL DES COMMISSAIRES AUX COMPTES
DE L'OTAN SUR LA VÉRIFICATION DES ÉTATS FINANCIERS
DE L'ORGANISATION OTAN DE GESTION
DE LA CAPACITÉ ALLIÉE DE SURVEILLANCE TERRESTRE (NAGSMO)
POUR L'EXERCICE 2014**

SUITE DONNÉE

Le 29 janvier 2016, au terme d'une procédure d'accord tacite, le Conseil a pris note du rapport du Collège international des commissaires aux comptes de l'OTAN diffusé sous la cote IBA-AR(2015)33, qui figure en annexe au C-M(2016)0005, et il a approuvé la recommandation du Bureau de la planification et de la politique générale des ressources visant la communication au public.

(signé) Alexander Vershbow
Secrétaire général délégué

NOTE : La présente note fait partie du C-M(2016)0005 et doit être placée en tête de ce document.

NATO SANS CLASSIFICATION

21 janvier 2016

DOCUMENT

C-M(2016)0005

Procédure d'accord tacite :

29 jan 2016 16:00

**RAPPORT DU COLLÈGE INTERNATIONAL DES COMMISSAIRES AUX COMPTES DE
L'OTAN SUR LA VÉRIFICATION DES ÉTATS FINANCIERS
DE L'ORGANISATION OTAN DE GESTION DE LA CAPACITÉ ALLIÉE DE
SURVEILLANCE TERRESTRE (NAGSMO) POUR L'EXERCICE 2014**

Note du secrétaire général délégué

1. On trouvera en annexe le rapport du Collège international des commissaires aux comptes de l'OTAN (IBAN) sur la vérification des états financiers de l'Organisation OTAN de gestion de la capacité alliée de surveillance terrestre (NAGSMO) pour l'exercice clos le 31 décembre 2014. Ce rapport contient une opinion sans réserve.
2. Le rapport a été examiné par le Bureau de la planification et de la politique générale des ressources (RPPB). Conformément au PO(2015)0052, celui-ci a recommandé au Conseil, dans une note qu'il a approuvée le 10 décembre 2015, d'autoriser la communication au public du rapport de l'IBAN ainsi que des états financiers correspondants (annexe).
3. J'estime que ce rapport ne nécessite pas d'examen plus approfondi. Par conséquent, sauf avis contraire me parvenant d'ici au **vendredi 29 janvier 2016 à 16 heures**, je considérerai que le Conseil aura pris note du rapport de l'IBAN diffusé sous la cote IBA-AR(2015)33 et qu'il aura approuvé la recommandation du RPPB visant la communication au public des documents précités.

(signé) Alexander Vershbow

4 annexes
1 pièce jointe

Original : anglais

NATO SANS CLASSIFICATION

-1-



PAGE BLANCHE

**RAPPORT DU COLLÈGE INTERNATIONAL DES COMMISSAIRES AUX COMPTES DE
L'OTAN SUR LA VÉRIFICATION DES ÉTATS FINANCIERS
DE L'ORGANISATION OTAN DE GESTION DE LA CAPACITÉ ALLIÉE DE
SURVEILLANCE TERRESTRE (NAGSMO) POUR L'EXERCICE 2014**

Note du Bureau de la planification et de la politique générale des ressources

Références : (A) IBA-A(2015)196 // IBA-AR(2015)33

(B) NOR(DIR)(2015)0180

1. En vertu du PO(2015)0052, les rapports non classifiés du Collège international des commissaires aux comptes de l'OTAN (IBAN), assortis le cas échéant des états financiers correspondants, sont en principe rendus publics après leur examen par le Conseil.
2. L'IBAN a émis une opinion sans réserve sur les états financiers de l'Organisation OTAN de gestion de la capacité alliée de surveillance terrestre (NAGSMO) pour l'exercice 2014. Son rapport (référence (A)) sera transmis au Conseil afin qu'il en prenne note, ainsi que le prévoient les procédures agréées.
3. La NAGSMO a été invitée à se prononcer sur la communication au public de ses états financiers pour 2014 et elle n'a pas émis d'avis contraire (référence (B)).
4. Le Bureau de la planification et de la politique générale des ressources estime quant à lui que le rapport de l'IBAN ne contient pas d'informations qui, en vertu de la politique relative à la mise en lecture publique de l'information OTAN, ne peuvent être rendues publiques et, conformément à la politique agréée dans le PO(2015)0052, il recommande par conséquent que le Conseil approuve la communication au public de ce rapport et des états financiers correspondants.

PAGE BLANCHE

**Note succincte
du Collège international des commissaires aux comptes de l'OTAN
à l'intention du Conseil
sur la vérification des états financiers
de l'Organisation OTAN de gestion de la capacité alliée de surveillance terrestre
(NAGSMO)
pour l'exercice clos le 31 décembre 2014**

Le Collège a procédé à la vérification des états financiers de l'Organisation OTAN de gestion de la capacité alliée de surveillance terrestre (NAGSMO) pour l'exercice clos le 31 décembre 2014. La NAGSMO a été créée au sein de l'OTAN pour l'acquisition du système central de la capacité alliée de surveillance terrestre (AGS). Elle est chargée de la gestion globale du programme AGS. Elle se compose d'un comité de direction, où sont représentés les pays participants, de divers sous-comités, et d'une agence de gestion OTAN, placée sous la responsabilité d'un directeur général.

En 2014, les dépenses relevant du budget administratif se sont élevées à 8,3 millions d'euros et les dépenses relevant du budget opérationnel, à 117,3 millions d'euros et 332 millions de dollars des États-Unis.

Le Collège a émis une opinion sans réserve sur les états financiers de la NAGSMO et sur la conformité pour l'exercice clos le 31 décembre 2014.

À l'issue de l'audit, le Collège a également formulé une observation et une recommandation concernant un solde de trésorerie excessif au sens du Règlement financier de l'OTAN. La lettre d'observations et de recommandations (annexe 4) en contient un récapitulatif.

PAGE BLANCHE

NATO SANS CLASSIFICATION

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

COLLÈGE INTERNATIONAL DES COMMISSAIRES AUX COMPTES DE L'OTAN

OPINION SUR LA VÉRIFICATION DES ÉTATS FINANCIERS

**DE L'ORGANISATION OTAN DE GESTION DE LA CAPACITÉ ALLIÉE
DE SURVEILLANCE TERRESTRE**

(NAGSMO)

POUR L'EXERCICE CLOS LE 31 DÉCEMBRE 2014

NATO SANS CLASSIFICATION

**OPINION DU COLLÈGE INTERNATIONAL
DES COMMISSAIRES AUX COMPTES DE L'OTAN
À L'INTENTION DU CONSEIL DE L'ATLANTIQUE NORD**

Rapport sur les états financiers

Le Collège international des commissaires aux comptes de l'OTAN a procédé à la vérification des états financiers de l'Organisation OTAN de gestion de la capacité alliée de surveillance terrestre (NAGSMO), composés de l'état de la situation financière au 31 décembre 2014 et de l'état de la performance financière, de l'état des variations de l'actif net/situation nette et du tableau des flux de trésorerie pour l'exercice clos à cette date, ainsi que d'un résumé des méthodes comptables importantes et de diverses notes explicatives. Le Collège a également vérifié les états de l'exécution du budget pour l'exercice clos le 31 décembre 2014.

Responsabilité de la direction

La direction est chargée d'établir les états financiers conformément au cadre comptable OTAN et aux dispositions du Règlement financier de l'OTAN tels qu'ils ont été fixés par le Conseil de l'Atlantique Nord, et de veiller à ce qu'ils donnent une image fidèle de la situation de l'entité. Elle est ainsi responsable de la conception, de l'application et de la tenue d'un système de contrôle interne de nature à permettre l'établissement et la présentation d'états financiers qui soient exempts d'inexactitudes significatives, que celles-ci relèvent d'une fraude ou d'une erreur.

Responsabilité du Collège

Il incombe au Collège de formuler sur ces états financiers une opinion qui soit fondée sur son travail de vérification, lequel aura été effectué conformément aux dispositions de sa charte et aux normes internationales d'audit. Ces normes exigent que le Collège respecte certains principes déontologiques, et qu'il planifie et effectue sa vérification de manière à parvenir à une assurance raisonnable sur le point de savoir si les états financiers sont exempts d'inexactitudes significatives.

Un audit consiste à appliquer des procédures permettant d'obtenir des éléments probants relatifs aux montants et aux informations figurant dans les états financiers. Les procédures retenues à cette fin sont laissées à l'appréciation de l'auditeur, qui évalue notamment les risques d'inexactitudes significatives dans les états financiers, que celles-ci relèvent d'une fraude ou d'une erreur. Pour l'évaluation de ces risques, le système de contrôle interne sur lequel s'appuient l'établissement et la présentation des états financiers de l'entité concernée est pris en considération, le but étant d'élaborer des procédures d'audit qui soient adaptées à la situation considérée et non pas d'exprimer une opinion sur l'efficacité du système de contrôle interne. Il s'agit aussi de déterminer si les méthodes comptables appliquées sont appropriées et si les estimations comptables faites par la direction sont raisonnables, ainsi que d'évaluer la présentation générale des états financiers.

Le Collège estime qu'il a obtenu par son audit les éléments probants nécessaires et suffisants pour lui permettre de formuler une opinion.

Opinion sur les états financiers

L'opinion du Collège est qu'à tous égards significatifs, les états financiers donnent une image fidèle, conforme au cadre comptable OTAN, de la situation financière de la NAGSMO au 31 décembre 2014, ainsi que de sa performance financière et de ses flux de trésorerie pour l'exercice clos à cette date.

Rapport sur la conformité

Responsabilité de la direction

En plus d'être responsable, comme il est dit plus haut, de l'établissement et de la présentation des états financiers, la direction est chargée de veiller à ce que les opérations financières et les informations présentées dans les états financiers soient conformes aux dispositions du Règlement financier de l'OTAN et du Règlement du personnel civil de l'OTAN telles qu'elles ont été fixées par le Conseil de l'Atlantique Nord.

Responsabilité du Collège

En plus d'être responsable, comme il est dit plus haut, de la formulation d'une opinion sur les états financiers, le Collège est chargé de se prononcer sur le point de savoir si les opérations financières et les informations présentées dans les états financiers sont, à tous égards significatifs, conformes au Règlement financier de l'OTAN et au Règlement du personnel civil de l'OTAN. Il lui incombe notamment d'appliquer des procédures lui permettant d'obtenir une assurance raisonnable sur le point de savoir si les fonds ont été utilisés pour le règlement de dépenses autorisées et si les opérations correspondantes ont été exécutées conformément à la réglementation en vigueur dans le domaine financier et en matière de personnel. De telles procédures prévoient notamment l'évaluation des risques de non-conformité significative.

Le Collège estime qu'il a obtenu par son audit les éléments probants nécessaires et suffisants pour lui permettre de formuler une opinion.

Opinion sur la conformité

Le Collège estime que les opérations financières et les informations présentées dans les états financiers sont, à tous égards significatifs, conformes au Règlement financier de l'OTAN et au Règlement du personnel civil de l'OTAN.

Bruxelles, le 27 novembre 2015

Lyn Sachs
Présidente

PAGE BLANCHE

COLLÈGE INTERNATIONAL DES COMMISSAIRES AUX COMPTES DE L'OTAN

LETTRE D'OBSERVATIONS ET DE RECOMMANDATIONS CONCERNANT

**L'ORGANISATION OTAN DE GESTION DE LA CAPACITÉ ALLIÉE
DE SURVEILLANCE TERRESTRE**

(NAGSMO)

POUR L'EXERCICE CLOS LE 31 DÉCEMBRE 2014

Introduction

Le Collège international des commissaires aux comptes de l'OTAN a procédé à la vérification des états financiers de l'Organisation OTAN de gestion de la capacité alliée de surveillance terrestre (NAGSMO) pour l'exercice clos le 31 décembre 2014, et il a émis une opinion sans réserve à leur sujet, ainsi qu'une opinion sans réserve sur la conformité.

Observations et recommandations

À l'issue de l'audit, le Collège a formulé une observation concernant le niveau élevé des avoirs de trésorerie détenus par la NAGSMO au cours de l'exercice 2014.

Le Collège a aussi fait le point sur les observations formulées lors d'audits antérieurs et constaté que les questions qui en faisaient l'objet avaient été réglées.

Le Collège a également fait le point sur les observations figurant dans la lettre adressée à la direction (IBA-AML(2015)01) et constaté qu'elles avaient aussi reçu la suite voulue.

La NAGSMO n'a formulé aucun commentaire officiel sur la présente lettre d'observations et de recommandations.

OBSERVATIONS ET RECOMMANDATIONS

1. SOLDE DE TRÉSORERIE EXCESSIF AU SENS DU RÈGLEMENT FINANCIER DE L'OTAN

Contexte

1.1 L'article 13.3 du Règlement financier de l'OTAN (NFR) stipule : « *Le montant de chaque tranche est calculé de façon à limiter le total des avoirs en devises au minimum nécessaire pour couvrir les dépenses prévues jusqu'à la réception de la tranche suivante.* » De plus, selon les règles et procédures financières de la NAGSMO, chaque appel de contributions est calculé, à la date de son lancement, de façon à produire une somme qui, majorée des avoirs de trésorerie ainsi que des arriérés à percevoir au titre d'appels précédents, suffira pour effectuer les paiements prévus durant la période que couvrira l'appel.

Observation

1.2 Le Collège a constaté que la NAGSMO détenait des avoirs de trésorerie qui excédaient ses besoins de trésorerie pour l'exercice 2014. Le montant des avoirs de trésorerie s'est élevé en moyenne à 335 millions d'euros (calcul sur base des données mensuelles), soit environ 90 % des dépenses effectuées en 2014 (375 millions d'euros).

Recommandation

1.3 Le Collège recommande à la NAGSMO de se conformer à l'article 13.3 du NFR.

SUITES DONNÉES AUX OBSERVATIONS ANTÉRIEURES

Le Collège a fait le point sur la suite donnée aux observations et aux recommandations formulées à l'issue d'audits antérieurs. On en trouvera un récapitulatif dans le tableau ci-dessous.

Suites données aux observations antérieures

OBSERVATION/RECOMMANDATION	MESURES PRISES	ÉTAT DE LA QUESTION
1. Rapport sur la vérification des états financiers de 2013 IBA-AR(2015)01, paragraphe 1 ABSENCE D'AUDIT INTERNE La NAGSMA ne dispose pas de son propre service d'audit interne. Par conséquent, aucune activité d'audit interne n'a été réalisée au sein de la NAGSMO en 2014. Recommandation Le Collège recommande à la NAGSMA de veiller à ce que des audits internes soient effectués régulièrement.	La NAGSMA a fait appel au service d'audit interne de la NCIA, qui a effectué une évaluation des risques et recensé plusieurs domaines à risque. Ceux-ci seront pris en compte dans le plan d'audit interne 2015-2017. Ce plan programmera un audit par an, chacun devant porter sur deux à trois des domaines recensés dans le document sur l'évaluation des risques.	Question réglée.
2. Rapport sur la vérification des états financiers de 2013 IBA-AR(2015)01, paragraphe 2 TRANSFERTS ENTRE ARTICLES D'UN CHAPITRE CONFORMEMENT AU DOCUMENT À APPROUVER SUR LES PROCEDURES DE GESTION FINANCIERE DE LA NAGSMO Recommandation Le Collège recommande que le document sur les procédures de gestion financière de la NAGSMO précise qui doit approuver les transferts supérieurs au niveau financier D. Par ailleurs, lorsque le directeur général de la NAGSMA approuve de tels transferts, ceux-ci doivent être documentés de manière détaillée et sans tarder.	Tous les transferts effectués en 2014 ont été soumis à l'approbation du Comité financier et du Comité de direction.	Question réglée.

NAGSMO

2014

FINANCIAL STATEMENTS



NATO UNCLASSIFIED



NATO ALLIANCE GROUND SURVEILLANCE MANAGEMENT AGENCY

NAGSMA



PAGE LEFT INTENTIONALLY BLANK

NATO UNCLASSIFIED

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

NATO UNCLASSIFIED



NATO ALLIANCE GROUND SURVEILLANCE MANAGEMENT AGENCY

NAGSMA



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

International Board of Auditors for NATO

Attention: NAGSMO Board of Directors - Chairman and National Representatives

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

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

For the General Manager

Grazia M. D'Arcangelo
NAGSMA Financial Controller

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

NATO UNCLASSIFIED

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

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

THE NATO ALLIANCE GROUND SURVEILLANCE PROGRAMME

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

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

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

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

THE AGS CORE

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

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

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

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

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

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

NATO ALLIANCE GROUND SURVEILLANCE MANAGEMENT ORGANISATION

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

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

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

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

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

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

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



NAGSMA and Service Support/Level Agreement

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

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

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

NAGSMA 2014 Administrative Budget

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

NAGSMA 2014 Operational Budget

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

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

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

Major Achievements FY 2014:

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

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

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

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

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

NAGSMA Assets

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

NAGSMO & NAGSMA Acting as a Procurement Agent

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

CERTIFICATION

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



Grazia M. D'Arcangelo
NAGSMA Financial Controller

STATEMENT ON INTERNAL CONTROL

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

Scope of responsibility

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

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

Purpose of the System of Internal Control

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

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

Risk and Control Framework

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

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

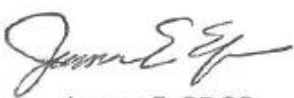
Since the NCI Agency carries out transactions on behalf of NAGSMA under the Service Support Agreement, NAGSMA's processes need to be compatible to the NCI Agency financial management system.

Review of Effectiveness

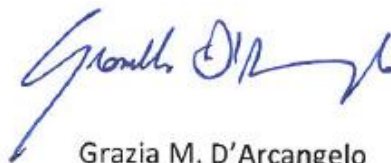
The Financial Controller has responsibility for reviewing the effectiveness of the system of internal control. The review is informed by:

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

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



James E. EDGE
NAGSMA General Manager



Grazia M. D'Arcangelo
NAGSMA Financial Controller

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes Annex F	Initial Authorisation	Mid Year - Review (MYR)	Final Approval - MYR	Transfers	Final Authorisation	Net Commit- ment	Actual Expenses	Total Spend	Carry Forward	Lapsed
BL 6604011		MYR			FA					
System Design, Development and Qualification										
2013 - System Design, Development and Qualification	65,717,593	0	65,717,593	0	65,717,593	0	65,717,593	65,717,593	0	0
2014 - System Design, Development and Qualification	95,559,509	4,077,635	99,637,144	11,199,718	110,836,862	65,030,350	45,806,512	110,836,862	65,030,350	0
Total System Design, Development and Qualification	161,277,102	4,077,635	165,354,738	11,199,718	176,554,455	65,030,350	111,524,105	176,554,455	65,030,350	0
Production										
2013 - Production	0	0	0	0	0	0	0	0	0	0
2014 - Production	6,803,540	0	6,803,540	-1	6,803,539	4,836,250	1,967,289	6,803,539	4,836,250	0
Total Production	6,803,540	0	6,803,540	-1	6,803,539	4,836,250	1,967,289	6,803,539	4,836,250	0
Management Reserve										
2012 - Management Reserve	108,215	0	108,215	0	108,215	0	108,215	108,215	0	0
2013 - Management Reserve	0	0	0	0	0	0	0	0	0	0
2014 - Management Reserve	6,247,976	0	6,247,976	-1,730,360	4,517,616	1,477,215	3,040,401	4,517,616	1,477,215	0
Total Management Reserve	6,356,191	0	6,356,191	-1,730,360	4,625,631	1,477,215	3,148,616	4,625,631	1,477,215	0
CAFX										
2012 - CAFX	0	0	0	0	0	0	0	0	0	0
2013 - CAFX	269,338	0	269,338	0	269,338	0	269,338	269,338	0	0
2014 - CAFX	6,932,048	0	6,932,048	-6,112,199	819,849	360,986	458,863	819,849	360,986	0
Total CAFX	7,201,386	0	7,201,386	-6,112,199	1,089,187	360,986	728,201	1,089,187	360,986	0
ISS										
2014 - ISS	3,357,157	0	3,357,157	-3,357,157	0	0	0	0	0	0
Total ISS	3,357,157	0	3,357,157	-3,357,157	0	0	0	0	0	0
	184,995,376	4,077,635	189,073,011	0	189,073,011	71,704,800	117,368,211	189,073,011	71,704,800	0

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

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

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

Index Page

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

ANNEX A Basis of Preparation and Accounting Policies

A01 Basis of preparation

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

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

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

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

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

A02 Use of estimates

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

A03 Significant Accounting Policies

Accounting as a Procurement Agent

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

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

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

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

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

Foreign Currency Translation

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

Financial Instruments

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

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

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

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

Liquidity risk: The liquidity risk is based on the assessment of whether the organisation will encounter difficulties in meeting its obligation associated with financial liabilities. There is a very limited exposure to liquidity risk because of the budget funding mechanism that guarantees contributions for the total approved budget. The accuracy of forecasts that result in the calls for contributions as well as the delay in payment represents the main liquidity risks. There is a clause in the NAGSMO FRP art. 15 Payment of Contributions, that deals with unpaid contributions giving the Agency the authority to determine the appropriate course of action in case of a delay or a non-payment and the financial consequences of such, borne by the Participating Nation.

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

Cash and Cash Equivalents

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

Receivables

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

Other Current Assets

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

Payables

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

Advances and Unearned Revenue

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

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

Provisions and Contingent Liabilities

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

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

Budget Execution Statement

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

Revenue and Expense Recognition

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

Revenue for the Administrative Budget

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

Interest

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

Representation Allowance

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

Post-employment benefits

Defined Contribution Plans

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

Defined Benefit Plans

NAGSMA employees who have joined NATO before 1 July 2005 are members of the NATO Coordinated Pension Scheme which is a funded defined benefit plan. Under the plans and upon completion of 10 years employment with NATO, the employees are entitled to retirement benefits of 2% per year of service of final basic salary on attainment of a retirement age of 60. No other post-retirement benefits are provided to these employees. Staff members whose length of service is not sufficient to entitle them to a retirement pension are eligible for a leaving allowance. The assets and liability for NATO's Defined Benefit Plan are accounted for centrally at NATO Headquarters and therefore are not recognised in these financial statements.

ANNEX B Notes to the Statement of Financial Position

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

B06	Advances from Nations	488,793,369	526,332,122
------------	------------------------------	--------------------	--------------------

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

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

B07	Trade payables	13,460,636	156,321
------------	-----------------------	-------------------	----------------

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

B08	Other payables	2,563,865	4,112,441
------------	-----------------------	------------------	------------------

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

B09	Provisions	124,622	156,844
------------	-------------------	----------------	----------------

The provision represents annual leave entitlements accrued.

Balance at 1 January 2014	156,844
Provision release	(32,222)
Balance at 31 December 2014	<u>124,622</u>

B10	Contingent Liabilities
------------	-------------------------------

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

ANNEX C Notes to the Statement of Financial Performance

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

ANNEX D Notes to the Cash Flow Statement

The Cash Flow Statement is prepared using the indirect method.

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

ANNEX E Notes to the Budget Execution Statement – Administrative Budget

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

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

ANNEX F Notes to the Budget Execution Statement – Operational Budget

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

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

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

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

System Design, Development and Qualification

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

Production

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

Management Reserve

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

CAFX

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

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

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

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

NAGSMA Operational Budget EUR

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

NAGSMA Operational Budget USD

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

Note to the table:

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

ANNEX G General Notes to the Financial Statements

G01 Related Party Disclosures

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

Transactions with NATO bodies

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

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

Compensation of key management personnel

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

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

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

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

G02 Representation Allowance

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

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

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

G03 Approval of Financial Statements

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

PAGE LEFT INTENTIONALLY BLANK

PAGE LEFT INTENTIONALLY BLANK



NATO Alliance Ground Surveillance
Management Organisation
(NAGSMO)

NAGSMO
NATO Headquarters
1110 Brussels
Belgium