26 November 2018

DOCUMENT
C-M(2018)0055-AS1

IBAN AUDIT ON THE 2017 FINANCIAL STATEMENTS OF NATO MEDIUM EXTENDED AIR DEFENCE SYSTEM MANAGEMENT ORGANISATION (NAMEADSMO) IN LIQUIDATION AND NATO AIRBORNE EARLY WARNING AND CONTROL PROGRAMME MANAGEMENT AGENCY (NAPMA)

ACTION SHEET

On 23 November 2018, under the silence procedure, the Council noted the IBAN report on the 2017 financial statements of NAMEADSMO in Liquidation and NAPMA attached to C-M(2018)0055, endorsed the related RPPB report, and agreed to the public disclosure of the report, the IBAN audits and associated 2017 financial statements of NAMEADSMO in Liquidation and NAPMA.

(Signed) Jens Stoltenberg
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2018)0055

6 November 2018

DOCUMENT
C-M(2018)0055
Silence Procedure ends:
23 Nov 2018 15:30

IBAN AUDIT ON THE 2017 FINANCIAL STATEMENTS OF NATO MEDIUM EXTENDED AIR DEFENCE SYSTEM MANAGEMENT ORGANISATION (NAMEADSMO) IN LIQUIDATION AND NATO AIRBORNE EARLY WARNING AND CONTROL PROGRAMME MANAGEMENT AGENCY (NAPMA)

Note by the Secretary General

1. I attach the International Board of Auditors for NATO (IBAN) reports on the audits of the 2017 financial statements of NAMEADSMO in Liquidation and NAPMA. The IBAN audits produced unqualified opinions on both the financial statements and compliance for NAMEADSMO in Liquidation and NAPMA.

2. The IBAN reports have been reviewed by the Resource Policy and Planning Board (RPPB) (see Annex 1).

3. I do not believe this issue requires further discussion. Therefore, **unless I hear to the contrary by 15:30 hours on Friday, 23 November 2018,** I shall assume the Council noted the IBAN report on the 2017 financial statements of NAMEADSMO in Liquidation and NAPMA, endorsed the related RPPB report, and agreed to the public disclosure of this report, the IBAN audits and associated 2017 financial statements of NAMEADSMO in Liquidation and NAPMA.

(Signed) Jens Stoltenberg

1 Annex
1 Enclosure

Original: English

ANNEX 1
C-M(2018)0055

IBAN AUDIT ON THE 2017 FINANCIAL STATEMENTS OF NATO MEDIUM EXTENDED AIR DEFENCE SYSTEM MANAGEMENT ORGANISATION (NAMEADSMO) IN LIQUIDATION AND NATO AIRBORNE EARLY WARNING AND CONTROL PROGRAMME MANAGEMENT AGENCY (NAPMA)

Report by the Resource Policy and Planning Board (RPPB)

References:

A.	IBA-A(2018)0070	IBAN Audit on the 2017 Financial Statements of NAMEADSMO in liquidation
B.	IBA-A(2018)0084	IBAN Audit on the 2017 Financial Statements of NAPMA
C.	AC/335-N(2018)0036	Handling of the 2017 Financial Statement audit reports
D.	C-M(2017)0022 (INV)	NATO Accounting Policy for Property, Plant and Equipment
E.	PO(2015)0052	Wales Summit tasker on transparency and accountability

BACKGROUND

1. This report by the RPPB addresses the IBAN audits of the 2017 financial statements of NAMEADSMO in Liquidation and NAPMA. The IBAN audits set out unqualified opinions on the financial statements and on compliance for both NATO entities (references A and B).

2. In accordance with the handling arrangements agreed by the RPPB (reference C) these audit reports have been grouped together into a single overarching RPPB report.

DISCUSSION

3. The RPPB notes that the IBAN issued unqualified opinions on the 2017 financial statements and on compliance of NAMEADSMO in Liquidation and NAPMA.

3.1. With regards to NAMEADSMO in Liquidation, the IBAN noted as an Emphasis of Matter[1] in its audit opinion that the status of NAMEADSMO changed on 4 April 2016 when the NAMEADSMO Board of Directors submitted a formal request to Council to place NAMEADSMO into liquidation. This was approved and came into effect on 1 July 2016 when NAMEADSMO became "NAMEADSMO in Liquidation" operating through a small office of the liquidator. Consequently, the 12-month reporting period in 2017 for NAMEADSMO in Liquidation differs from the 6-month reporting period in 2016 and comparability between the two periods in the 2017 financial statements is diminished. During the 2017 audit, the IBAN did not make any observations and noted that one prior year observation was settled, one was partially settled, and none remain outstanding.

3.2. NAPMA was issued two observations in 2017 and settled its one outstanding prior year observation. The two new observations are that improvements are required in the area of risk management, internal controls and internal audit, and that inaccuracies and immaterial errors were identified in the financial statements. An example of an inaccuracy was NAPMA presenting the portion of Advances from Participating Nations due in the next

[1] Emphasis of Matter – A paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements.

twelve months as a non-current liability rather than a current liability. An example of an immaterial error identified was depreciating assets by one year when they were placed in service in August, causing an immaterial overstatement of depreciation expense[2].

3.2.1. The RPPB notes that NAPMA generally agreed with the IBAN findings and plans to correct the inconsistencies and immaterial errors going forward, but does not plan to follow the IBAN's recommendation regarding asset depreciation. As long as the impact to the financial statements continues to be immaterial, the RPPB agrees that NAPMA can choose to deviate from reference D and continue using annual depreciation rather than using the date an asset is placed in service. The RPPB also notes the progress made by NAPMA in 2017 in the areas of risk management, internal controls and internal audit errors and NAPMA's plans to continue implementing the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework.

CONCLUSION

4. The IBAN issued unqualified audit opinions on compliance and on the 2017 financial statements of NAMEADSMO in Liquidation and NAPMA. No further action is required by the Board at this stage on the audit reports of the 2017 financial statements of these NATO entities.

RECOMMENDATIONS

5. The RPPB recommends that the Council:

5.1. note the IBAN reports at references A and B;

5.2. endorse the conclusion at paragraph 4; and,

5.3. agree to the public disclosure of this report, the IBAN audits and the associated 2017 financial statements of NAMEADSMO in Liquidation and NAPMA in line with the agreed policy in reference E.

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[2] USD 13,895.

NORTH ATLANTIC TREATY ORGANIZATION
ORGANISATION DU TRAITÉ DE L'ATLANTIQUE NORD

INTERNATIONAL BOARD OF AUDITORS
COLLÈGE INTERNATIONAL DES COMMISSAIRES AUX COMPTES

NATO UNCLASSIFIED

IBA-A(2018)0070
13 July 2018

To: Secretary General
(Attn: Director of the Private Office)

Cc: Chairman of Board of Directors, NAMEADSMO in Liquidation
Head of the Office of the Liquidator, NAMEADSMO in Liquidation
Chairman, Resource Policy & Planning Board
Branch Head, Plans and Policy Branch, NATO Office of Resources
Private Office Registry

Subject: ***International Board of Auditors for NATO (Board) Auditor's Report and Letter of Observations and Recommendations on the audit of the NATO Medium Extended Air Defense System Management Organisation (NAMEADSMO) in Liquidation Financial Statements for the year ending 31 December 2017 – IBA-AR(2018)0012***

The Board submits herewith its approved Auditor's Report (Annex 2) and Letter of Observations and Recommendations (Annex 3) with a Summary Note for distribution to the Council (Annex 1).

The Board's report sets out an unqualified opinion on the Financial Statements of NAMEADSMO in Liquidation and on compliance for year ending 31 December 2017.

Yours sincerely,

Hervé-Adrien Metzger
Chairman

Attachments: As stated above.

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ANNEX 1

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 in Liquidation
(NAMEADSMO in Liquidation)
for the year ending 31 December 2017

The Board audited NATO Medium Extended Air Defense System Management Organization in Liquidation (NAMEADSMO in Liquidation), 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 defense system capable of countering a wide range of air threats such as cruise missiles and tactical ballistic missiles.

For the year ending 31 December 2017, NAMEADSMO in Liquidation's expenditures totaled U.S. Dollars (USD) 5.3 million, consisting of USD 0.8 million from the Administrative Budget and USD 4.5 million from the Operational Budget.

During the audit, the Board did not make any observations. The Board issued an unqualified opinion on the financial statements and on compliance for the year ending 31 December 2017. The Board also followed up on the status of the observations from the previous year's audit and noticed that one was settled and another was partially settled.

The Auditor's Report (Annex 2) and the Letter of Observations and Recommendations (Annex 3) were issued to NAMEADSMO in Liquidation, whose comments have been included (Appendix to Annex 3).

The Board issued a Management Letter (reference IBA-AML(2018)0008) to NAMEADSMO in Liquidation, Office of the Liquidator with one observation for management's attention.

We draw your attention to Note 1 of the financial statements, where it is described that on 4 April 2016, the NAMEADSMO Board of Directors submitted a formal request to the NAC to place NAMEADSMO into liquidation. This request was approved and became effective on 1 July 2016, when NAMEADSMO became "NAMEADSMO in Liquidation", operating through a small "Office of the Liquidator". NAMEADSMO in Liquidation prepared financial statements for the period 01 July-31 December 2016. Consequently, the reporting period for NAMEADSMO in Liquidation in 2017 (12 months) differs from the reporting period of the previous financial statements (6 months). As a result, comparative balances as presented in the financial statements and related notes are not entirely comparable. Our opinion is not qualified in respect to this matter.

ANNEX 2
IBA-AR(2018)0012

13 July 2018

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF

THE NATO MEDIUM EXTENDED AIR DEFENSE SYSTEM MANAGEMENT ORGANISATION IN LIQUIDATION

(NAMEADSMO IN LIQUIDATION)

FOR THE YEAR ENDED 31 DECEMBER 2017

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 in Liquidation, which comprised the Statement of Financial Position as at 31 December 2017, the Statement of Financial Performance, Statement of Changes in Net Equity/Assets and the Statement of Cash Flows for the year 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 2017.

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. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion on Financial Statements

In our opinion, the financial statements present fairly, in all material respects, the financial position of NAMEADSMO in Liquidation as of 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with the NATO Accounting Framework.

Emphasis of Matter

We draw your attention to Note 1 of the financial statements, where it is described that on 4 April 2016, the NAMEADSMO Board of Directors submitted a formal request to the NAC to place NAMEADSMO into liquidation. This request was approved and became effective on 1 July 2016, when NAMEADSMO became “NAMEADSMO in Liquidation”, operating through a small “Office of the Liquidator”. NAMEADSMO in Liquidation prepared financial statements for the period 01 July-31 December 2016. Consequently, the reporting period for NAMEADSMO in Liquidation in 2017 (12 months) differs from the reporting period of the previous financial statements (6 months). As a result, comparative balances as presented in the financial statements and related notes are not entirely comparable. Our opinion is not qualified in respect to this matter.

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.

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, 13 July 2018

Hervé-Adrien Metzger
Chairman

ANNEX 3
IBA-AR(2018)0005

13 July 2018

INTERNATIONAL BOARD OF AUDITORS FOR NATO

LETTER OF OBSERVATIONS AND RECOMMENDATIONS

FOR THE NATO MEDIUM EXTENDED AIR DEFENSE SYSTEM MANAGEMENT ORGANISATION IN LIQUIDATION

(NAMEADSMO IN LIQUIDATION)

FOR THE YEAR ENDED 31 DECEMBER 2017

Introduction

The International Board of Auditors for NATO (Board) audited the NAMEADSMO in Liquidation Financial Statements for the year ended 31 December 2017, and issued an unqualified opinion on the financial statements and on compliance.

Observations and Recommendations

During the audit, the Board did not make any current year observations.

The Board followed up on the status of the observations from the previous year's audit and found that one was settled and another was partially settled.

The Board also issued a Management Letter (reference IBA-AML(2018)0008) to the Head of the Office of the Liquidator, NAMEADSMO in Liquidation with one observation for management's attention.

The Auditor's Report (Annex 2) and the Letter of Observations and Recommendations (Annex 3) were issued to the NAMEADSMA whose comments have been included (Appendix to Annex 3).

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

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

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
(1) NAMEADSMO In Liquidation FY 2016 - period 01 July-31 Dec 2016 **IBA-AR(2017)19, paragraph 1** **INCOMPLETE PRESENTATION OF EXPENSES IN THE BUDGET EXECUTION STATEMENT** **Board's Recommendation** The Board recommends NAMEADSMO in Liquidation to present in the Budget Execution Statement the total value of the budget executed (accrued and paid) and commitments carried forward to future years. If NAMEADSMO in Liquidation chooses in the future to prepare and present the Budget Execution Statement on accrual basis, the change in presentation should be disclosed in the Notes to the Financial Statements.	NAMEADSMO in Liquidation prepared the Budget Execution Statement on an accrual basis for 2017 Financial Statements. Therefore, the expenses includes accruals. In addition, NAMEADSMO in Liquidation disclosed, in the Financial Statements, the change in the Budget Execution Statement's presentation from cash basis to accrual basis, as recommended by the Board.	Observation **Settled**.
(2) NAMEADSMO FY 2015 **IBA-AR(2016)07, paragraph 1** **IMPROVEMENTS TO CERTAIN INTERNAL CONTROLS NEEDED TO ADDRESS RISKS OF NAMEADSMO APPROACHING THE LIQUIDATION PHASE** **Board's Recommendation** 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.	1) Silence procedure is no longer used for the budget approvals by the BoD Status: **Observation Settled**. 2) NAMEADSMA Office of the Liquidator adheres to the NATO Financial Regulations as from 1 July 2016. Status: **Observation Settled**.	Observation **Partially Settled**.

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
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.	3) Operational budget funds have almost fully been committed in 2017 for the close out phase. At 31 December 2016, only about USD 1.5 million related to the Operational budget was not committed. However, at 31 December 2017, there were around USD 3.8 million related to the Administrative budget not yet committed. These funds were allocated for the out years requirements for the closure of the Office of the Liquidator. NAMEADSMO in Liquidation's BoD is aware of the funds available and their future allocation and at each budget approval, the BoD reiterates this position. Status: **Observation Partially Settled**.	

NATO MEDIUM EXTENDED AIR DEFENSE SYSTEM MANAGEMENT ORGANISATION IN LIQUIDATION (NAMEDSMO IN LIQUIDATION) FORMAL COMMENTS ON THE LETTER OF OBSERVATIONS AND RECOMMENDATIONS AND THE INTERNATIONAL BOARD OF AUDITORS (BOARD) POSITIONS

NAMEDSMO in Liquidation's Formal Comments

1. I had the opportunity to review the subject report for factual or formal clearance and I have no comment on your assessment for the current year.

2. Follow on previous observations:

The follow up on 1c. remained only partially settled because the funding of the Agency/OotL is based on a MoU. All funds have been provided by Nations. Returning funds and applying for new funding the following year is not possible. The purpose of these funds are to cover for the close out of the D&D Program and the close out of the Agency.

North Atlantic Treaty Organization

NATO Medium Extended Air Defense System Management Organization in Liquidation

Financial Statements

For the year ended

31 December 2017

1. Table of Contents

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

General description of the NATO MEADS Management Organization in Liquidation

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 with the "Charter of NAMEADSMO", documented at C-M(2005)0044-ADD1. Per virtue of the Section VII of the Charter, the organization comprises a Steering Committee (now called BoD), and a NATO Agency whose headquarter is located in the United States of America.

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.

On 4 April 2016, the Board of Directors (BoD) submitted a formal request to the North Atlantic Council (NAC) to place NAMEADSMO into Liquidation (NAMEADSMO i.L.). This request was approved and became effective on 1 July 2016.
NAMEADSMO i.L. is comprised of a BoD, composed of one representative from each of the Participants, and the Office of the Liquidator which replaced the former NATO MEADS Management Agency (NAMEADSMA).
Consequently, NAMEADSMO i.L. and its staff are under the governance of the NATO Document C-M(66)9 which states in Article 1.b)
"*Until the liquidation is completed, the provision of the Charter of the Production Organization will continue to apply to the Production Organization in Liquidation and its staff, insofar as nothing to the contrary results from the provisions of this document or from the purpose of the liquidation.*"

The liquidation phase for the MEADS program is financed with the "inherited" contributions received prior to the liquidation phase from participating Governments in accordance with the Financial Management Policy Document (FMPD) in accordance with the terms stipulated in the Design and Development (D&D) Memorandum of Understanding (MoU). While some parts of the MoU expired on 22 April 2017, Section 19.7 provides an indefinite application of the Sections "Equipment", "Disclosure and Use of Project Information", "Controlled unclassified Information, "Security", "Third Party Sales and transfers", "Liability and Claims" and "Amendment, Termination, Entry into Effect, and Duration".

The FMPD specifies the financial management policies and the funding schedule set for the MEADS D&D phase also applicable for the liquidation phase. It delineates the Participants' annual cumulative financial ceilings which are the basis for the NAMEADSMO i.L. 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. No further contribution by each Nation will occur during the liquidation phase. 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 cumulative D&D costs incurred until 31 December 2017 reached a total of 2,606 M US Dollars and 1,419 M Euros.

In 2017, the Office of the Liquidator is comprised of a Liquidator (GE), a Contract Specialist/Financial Controller (IT), a Business Financial Manager (GE), and Security Manager (US).

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

NAMEADSMO i.L. has given no guarantees to third parties.

NAMEADSMO i.L. is located in Huntsville, Alabama, USA.

Role of the Office of the Liquidator

Beginning 01 July 2016, the Office of the Liquidator (OotL) is the successor of NAMEADSMA. OotL is responsible for the planning, execution and overall management of the liquidation of the program with the goal to complete the ongoing effort, safeguard the development results and accomplish a successful close-out.

The OotL inherited all existing contracts awarded by the (former) NATO Agency NAMEADSMA throughout the D&D phase.

Contract legacy with NAMEADSMA can be explained as follows:

- The Prime Contract with MEADS International (MI), the prime contractor was definitized on 31 May 2005. 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 lasted throughout 2016-2017. It is now completed. Remaining contractual and administrative close-out activities will be carried out until final settlement.

- Ancillary contracts were also part of business transferred to the OotL. Lockheed Martin was engaged in a cooperative agreement for the realization of a Low Frequency Sensor. EuroMEADS (a sub-contractor of MEADS International) was retrofitting one of the two Multifunction Fire Control Radars (MFCR). MBDA-GE received a contract to fulfill a non-common requirement regarding German Maturation Activities funded by Germany only. MEADS LLC had been providing 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.

- Bailment agreements: preservation of German and Italian hardware in the US and in Italy. Items are made available to be used as Government Furnished Equipment in a future contract or might be abandoned in place.

Compliance with Financial Regulations

NAMEADSMO i.L. follows standardized rules and regulations approved by the NAC. Specifically, NAMEADSMO i.L. adheres to the NATO Financial Regulations (NFRs) and Financial Rules and Procedures (FRPs) and to the NATO Civilian Personnel Regulations (CPRs). Since the financial management of NAMEADSMO i.L. is separate and distinct from those of the International Staff or other NATO entities, NAMEADSMO i.L. also follows the NAMEADSMO Financial Rules and Regulations (FRRs), as approved by the NAMEADSMO BoD. If a conflict between the NFR/FRP and NAMEADSMO FRRs arises, the most recent NATO NFR/FRP will prevail.
Note that the BoD decided with decision D22/03 that the Liquidator has the discretion to modify processes and regulations of the NAMEADSMO FRR and Operating Instructions (OIs) to accommodate the OotL organization and requirements as long as these modifications are compliant with the NFR.

NAMEADSMO i.L.'s mission, strategies and how they relate to its Financial Position, Financial Performance and Cash Flows

NAMEADSMO i.L. 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 i.L.'s Financial Position and Performance

NAMEADSMO i.L.'s performance is based on the MEADS program results and deliveries that can be achieved with the resources spent. As the MEADS program comes to an end the financial position of NAMEADSMO i.L. is not affected by any significant risk.

Assets/Liabilities in regard of other NATO bodies

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

B. Statement of Financial Position

as at 31 December 2017
(in equivalent US Dollars)

	Notes	2017	1Jul-31Dec 2016
Assets			
Current Assets			
Cash and Cash Equivalents	2	11,985,837	18,226,188
Receivables	3	19	-
Prepayments	4	-	-
		11,985,856	18,226,188
Non-Current Assets			
Property, Plant and Equipment	5	-	-
Total Assets		**11,985,856**	**18,226,188**
Liabilities			
Current Liabilities			
Accounts Payable and Accruals	6	282,453	1,573,672
Deferred Revenue and Advances	7	11,703,403	16,652,516
		11,985,856	18,226,188
Total Liabilities		**11,985,856**	**18,226,188**

C. Statement of Financial Performance

for the year ended 31 December 2017
(in equivalent US Dollars)

	Notes	2017	1Jul-31Dec2016
Revenue	10		
Operational		4,455,494	4,408,984
Administrative		854,889	483,022
Total Revenue		**5,310,383**	**4,892,006**
Expense	11, 12, 13, 14		
Operational		4,455,494	4,408,984
Administrative		854,889	483,022
Total Expense		**5,310,383**	**4,892,006**
Net Result for the Year		**-**	**-**

D. Statement of Cash Flows

for the year ended 31 December 2017
(in equivalent US Dollars)

	2017	1Jul-31Dec 2016
Operational Budget		
Cash Receipts from Nation Contributions	-	-
Cash Paid to Contractors	(5,740,568)	(3,910,433)
Other Cash Receipts	766,966	-
Other Cash Payments	(766,966)	179,082
Total Operational Budget	**(5,740,568)**	**(3,731,352)**
Administrative Budget		
Other Cash Receipts	11,405	1,159
Cash Paid to Suppliers and Employees	(861,034)	(569,652)
Transfers between Budgets	-	(179,082)
Total Administrative Budget	**(849,629)**	**(747,575)**
Total Cash Flows from Operating Activities	**(6,590,197)**	**(4,478,927)**
Total Cash Flows from Investing Activities	**-**	**-**
Total Cash Flows from Financing Activities	**-**	**-**
Net Increase/Decrease in Cash	**(6,590,197)**	**(4,478,927)**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**349,845**	**(365,623)**
Cash at Beginning of Period	**18,226,189**	**23,070,739**
Cash at End of Period	**11,985,837**	**18,226,189**

E. Statement of Changes to Net Assets/Equity

for the year ended 31 December 2017
(in equivalent US Dollars)

	Capital assets	Reserves	Accumulated surplus/deficit	Total
Balance at the end of the period 1 Jan - 30 June 2016	-	-	-	-
Net gains/(losses) recognised directly in net assets/equity	-	-	-	-
Surplus/(deficit) for the period	-	-	-	-
Change in net assets/equity for the year ended 31 Dec 2016	-	-	-	-
Balance at the end of the period 1 Jul - 31 Dec 2016	-	-	-	-
Net gains/(losses) recognised directly in net assets/equity	-	-	-	-
Surplus/(deficit) for the period	-	-	-	-
Change in net assets/equity for the period 1 Jan- 31 Dec 2017	-	-	-	-
Balance at 31 December 2017	-	-	-	-

F. Notes to the Financial Statements

Note 1. Significant Accounting Policies

Basis of preparation

The financial statements of NAMEADSMO i.L. have been prepared in accordance with the International Public Sector Accounting Standards (IPSAS) and the NATO accounting framework adopted by the NAC in 2013-2015. The application of the NATO accounting framework has had no material impact on the disclosures or on the amounts recognised in the NAMEADSMO i.L. financial statements.

The financial statements comply with the accounting requirements of the NFR and FRP and the relevant NAMEADSMO FRR. They are prepared on a non-going concern basis in consideration of the decisions taken by the Participants.

As a legacy recap, 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. In the end, the BoD submitted a formal request to the NAC to place NAMEADSMO into Liquidation on 4 April 2016. This request was approved and became effective on 1 July 2016. Consequently, NAMEADSMO became “NAMEADSMO in Liquidation”, operating through 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 31 December 2017 financial statements, the accounting policies have been applied consistently throughout the reporting period with the exception of the Budget Execution Statement (BES) in Annex I.

There has been a change in the execution of the BES. The BES was presented on a cash basis of accounting until 31 Dec 2016. With the financial statements for the year ended 31 December 2017 the BES is prepared on accrual basis of accounting. The mention change meets the criteria set in IPSAS 3 and results in providing more reliable and more relevant information. The BES is now also more comparable to the rest of the financial statements which are prepared on accrual basis.
Even though it is not a change in accounting policy per se the following actions are taken in the financial statements to allow for more transparency:

- In accordance with the NATO Accounting Framework (C-M(2016)0023) more information is provided for property, plant and equipment acquired before 2013 (see Note 5)
- Note 14 is added to explain in more detail the effect of changes in foreign exchange rates

Restatements

NAMEADSMO i.L. has not restated any balances.

Changes in pronouncements

Some new standards, alignments of standards and interpretations were issued and are only applied by NAMEADSMO i.L. in preparing the financial statements if they are applicable to the agency:

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
IPSAS 39	Employee Benefits	01 January 2018
IPSAS 40	Public Sector Combinations	01 January 2019
Cash Basis IPSAS	Financial Reporting under the Cash Basis of Accounting	01 January 2019

Foreign Currency

These financial statements are presented in US Dollars (USD), which is NAMEADSMO i.L.'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 period-end are translated into USD using the NATO exchange rates applicable at 31 December 2017.

To be more transparent Note 14 was added to explain in more detail the Effect of Exchange Rate Changes on Cash and cash Equivalents (according to IPSAS 4).

Financial Instruments disclosure/presentation

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

a. Credit risk

The OotL 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 with Fitch, the following are the latest bank deposit ratings assigned:
- Wells Fargo Bank: A+/F1
- Sparkasse Koblenz: A+

b. Liquidity risk

The OotL 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

The OotL continues to operate on the contributions received from the Participants in USD ($) and EURO (€), based on the FMPD in prior years. 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 are 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 NAMEADSMO i.L. 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 i.L. considers itself to be the “construction manager” of a project which was 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 (BES) is presented in Annex I.
There has been a change in the execution of the BES. The BES was presented on a cash basis of accounting until 31 Dec 2016. With the financial statements for the year ended 31 December 2017 the BES is prepared an accrual basis of accounting. The mention change meets the criteria set in IPSAS 3 and results in providing more reliable and more relevant information. It is also more comparable to the rest of the financial statements which are prepared on accrual basis.

Cash Flow Statements

NAMEADSMO i.L. 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. As consequence of the 1 July 2016 transition into liquidation, all NAMEADSMO assets and liabilities were subsumed into NAMEADSMO i.L. assets and liabilities.

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 by period-end but which remain unpaid. Accruals represent amounts for goods and/or services rendered by period-end but are not yet supported by an invoice at period-end.

Deferred Revenue

Deferred revenue represents contributions from Participants and/or third parties that have been called for, in 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 internal policy guidance for Property, Plant and Equipment for the Administrative Budget. No changes occurred with the criterion adopted by former NAMEADSMA's internal policy guidances. 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 i.L. uses capitalization thresholds based on its activities and size. These thresholds are lower than the agreed NATO thresholds in the framework.

NAMEADSMO i.L. 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 i.L. 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 NAMEADSMO assets was 2015. Consequently, everything received by the NAMEADMSMO i.L. - OotL, on 01 July 2016, is already fully depreciated to zero book value.

Intangible Assets

NAMEADSMO i.L. 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 i.L. 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 i.L. 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 i.L..

Reserves and Net Assets

NAMEADSMO i.L. 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.

Comparative Figures

The end-year 2017 balances are disclosed. The reporting period for the current financial statements (FS) (12 months), is different from the reporting period for the previous financial statements 01 Jul -31 Dec 2016 (6 months) due to the change which occurred in 2016 (as first semester had been still accountable under NAMEADSMO and the second semester was accountable under the NAMEADSMO i.L.). Comparative amounts for related notes are therefore not entirely comparable.

Note 2. Cash and Cash Equivalents

2017:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational	1,302,330				5,087,693	**6,632,257**
Administrative		33,007		6,376	5,314,197	**5,353,580**
TOTAL	**1,302,330**	**33,007**	**-**	**6,376**	**10,401,891**	**11,985,837**

1 Jul – 31 Dec 2016:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational	3,902,047				7,957,438	**12,022,981**
Administrative		36,027		7,132	6,160,049	**6,203,208**
TOTAL	**3,902,047**	**36,027**	**-**	**7,132**	**14,117,487**	**18,226,189**

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

Note 3. Receivables

2017:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational						
Contract Receivables		-		-		-
Total Operational	-	-	-	-	-	-
Administrative						
Miscellaneous					19	**19**
Total Administrative		-		-	19	**19**
TOTAL	**-**	**-**	**-**	**-**	**19**	**19**

Administrative Budget includes a receivable for bank fee to be reimbursed to the Agency.

1 Jul – 31 Dec 2016:

There were no receivables as at 31 December 2016.

Note 4. Prepayments

2017:
There are no prepayments as at 31 December 2017.

1 Jul – 31 Dec 2016:
There were no prepayments as at 31 December 2016.

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	Jan-Dec 2017	Jul-Dec 2016	Jan-Dec 2017	Jul-Dec 2016	Jan-Dec 2017	Jul-Dec 2016	-	Jul-Dec 2016	Jan-Dec 2017	Jul-Dec 2016
Gross Carrying Amount, opening	6,395	7,710	-	-	13,274	13,274	-	-	19,669	20,984
Additions	-	-	-	-	-	-	-	-	-	-
Disposals	-	(1,315)	-	-	-	-	-	-	-	(1,315)
Loss on Disposals	-	-	-	-	-	-	-	-	-	-
Gross Carrying Amount, closing	6,395	6,395	-	-	13,274	13,274	-	-	19,669	19,669
Accumulated Depreciation, opening	6,395	7,710	-	-	13,274	13,274	-	-	19,669	20,984
Depreciation	-	-	-	-	-	-	-	-	-	-
Disposals	-	(1,315)	-	-	-	-	-	-	-	(1,315)
Accumulated Depreciation, closing	6,395	6,395	-	-	13,274	13,274	-	-	19,669	19,669
Net Carrying Amount	-	-	-	-	-	-	-	-	-	-

Additionally, the entity has a number of non-capitalized items of Property, Plant and Equipment, acquired before 2013. These are maintained in the disposition of the Entity. In accordance with the NATO Accounting Framework (C-M(2016)0023), which requires for these items to provide the type of inventories, locations and approximate number of these items held per asset category, the table below is disclosed:

Furniture & Fixtures	Automated Information System	Communication Systems	Leasehold Improvements	Major Software	Total
48	6	0	0	0	54

These items are located at the Office site – 620 Discovery Dr. – BLDG 1 – Suite 110 – Huntsville (AL).

Note 6. Accounts Payable and Accruals

2017:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational						
Accounts Payable	-	-		-	-	**-**
Accrued Expenses	210,192	-		-	14,563	**263,851**
Total Operational	**210,192**	**-**	**-**	**-**	**14,563**	**263,851**
Administrative						
Accounts Payable						**-**
Accrued Expenses		137		137	18,328	**18,602**
Total Administrative		**137**		**137**	**18,328**	**18,602**
TOTAL	**210,192**	**137**	**-**	**137**	**32,891**	**282,453**

1 Jul – 31 Dec 2016:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational						
Accounts Payable	1,057,694	-		-	-	**1,102,011**
Accrued Expenses	235,298	-		-	201,757	**446,914**
Total Operational	**1,292,992**	**-**	**-**	**-**	**201,757**	**1,548,925**
Administrative						
Accounts Payable						**-**
Accrued Expenses		79		138	24,530	**24,747**
Total Administrative		**79**		**138**	**24,530**	**24,747**
TOTAL	**1,292,992**	**79**	**-**	**138**	**226,287**	**1,573,672**

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

Note 7. Deferred Revenue and Advances

2017:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational						
Advanced Contributions	-		-			**-**
Deferred Revenue	1,092,138	-	-	-	5,073,130	**6,368,406**
Total Operational	**1,092,138**	**-**	**-**	**-**	**5,073,130**	**6,368,406**
Administrative						
Advanced Contributions		-		-	-	**-**
Deferred Revenue		32,871		6,239	5,295,887	**5,334,997**
Total Administrative		**32,871**		**6,239**	**5,295,887**	**5,334,997**
TOTAL	**1,092,138**	**32,871**	**-**	**6,239**	**10,369,016**	**11,703,403**

1 Jul – 31 Dec 2016:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational						
Advanced Contributions	-		-			**-**
Deferred Revenue	2,609,055	-	-	-	7,755,680	**10,474,055**
Total Operational	**2,609,055**	**-**	**-**	**-**	**7,755,680**	**10,474,055**
Administrative						
Advanced Contributions		-		-	-	**-**
Deferred Revenue		35,949		6,994	6,135,517	**6,178,461**
Total Administrative		**35,949**		**6,994**	**6,135,517**	**6,178,461**
TOTAL	**2,609,055**	**35,949**	**-**	**6,994**	**13,891,198**	**16,652,516**

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

2017:
There are no other current liabilities as the banks ceased to yield interest on the cash balances for the period 01 Jan – 31 Dec 2017.

1 Jul – 31 Dec 2016:
There are no other current liabilities as the banks ceased to yield interest on the cash balances for the period 01 Jul – 31 Dec 2016.

Note 9. Provisions and Contingent Liabilities

The OotL does not have any provisions or contingent liabilities to report.

Note 10. Revenue

2017:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational	856,917	-	-	-	3,449,517	4,455,494
Administrative		3,078		756	851,055	854,889
TOTAL	856,917	3,078	-	756	4,300,572	5,310,383

1 Jul – 31 Dec 2016:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational	2,371,257	-	-	-	1,864,666	4,408,984
Administrative		9,468		648	472,906	483,022
TOTAL	2,371,257	9,468	-	648	2,337,572	4,892,006

Note 11. Expenses

2017:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational						
Prime Contract (MI)					3,119,813	3,119,813
LFS Cooperative Agreement	-				330,008	330,008
Test and Target					-	-
MFCR#1 / MFCR#2 / LLC	325,094				(304)	401,960
GE only items (GE ACO)	529,153					600,647
Other OB Related Expenses	2,670					3,067
Total Operational	856,917	-	-	-	3,449,517	4,455,494
Administrative						
Personnel					724,810	724,810
Operating		3,078		756	126,245	130,079
Total Administrative		3,078		756	851,055	854,889
TOTAL	856,917	3,078	-	756	4,300,572	5,310,383

1 Jul – 31 Dec 2016:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational						
Prime Contract (MI)					1,049,807	1,157,576
Support (MEADS LLC+LFS+FMS)	-				325,000	93,942
Test and Target						325,000
MFCR#1 and MFCR#2	1,491,799				288,103	1,857,254
GE only items (GE ACO & TOC)	879,458					975,212
Miscellaneous						-
Total Operational	2,371,257	-	-	-	1,662,909	4,408,984
Administrative						
Personnel					371,156	371,156
Operating		9,468		648	101,749	111,866
Total Administrative		9,468		648	472,906	483,022
TOTAL	2,371,257	9,468	-	648	2,135,815	4,892,006

The table above disclosed in the previous FS is required in order to show comparison figures, however the breakdown column for the US-USD operational expenses should not be taken into account as it was containing typos. Nevertheless, the total column was not affected by the mentioned typos. The amount is correct.

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.

	31 Dec 2017 (4 people for 12 months)	31 Dec 2016 (4 people for 6 months)
Employee Benefits Expenses	$ 650,161	$ 331,518
Post Employment Benefits	$ 31,830	$ 17,673

The OotL 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.

The OotL 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

The OotL has an operational lease for smaller office space with the BR Cumming Research Park Portfolio III, TIC 1, LLC, which terminates on 30 April 2019. The obligated base lease payments from 01 January 2018 through 30 April 2019 will total $50,204. In addition, the OotL pays monthly operating expenses which are estimated to be $4,897 for 2018 and are yet to be determined for the remainder of this lease period.
The OotL does not have any financial leases.

Note 14. Effect of Foreign Exchange Rates Changes on Cash and Cash Equivalents

Realized and unrealized gains and losses are recognized in the Statement of Financial Performance as they are included in the revenue and expense accounts of the Operational Budget.
The total effect is separately disclosed in the Statement of Cash Flow. The nature of exchange differences and how they are calculated is shown in the table below:

	Euro	Year-end Rate 2016 (1.0419)	Avg monthly NATO ER	Bank Rate (1.162)	Year-end Rate 2017 (1.186)	Effect of FX Rate in EUSD
Opening Balance	3,902,047	4,065,543			4,627,828	562,285
Contractors Exp.	(1,939,717)		(2,103,858)		(2,300,504)	(196,646)
Transfer	(660,000)			(766,966)	(782,760)	(15,794)
Total Balance	**1,302,330**					
Effect on FX						**349,845**

Note 15. Draw Down of Operations

As a result of the Participants' decisions, the OotL continues to draw down operations until the final settlement of the Close-out of the Program.

During 2016, the OotL donated administrative property to charitable organizations/public institution with no revenue proceeds, 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.
No additional assets were disposed in the period of 01 January 2017 through 31 December 2017.
For the purpose of the prime contract scope (D&D), the prime contractor and all sub-contractors separately maintain control and accountability of any materials purchased or assembled and not yet distributed to the Participant Government. The Participants will continue to review an agreed upon dissolution process for D&D. The OotL's role in this process is to serve as a facilitator.

In October 2016, NAMEADSMO i.L. – OotL – on behalf of the German government awarded a bailment agreement with Lockheed Martin Syracuse.
A bailment agreement is an agreement whereby one agrees to take physical possession of another one's property for safekeeping or other purposes, but does not take ownership of it, with the understanding it will be returned at a later date or abandon in place.
Under this agreement, industry is in possession of the property and responsible for all loss or damage of it during the bailment and until the end of the agreement. The value of the assets is approximately $2.642M. In April 2018, this Bailment is expected to be subsumed under CLIN006 of the LFS Cooperative Agreement.

In March 2017, NAMEADSMO i.L. – OotL – on behalf of the Italian government entered into another bailment agreement with Leonardo SpA. This agreement follows the same provisions as for the one for Germany mentioned above. The value of the assets is approximately €2.658M (EUSD 3.152M at year-end rate 2017).

Germany and Italy have chosen this form of agreement to maintain and have their hardware ready as government furnished equipment for future pending programs.

Note 16. Write-Off

No capitalized item was written off in 2017.

Note 17. Employee Disclosure

During 2017, there was no US government personnel detailed to the agency.

Note 18. Related Parties

The OotL is under direct control of NAMEADSMO i.L.'s Board of Directors.

The key management personnel of the OotL and the BoD have no significant related party relationships that could affect the operation of this reporting entity. Board members receive no remuneration and the Liquidator 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 the OotL's pension plans being handled centrally at NATO HQ. NATO IS performed administrative support services for the OotL in 2017 however, no fees were charged to OotL for the period ending 31 December 2017.

During 2017, there is one key management personnel - the Liquidator. The aggregate remuneration of key management personnel includes salary, allowances, and complementary insurances and was as follows for the period 01 Jan – 31 Dec 2017:

	31 Dec 2017 (1 person for 12 months)	**31 Dec 2016** (1 person 6 months)
Aggregate Remuneration	$ 246,868	$ 91,030
Post-Employment Benefits (DCPS)	$ -	$ -

The amount of $91,030 was disclosed in the financial statements for the period 01Jul-31Dec2016. However, in view of the recommendation received with the last management letter the correct amount for the prior period should have been $ 118,900.

Still the figures across the years in comparison remain not immediately comparable as the FS2017 refers to 12 months (Jan-Dec 2017), while the prior FS timeframe was referring to 6 months only (Jul-Dec 2016).

Note 19. Representation Allowance

There were no qualifying officials to receive Representation Allowance in 2017.

Note 20. 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 in Liquidation's (NAMEADSMO i.L.) 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 i.L. Financial Statements are approved and certified by the Liquidator and the Financial Controller respectively 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 i.L. and to be in accordance with the books and records maintained.

Nils Kusserow	Gianvito Greco
Liquidator	Financial Controller
MAR 29 2018	MAR 29 2018

Annex I – Budget Execution

The Budget Execution Statement (BES) for the current reporting period 01 January 2017 through 31 December 2017 is presented on the accrual basis of accounting and no longer on the cash basis of accounting as done for the previous reporting periods.

"Accrual Basis" provides full visibility of revenues and expenses recorded in the period when they are earned, irrespective of actual cash flows (according to IPSAS 24 and IPSAS 3, paragraph 34).

The Carry Forward 2016 to 2017 in the BES for the period 01 July through 31 December 2016 was inaccurate (see observation issued IBA-A 2017/82 para 1.4) as it disclosed the amount of EUSD 3,324,721. However, on a cash basis it should have included the 2016-Accruals in the amount of EUSD 1,765,165. The Carry-Forward should have been EUSD 5,089,886.

If instead, 2016 BES had been done on the accrual basis of accounting the mentioned accruals would have been included within the current year (2016) expenses, and the Carry-FW amount would have remained EUSD 3,324,721.

Therefore, for the new reporting period (2017) changing from "Cash Basis" to "Accrual basis" does not require an adjustment of the opening Carry Forward.

Statement of Budget Execution as at 31 December 2017

Equivalent USD	Carry Forward 2016-2017	Carry Forward Adjustment	Carry Forward 2016 to 2017 final	Budgeted for 2017	1st Budget Amendment	2nd Budget Amendments	Final budget 2017	Commitments	2017 Expenses	Carry forward 2017 - 2018	Lapses
Budget 2017 Operational											
Chapter 3				6,415,978	451,399	3,808	6,871,185	6,871,185	3,415,106	395,961	3,060,118
Total FY 2017	**-**		**-**	**6,415,978**	**451,399**	**3,808**	**6,871,185**	**6,871,185**	**3,415,106**	**395,961**	**3,060,118**
Budget 2017 Administrative							-				
Chapter 1 Personnel				913,000			913,000	727,471	727,471	0	185,529
Chapter 2 Admin/Svcs				528,000			528,000	128,087	128,087	0	399,913
Chapter 4 Investments				51,000			51,000	1,991	1,991	-	49,009
Total FY 2017	**-**		**-**	**1,492,000**	**-**	**-**	**1,492,000**	**857,549**	**857,549**	**0**	**634,451**
Budget Jul-Dec 2016 Operational											
Chapter 3	2,152	4	2,156				2,156	2,156	-	2,156	
Total FY 2016	**2,152**	**4**	**2,156**	**-**	**-**	**-**	**2,156**	**2,156**	**-**	**2,156**	**-**
Budget Jul-Dec 2016 Administrative											
Total FY 2016	**-**		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	-										
Budget Jan-Jun 2016 Operational											
Chapter 3	3,013,141	(1,996,490)	1,016,651		(436,509)		580,142	580,142	520,830	59,312	-
Total FY 2016	**3,013,141**	**(1,996,490)**	**1,016,651**	**-**	**(436,509)**	**-**	**580,142**	**580,142**	**520,830**	**59,312**	**-**
Budget Jan-Jun 2016 Administrative											
Chapter 1 Personnel	14,600		14,600				14,600	14,600	-	14,600	-
Chapter 2 Admin/Svcs	-		-				-	-	-		-
Chapter 4 Investments	-		-				-	-	-		-
Total FY 2016	**14,600**	**-**	**14,600**		**-**	**-**	**14,600**	**14,600**	**-**	**14,600**	**-**
Budget 2015 Operational											
Chapter 3	294,828	1,996,486	2,291,314		(468,447)		1,822,867	1,822,867	533,312	322,308	967,247
Total FY 2015	**294,828**	**1,996,486**	**2,291,314**	**-**	**(468,447)**	**-**	**1,822,867**	**1,822,867**	**533,312**	**322,308**	**967,247**
Budget 2015 Administrative											
Total FY 2015	**-**		**-**		**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total Operational	**3,310,121**	**-**	**3,310,121**	**6,415,978**	**(453,558)**	**3,808**	**9,276,350**	**9,276,350**	**4,469,248**	**779,737**	**4,027,366**
Total Administrative	**14,600**	**-**	**14,600**	**1,492,000**	**-**	**-**	**1,506,600**	**872,149**	**857,549**	**14,600**	**634,451**
Total all Budgets	**3,324,721**	**-**	**3,324,721**	**7,907,978**	**(453,558)**	**3,808**	**10,782,950**	**10,148,499**	**5,326,797**	**794,337**	**4,661,816**

Explanation of Carry Forward and Lapsed Credits/Ending Balance

Operational Budget:

In the Budget Execution Statement, the total amount of the carry forward on 31 December 2017 for Chapter 3 (Design and Development) is EUSD 779,737 which covers ongoing efforts for the remaining effort to be performed by LFS (outstanding shipment) and from the open obligation for the MFCR#2/ MFCR#1 (close-out efforts to be finalized). Lapses of EUSD 4,027,366 are funds mostly allocated to the cost plus fixed fee contract with MEADS International (EUSD 3,060,118) which is in the process of being closed out and there is no additional scope to be performed and planned to justify a carry forward. Remaining lapses are referred to MBDA GE (EUSD 967,248).

Administrative Budget:

The carry forward amount of $14,600 is primarily due to funds committed in Chapter 1 – Personnel Expenses – for a removal that has not yet occurred.

The lapsed credits of EUSD 634,451 are funds that were approved by the BoD for the entire Administrative Budget 2017 but were not obligated or spent by the end of 2017. Lapsed credit amounts for Chapter 1 – Personnel are mainly due to a reduction in removal expenses as personnel remained in place. Lapsed credit amounts for Chapter 2 – Admin/Services are mainly due to less travel and legal services occurring than budgeted. Lapsed credit amounts for Chapter 4 relate mainly to planned replacements for equipment that did not take place.

Budget Transfers

For the Administrative Budget, transfers of credits between budget chapters can be made after approval of the BoD. The Liquidator 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 all Administrative Budget budgetary transfers recorded in the 2017 is presented in the table below.

Item	Name	Transfers within AB (Jan-Dec 2017)
Budget 803 - 3 Nations (GE/IT/US)		
1110	Basic Salary	(12,500)
1125	Complementary Insurance	12,500
1110	Basic Salary	(3,200)
1136	Educational Allowance	3,200

For the Operational Budget, transfers of credits between budget chapters and items can be made after approval by the BoD. The Liquidator may authorize transfers between sub-items within any chapter item. From 1 Jan through 31 Dec 2017 there were no Operational Budget transfers authorized by the Liquidator. All transfers were agreed by way of an amendment to the Operational Budget approved by the BoD.

Budget Execution Reconciliations

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	**861,034**	**5,740,568**
Less:		
Accruals 2016	(24,747)	(1,582,510)
Plus:		
Overestimated Accruals	2,661	
Accruals 2017	18,602	263,851
Variation on year-end rate 2016 vs. MoU rate on accrued expenses 2017		841
Variation for Expenses (avg. NATO ER vs. MoU rate)		46,498
BES Expenses	**857,549**	**4,469,248**

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	**$ 854,889**	**$ 4,455,494**
Plus:		
Adjustments for Euro payments at average NATO ER vs MoU Rate		
- MBDA GE (realized/unrealized gains/losses)		29,078
- MFCR#1		18,150
- Other OB related charges (bank fees)		110
Overestimated Accruals	2,661	
Less:		
Variation on year-end rate 2016 vs. average NATO ER 2017 on accrued expenses 2016		(33,585)
BES Expenses	**$ 857,549**	**$ 4,469,248**

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, the Administrative Budget reached the contribution ceiling in 2014 and as such there were no calls made in 2017 by the OotL.

NORTH ATLANTIC TREATY ORGANIZATION
ORGANISATION DU TRAITÉ DE L'ATLANTIQUE NORD
INTERNATIONAL BOARD OF AUDITORS
COLLÈGE INTERNATIONAL DES COMMISSAIRES AUX COMPTES

NATO UNCLASSIFIED

IBA-A(2018)0084
27 August 2018

To: Secretary General
(Attn: Director of the Private Office)

Cc: Chairman, NATO Airborne Early Warning & Control Programme Management Organisation (NAPMO) Board of Directors
General Manager, NATO Airborne Early Warning & Control Programme Management Agency (NAPMA)
Financial Controller, NAPMA
Chairman, Resource Policy & Planning Board (RPPB)
Branch Head, Plans and Policy Branch, NATO Office of Resources (NOR)
Private Office Registry

Subject: ***International Board of Auditors for NATO (Board) Auditor's Report and Letter of Observations and Recommendations on the audit of the NATO Airborne Early Warning & Control Programme Management Agency (NAPMA) Financial Statements for the year ended 31 December 2017 – IBA-AR(2018)0013***

The Board submits herewith its approved Auditor's Report (Annex 2) and Letter of Observations and Recommendations (Annex 3) with a Summary Note for distribution to the Council (Annex 1).

The Board's report sets out an unqualified opinion on the Financial Statements of the NATO Airborne Early Warning & Control Programme Management Agency (NAPMA) and on compliance for financial year 2017.

Yours sincerely,

Hervé-Adrien Metzger
Chairman

Attachments: As stated above.

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Summary Note for Council
by the International Board of Auditors for NATO (Board)
on the audit of the Financial Statements of the
NATO Airborne Early Warning & Control Programme Management Agency (NAPMA)
for the year ended 31 December 2017

The NATO Airborne Early Warning & Control Programme Management Organisation (NAPMO), including the NATO Airborne Early Warning & Control Programme Management Agency (NAPMA) was established to assume the direction, co-ordination, and the execution of the coordinated acquisition programme of the NATO Airborne Early Warning and Control (NAEW&C) system. The management of the program consists of overseeing the acquisition of the operating assets needed to establish NAEW&C capability and subsequent acquisitions of enhancements thereof. NAPMA expenditure in 2017 – including additions to modernisation assets – was approximately USD 177 million.

The Board issued an unqualified opinion on the Financial Statements and on compliance for the year ended 31 December 2017.

During the audit the Board made two observations, and provided recommendations. These findings are in the Letter of Observations and Recommendations (Annex 3).

The main findings are listed below.

1. Inaccuracies and non-material errors identified in the Financial Statements.

2. Improvements required in the area of risk management, internal control and internal audit.

The Board also followed up on the status of observations from its previous years' audits and noted that one was settled and one was superseded by current year observation.

The Auditor's Report (Annex 2) and the Letter of Observations and Recommendations (Annex 3) were issued to NAPMO whose comments have been included, see the Appendix to Annex 3.

We draw attention to the accounting treatment of purchases from the United States Foreign Military Sales (FMS) programme which are presented on a modified cash basis of accounting rather than the accrual basis of accounting. Also, values related to indirect contracting by Agent Contracts under U.S. Government Acquisition Agreement are accounted using data/billing reports as provided by the U.S. Government. This is in accordance with the NATO Accounting Framework approved by the North Atlantic Council on 29 April 2016. Our audit opinion is not qualified in respect to this matter.

ANNEX 2
IBA-AR(2018)0013

27 August 2018

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF THE

NATO AIRBORNE EARLY WARNING AND CONTROL PROGRAMME MANAGEMENT AGENCY

(NAPMA)

FOR THE YEAR ENDED 31 DECEMBER 2017

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

Report on the Financial Statements

The International Board of Auditors for NATO (Board) audited the accompanying Financial Statements of the NATO Airborne Early Warning and Control Programme Management Agency (NAPMA), which comprised the Statement of Financial Position as at 31 December 2017, the Statement of Financial Performance, the Statement of Changes in Net Assets / Equity, the Cash Flow Statement for the year then ended, and Notes to the Financial Statements, including a Statement of Accounting Policies. The Board also audited the Statement of Budget Execution for the year ended 31 December 2017.

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 NAPMO Financial Regulations as authorized by the North Atlantic Council. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion on Financial Statements

In our opinion, the financial statements present fairly, in all material respects, the financial position of NAPMA as of 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with the NATO Accounting Framework.

Emphasis of Matter

We draw attention to the accounting treatment of purchases from the United States Foreign Military Sales (FMS) programme which are presented on a modified cash basis of accounting rather than the accrual basis of accounting. Also, values related to indirect contracting by Agent Contracts under U.S. Government Acquisition Agreement are accounted using data/billing reports as provided by the U.S. Government. This is in accordance with the NATO Accounting Framework approved by the North Atlantic Council on 29 April 2016. Our audit opinion is not qualified in respect to this matter.

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 NAPMO Financial Regulations and the NATO Civilian Personnel Regulations as authorised by the North Atlantic Council.

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 NAPMO 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 NAPMO Financial Regulations and the NATO Civilian Personnel Regulations.

Brussels, 27 August 2018

Hervé-Adrien Metzger
Chairman

ANNEX 3
IBA-AR(2018)0013

27 August 2018

INTERNATIONAL BOARD OF AUDITORS FOR NATO

LETTER OF OBSERVATIONS AND RECOMMENDATIONS

FOR THE NATO AIRBORNE EARLY WARNING AND CONTROL PROGRAMME MANAGEMENT AGENCY

(NAPMA)

FOR THE YEAR ENDED 31 DECEMBER 2017

Introduction

The International Board of Auditors for NATO (Board) audited the NATO Airborne Early Warning and Control Programme Management Agency (NAPMA) Financial Statements for the year ended 31 December 2017, and issued an unqualified opinion on the financial statements and on compliance.

Observations and Recommendations

During the audit, the Board made two observations with recommendations. None of the observations impact the audit opinion on the financial statements and on compliance.

1. Inaccuracies and non-material errors identified in the Financial Statements.

2. Improvements required in the area of risk management, internal control and internal audit.

The Board followed up on the status of observations from the previous years' audit and noticed that one observation was settled and one was superseded by current year observation.

The Board also issued a Management Letter (reference IBA-AML(2018)0009) to the NAPMO Board of Directors and NAPMA General Manager with two observations for management's attention.

This Letter of Observations and Recommendations was formally cleared with NAPMO, and the formal comments are included, with the Board's position on those comments where necessary (Appendix, Annex 3).

OBSERVATIONS AND RECOMMENDATIONS

1. INNACURACIES AND NON-MATERIAL ERRORS IDENTIFIED IN THE FINANCIAL STATEMENTS

Reasoning

1.1 The objective of financial reporting by public sector entities is to provide information about the entity that is useful to users for accountability purposes and for decision-making purposes. According to IPSAS 1, the financial statements shall present fairly the financial position, financial performance, and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue, and expenses set out in IPSASs.

1.2 According to Article 70 of the IPSAS 1, Presentation of Financial Statements, an entity shall present current and non-current liabilities as separate classifications on the face of its statement of financial position. A liability shall be classified as current when it is due to be settled within twelve months after the reporting date.

1.3 According to IPSAS 17, the depreciable amount of an asset shall be allocated on a systematic basis over its useful life. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management

1.4 NAPMA prepared Financial Statements for the year end 31 December 2017 on the accrual basis of accounting and in accordance with the NATO Accounting Framework, NAPMO Financial Regulations and NAPMO Financial Rules and Procedures.

1.5 Article 17.1 of NAPMO Financial Regulations states that the General Manager through the Financial Controller may, after full investigation, authorise the write-off of losses of cash, stores and other assets up to the amounts prescribed in the Financial Rules and Procedures. A global statement of such amounts written-off shall be reported in the Annual Financial Statements.

Observation

1.6 The Board identified a number of inaccuracies and errors in the information disclosed in the Financial Statements, although none of them are material in nature.

Incorrect presentation of current and non-current liabilities

1.7 NAPMA 2017 Statement of Financial Position reports an amount of USD 133 million as non-current liabilities arising from Advances from Participating Nations. The Board found that USD 57.6 million of this amount relates to calls made in 2017 for the 2018 budget and these funds are expected to be settled within twelve months after 31 December 2017. Therefore, this amount should have been presented as current liabilities. Note 9 to the Financial Statements correctly discloses this but in the face of the statements, it is not correctly disclosed. As a result, the Statement of Financial Position does not provide accurate information regarding current and non-current liabilities.

Incomplete explanatory notes

1.8 Note 10 to NAPMA 2017 Financial Statements states that the Advance Nation Accounts balance includes the funding received from the Single European Sky Air Traffic Management (SESAR). However this is not correct since the funding is included in the balance of Unearned Contributions as explained in Note 8.

1.9 Furthermore, the explanatory note for the "Risk Mitigation Fund Nations" does not provide a clear and complete explanation of this fund. For example, it is not said that USD 3,067,304 of the fund's balance was presented as "advances on Nations' Contributions" in the 2016 Financial Statements. Also, it is not clearly stated that the gains from foreign currency exchanges were generated in 2016.

Understatement of expenses in the Budget Execution Statement by 118,794 USD Equivalent

1.10 NAPMA prepared the Budget Execution Statement (BES) on a commitment basis and presented it in Annex A to the Financial Statements. The Budget authorization, amendments, expenses and carry forwards are disclosed in US Dollar Equivalent at programme rate established at the beginning of each project.

1.11 The BES shows all relevant figures for the budget execution as of 31 December 2017. However, the Board found that the figure corresponding to the grand total of "Expenses at Programme Rate" is not correct. It reads 176,964,674 US Dollar Equivalent ($EQ), when the correct figure is 177,083,468 ($EQ). This is due to an arithmetical error having no impact on the other figures disclosed in the BES.

Incorrect calculation of depreciation expense

1.12 In 2017, NAPMA acquired assets for an amount of USD 65,722. These assets are categorized as "Communication and IT Equipment", with a useful life of 3 years as per NAPMA Accounting Policy. A depreciation expense of USD 21,907 was recorded for these assets corresponding to one full year of depreciation in 2017.

1.13 However, the Board found that the assets were placed in service in August and November 2017, respectively thus the depreciation should start at this point and not as of January 2017. The Board estimates that the correct amount of depreciation expense in 2017 is USD 8,012. Therefore, there depreciation expenses is overstated by USD 13,895 and the net book value of Property Plant & Equipment is understated by the same amount.

Incomplete disclosure of historical value of assets written off

1.14 NAPMA disclosed in the Financial Statements the write-offs, in 2017, of fixed assets funded by the Administrative Budget. According to this disclosure, the historical value amounts to USD 4,799.87 and the net value to USD 0.

1.15 However, the Board found that this amount relates to eight items whilst, according to the memorandum of approval of write-offs, there were eleven items disposed and written-off in 2017. The three assets missing are two blackberry devices and one tablet. The historical value and net value of these items is unknown.

Recommendations

1.16 The Board recommends NAPMA to improve the financial reporting review process. Specifically, the Board recommends NAPMA to:

- Present current and non-current liabilities as separate classifications in the face of the Statement of Financial Position.
- Ensure consistency between the face of the Statements and the Notes,
- Explain, in a more complete and clear manner, the explanatory note about “Risk Mitigation Fund Nations”.
- Start depreciation of assets when they are placed in service and are in the location and condition necessary to be capable of operating in the manner intended by management, as established by NATO Accounting Framework and IPSAS 17.
- Ensure that the historical value of write-offs approved during the year is correctly disclosed in the Financial Statements.

2. IMPROVEMENTS REQUIRED IN THE AREA OF RISK MANAGEMENT, INTERNAL CONTROL AND INTERNAL AUDIT

Reasoning

2.1 According to the NATO Financial Regulations (NFRs) Article 11, the Heads of NATO bodies shall ensure effective, efficient and economical risk management procedures are in place to support the achievement of objectives as set by the Nations.

2.2 NFRs Article 12 requires that the Heads of NATO bodies shall ensure the necessary internal management functions are in place to support effective internal control and internal control activities shall include periodic assessment and review of the risk and the sound functioning of the internal control system. In order to meet the desired internal control standards the Financial Controller shall establish a system of internal financial and budgetary control, embracing all aspects of financial management.

2.3 According to the paragraph 13.1 of the NATO Financial Regulations, all NATO bodies shall undertake internal audit activities in order to evaluate risk exposures and the effectiveness of internal controls in managing risk within the organisation's governance, operations and information systems.

Observation

2.4 The Board found that NAPMA continued to make progress towards achieving full compliance with the revised NFRs but some improvement is still required.

2.5 NAPMA formally adopted the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Framework as their Internal Control Framework. COSO includes a risk management element. NAPMA put in place a "COSO Implementation Plan" with a target date of January 2019, subject to the NAPMA Final Lifetime Extension Programme (FLEP) Peacetime Establishment approval.

2.6 The Board noted the steps taken and the significant progress related to the COSO framework implementation. However, acknowledging that the target date has not yet been reached, the Board found some areas remaining to be completed:

Risk Management

2.7 NAPMA recently hired an experienced Risk Manager and has implemented a new risk management software, the "Risk Radar Enterprise", designed to contribute to the practical implementation of risk management at NAPMA. The tool links NAPMA strategic objectives with related activities and risks and helps to generate a comprehensive risk register at the strategic level.

2.8 Risk management processes are maturing quickly to meet the goal of having processes and documentation in place by the end of 2018, ensuring compliance with COSO as tailored for FLEP program requirements. However, the Board found that:

- The Risk Management Plan linked to the strategic goals and objectives set for NAPMA has not yet been updated. The last version was approved in 2014. The Risk Manager is currently preparing an updated version based on the COSO framework.

- NAPMA has not formally set the risk appetite for the identified risks. In practice, the risk appetite is applied on a case by case basis. The absence of clear risk appetite for the main risks might lead to either a micromanagement of all type of risks by top management, or to the acceptance of some risks by risks owners based on their own tolerance. For instance, NAPMA has not identified potential risks related to the decision-making process of selecting financial institutions to place NAPMA funds.

Internal Controls

2.9 Progress was made in the area of implementation of internal control activities. NAPMA finalised and approved a written procedure for “Internal financial and budgetary control system” and training courses were provided to NAPMA staff related to the COSO framework. A system of internal financial and budgetary control is operating through policies, procedures and standing instructions at NAPMA. However, formal mapping of critical processes, associated risks and existing internal controls is not yet completed. Documentation of specific internal controls is essential in order to ensure and to clearly demonstrate to others that a complete system of internal control is in place.

2.10 Until this assessment and documentation are completed, the Board will not be in a position to state that there is a full system of internal control, including risk management, in place that is in accordance with Articles 11 and 12 of the NFRs.

Internal Audit

2.11 NAPMA’s Internal Audit has intensively been involved in assessing internal control and risk management implementation. For example, Internal Audit reported on the progress of NAPMA Implementation Process of the COSO framework and prepared a study on the possible implementation of the Risk Management Tool.

2.12 However, the Board found that NAPMA Internal Audit has not yet fully evaluated, throughout the organisation, the risk exposures and the effectiveness of internal controls in managing risk within the governance, operations and information systems as required by Article 13. Part of the reason for this is that NAPMA, as already stated earlier, has not yet fully documented their internal control and risk management procedures.

Recommendations

2.13 The Board recommends that NAPMA:

- Prepare an updated entity-wide risk management plan in line with the “COSO Implementation Plan” put in place by the Agency.

- Determine the risk appetite taking three steps: 1) Define and set the risk appetite, 2) Communicate the risk appetite, 3) Monitor and update the risk appetite on an on-going basis. In doing so, NAPMA should ensure the NAPMO Governing Body's review and concurrence.

- Continue working on a systematic and detailed assessment and documentation of its internal control and risk management procedures to support compliance with its approved internal control framework, COSO.

- Internal Audit to fully evaluate internal control and risk management throughout NAPMA, and that this work be clearly documented so as to be able to conclude as to NAPMA's compliance against COSO.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

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

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
(1) NAPMA FY 2016 **IBA-AR(2017)17, paragraph 1** **COMMITMENTS AND CARRY FORWARDS FOR PURCHASES THROUGH THE UNITED STATES GOVERNMENT AND DIRECT CONTRACTING DO NOT COMPLY WITH NATO FINANCIAL REGULATIONS** **Board's Recommendation** The Board recommends NAPMA to assess and decide either to amend the current procurement and budget process to comply with article 25.1 of NFRs, or to request a deviation of NAPMO Financial Regulations to better reflect to NAPMA's procurement and budget specific needs.	On 27 November 2017, NAPMA obtained approval from the North Atlantic Council for a deviation from articles 25.1 and 25.3 of the NAPMO Financial Regulations (AC335-N(2017)0094-ASI). According to the revised text of article 25.1, NAPMA is authorized to enter into multi-year commitments for goods and services within the total amount of the approved contract authority for the acquisitions budgets. In addition, the revised article 25.3 allows NAPMA to automatically carry forward appropriated funds from acquisition budgets which have been committed (…). With the deviations obtained, NAPMA is now in non-compliance with article 25 of the NAPMO Financial Regulations.	Observation **Settled.**
(2) NAPMA FY 2016 **IBA-AR(2017)17, paragraph 2** **SOME PROGRESS BEING MADE TO ACHIEVE COMPLIANCE WITH THE NATO FINANCIAL REGULATIONS, PARTICULARLY THOSE ARTICLES ON INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT** **Board's Recommendations** The Board recommends NAPMA to perform a systematic and detailed assessment and documentation of its internal control and risk		Observation **Superseded by current year**

management procedures to support compliance with its approved internal control framework, COSO. This will be in line with the "COSO Implementation Plan" put in place by the Agency. The Board also recommends NAPMA Internal Audit to fully evaluate internal control and risk management throughout NAPMA, and that this work be clearly documented so as to be able to conclude as to NAPMA's compliance against COSO.		**Observation 2**.

NATO AIRBORNE EARLY WARNING AND CONTROL PROGRAMME MANAGEMENT ORGANISATION (NAPMO) FORMAL COMMENTS ON THE LETTER OF OBSERVATIONS AND RECOMMENDATIONS AND THE INTERNATIONAL BOARD OF AUDITORS (BOARD) POSITIONS

**OBSERVATION 1:
INNACURACIES AND NON-MATERIAL ERRORS IDENTIFIED IN THE FINANCIAL STATEMENTS**

NAPMO's Formal Comments

NAPMO concurs with the bullets in paragraph 1.16 "Recommendations" as provided on page 2-5.

NAPMA will ensure consistency between the face of the statements and the notes and to disclose additional explanatory notes about the "Risk Mitigation Fund Nations" in the future.

Regarding the incorrect calculation of depreciation expenses, NAPMA will apply professional judgment and continue to use the annual depreciation method if the impact is not material in accordance with the NATO Accounting Policy on PP&E approved on 31 May 2017 under C-M(2017)0022-AS1.

NAPMA will ensure to disclose a global statement in its notes to the financial statements of any amounts written-off funded by the administrative budget regardless whether it was funded out the capital or the operational budget.

**OBSERVATION 2:
IMPROVEMENTS REQUIRED IN THE AREA OF RISK MANAGEMENT, INTERNAL CONTROL AND INTERNAL AUDIT**

NAPMO's Formal Comments

NAPMO notes the recommendation provided in pt 2.13.

NAPMA will continue with the implementation of a tailored COSO Enterprise Risk Management (ERM) and Internal Control (IC) Framework, within the limited available resources and pending NAPMO BOD decisions on its governance structure and NAPMA Peacetime Establishment (PE) for the Final Lifetime Extension Programme (FLEP).

Within the currently approved NAPMA PE, a Risk Manager was recruited in January 2018 who reports to Senior Management in order to comply with the COSO ERM and IC framework. The Risk Manager is responsible for centralizing risk management across all NAPMA activities and responsibilities.

As a first response to the IBAN's recommendation in this area, please find a draft "NAPMA Enterprise Risk Appetite Statement" attached to these formal comments that will be presented to the NAPMO Nations for their annual review and approval starting with spring 2019 NAPMO BOD Cycle.

NAPMA

FINANCIAL STATEMENTS 2017

Contents NAPMA Financial Statements

OVERVIEW

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

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

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

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

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

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

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

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

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

NAPMA is a programme management and budgetary organisation funded through contributions made by the Member Nations.

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

How NAPMA's operating environment affects its Financial Statements

NAPMA's overall activities are funded by Member Nations through projects and related Administrative Budgets; "separate and distinct from the International Staff, other NPLSOs or other NATO Organs" and through other generated income. The budgets are approved annually by the NAPMO BOD. The Nations contributions are to remain within the overall Programme ceiling as agreed in the respective MMoU. The Administrative Budget covers all expenditures for the internal functioning of the Agency. The Project Budgets contain the credits for the modification of the NAEW&C Force fleet. Aside from its own budgeted activities, NAPMA also supports other NATO entities such as NAEW&C Force Command, and relies on the support of NATO Support Procurement Agency (NSPA) and NATO Communication and Information Agency (NCIA).

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

Compliance with Financial Regulations

NAPMA Financial Statements have been prepared in accordance with the accounting requirements of the NAPMO Financial Regulations (NFRs), Version 2.0, approved by the North Atlantic Council (NAC) on 07 December 2017 with regards to the deviation as expressed in Article 25, and the NAPMO Financial Rules and Procedures (FRPs).

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

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

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

In relation to the financial position NAPMA has several separate multi-year projects, both direct and indirect (administered by the US agent), which require maintaining high annual cash levels to satisfy requirements which may be required for the support of the procurement efforts towards the end of the current modernisation programme.

Analysis of NAPMA's Financial Statements

Key points to note in respect of the Financial Statements are:

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

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

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

At the Warsaw summit it was stated that "NATO's Airborne Early Warning and Control Force (AWACS) continues to prove itself instrumental not only to monitoring our airspace, but also as a critical part of NATO's command and control capabilities and that NATO AWACS will continue to be modernised and extended in service until 2035. By 2035, the Alliance needs to have a follow-on capability to the E-3 AWACS".

Public disclosure of NAPMA's Financial Statements

The NAPMO BOD has approved that these Financial Statements, in accordance with PO(2015)0052, can be publicly disclosed.

Statement of Internal Control

Scope of responsibility

As General Manager of NAPMA I am responsible and accountable to the Agency's Supervisory Board for maintaining a sound system of internal control that supports the achievement of NAPMA's objectives, designed to provide reasonable assurance that the Agency will achieve its objectives using the Agency's resources in an efficient and effective manner.

As stated in Article 12 of the NAPMO Financial Regulations (NAPMO FRs) as GM, I am in particular responsible for ensuring that the necessary internal management functions are in place to support effective internal control, designed to provide reasonable assurance that NAPMA will achieve its objectives regarding the safeguarding of assets, the verification of the accuracy and reliability of accounting data and records; the promotion of operational efficiency and compliance with established managerial and command policies.

As NAPMA Financial Controller I am responsible to the General Manager and accountable to the NAPMO Policy and Finance Committee (PFC) for the correct use of funds made available to the Agency. I am responsible and accountable for establishing a system of internal financial and budgetary control, embracing all aspects of financial management including transactions for which appropriations have been approved, designating and formally delegating authority to officials who disburse and receive funds on my behalf and establishing and maintaining comprehensive accounting records of all assets and liabilities.

Risk and control framework

Elements in place within the Agency to achieve internal control are:

- The Agency is governed by a Board of Directors with two subordinate Committees and one review board (on Airworthiness) that closely monitor progress and compliance.

- A multi-year Strategic Plan with long-term goals and objectives. In addition, related to those objectives. NAPMA has a multi-year and annual plan which identifies NAPMA internal goals and objectives. These plans are based on the business procedures necessary for achieving the objectives in an economic and effective way. This is a dynamic process and is under continuous review.

- A Corporate Governance Policy, approved by the Board of Directors (BOD). The NAPMO BOD tasked the Policy and Finance Committee (PFC) with the responsibility to review performance of Corporate Governance and report to the BOD.

- A NAPMA Management Directive that prescribes Standards of Behaviour which are in line with the NATO Code of Conduct.

- Annually, NAPMA conducts an overall assessment of the Agency's organisation and a review of the business processes. It also maintains an overall Risk Management Plan for all Divisions and Offices on project and organisation aspects which is reviewed periodically. This Risk Management Plan identifies the key organisational business risks and performance measurement criteria.
This plan includes the risk register and mitigation plan. Programme risk concerns, such as cost, schedule and performance are maintained by the PM division and briefed at each Board of Directors (BOD) cycle.

- Starting 01 January 2018, NAPMA, in line with the views expressed on the implementation of the COSO framework, added a Risk Manager position to the NAPMA PE. NAPMA's Risk Management process includes maintenance of a risk registry of key project and organisational risks and opportunites (including mitigation plans) in an automated tool.

- An annual internal audit plan which includes reviews on functioning of the internal control process and procedures in high interest areas such as Finance, Human Resources and Contracting.

- Access to a permanent, adequately resourced, internal audit function.

- Management checks are undertaken on periodical basis to ensure compliance with regulations and procedures.

- The use of an asset register to safeguard the assets retaining to the Agency.

In order to meet the desired internal control standards the Financial Controller has established a system of internal financial and budgetary control (Guideline FC #1), embracing all aspects of financial management including transactions for which appropriations have been approved. This system includes the segregation of duties, the use of an audited IT-system, the use of the 4-eyes principle, written recording of activities (for instance regarding the monthly peer-review of bank accounts) and a formal approval process and authorization for transactions. The avoidance of conflict of interest is furthermore secured by a declaration signed by all NAPMA Staff in accepting appointment, which refers to the NAPMA Standards of Behaviour (in particular paragraph 11 of these Standards). Cash management and issues regarding the financial institutions which are reponsible for the deposits are periodically presented and reviewed by the Treasury Policy Group chaired by the Financial Controller with the minutes being shared with Senior Management and the decisions when impacting liquidity presented to the PFC. All the activities related to internal financial control and risk assessment are overseen by the Financial Controller on a daily basis and periodically reviewed by the Internal Auditor.

Statement

The mechanisms in place, as described above, are actively maintained and operated by NAPMA and provide reasonable assurance regarding the effective and efficient use of resources, the reliability of financial information and compliance with applicable rules and regulations. This confirmation is based upon daily interactions, reviews and responses from the internal auditor and the reports received from external auditors.

Notwithstanding the above, as potential area for improvement of internal control in 2018, NAPMA pursues a major effort to continuously optimize the integrated management system. The streamlining, simplifying and reviewing of underlying processes in the current ERP-system will add to an even more reliable assurance of internal control mechanisms.

Based on the above, we consider to the best of our knowledge and information, within the scope of our respective responsibilities that the Agency operated satisfactory systems of internal control for the year ended 31 December 2017 and up to the date of approval of the Financial Statements.

BrigGen Michael Hain
General Manager NAPMA

Mr. Ray Thuis
Financial Controller NAPMA

NAPMA Statement of Financial Position

as at 31 December 2017
(in USD equivalent)

	Note	2017	2016
ASSETS			
Current assets			
Cash and cash equivalents	1	408,718,217	462,256,545
Receivables	2	18,730,262	38,458,750
Prepayments	3	5,178,862	3,811,167
		432,627,340	504,526,463
Non-current assets			
Prepayments >12 Months	4	9,478	15,656
Property, plant & equipment	5	552,991	628,835
Other non-current assets*	6	243,380,727	293,497,664
		243,943,196	294,142,155
TOTAL ASSETS		**676,570,536**	**798,668,618**
LIABILITIES			
Current liabilities			
Payables and Accruals	7	35,412,235	36,007,177
Unearned Contributions	8	251,512,186	338,664,197
		286,924,421	374,671,374
Non-current liabilities			
Advances	9	133,242,271	122,862,881
Risk Mitigation Fund Nations	9	6,965,741	0
Reimbursables NATO Entities	9	96,839	2,318,373
Other non-current liabilities*	10	243,380,727	293,497,664
		383,685,578	418,678,918
TOTAL LIABILITIES		**670,609,999**	**793,350,292**
Net assets/equity	11	**5,960,538**	**5,318,326**
TOTAL LIABILITIES AND NET ASSETS		**676,570,536**	**798,668,618**

* The figures given in respect of indirect contracting via the U.S. System Program Office (SPO) are presented on a modified cash and not on an accrual basis; more information can be found in the Accounting Policies (see page 12).

The financial statements on pages 8 to 33 were issued to the International Board of Auditors for NATO on 28 March 2018.

BrigGen Michael Hain
General Manager NAPMA

Mr. Ray Thuis
Financial Controller NAPMA

NAPMA Statement of Financial Performance

for the year ended 31 December 2017

(in USD equivalent)

	Note	2017	Restated 2016	Original 2016
Revenue				
Revenue from Contributions	12	29,161,356	22,592,419	22,592,419
Financial Revenue	12	303,336	0	0
Other Revenue	12	0	9,405	9,405
Total Revenue		**29,464,693**	**22,601,823**	**22,601,823**
Expenses				
Projects - direct **	13	10,793,133	4,708,508	4,512,233
Projects - indirect via SPO*+**	13	88,225	606,740	803,015
Administrative	13	18,218,940	17,807,340	17,807,340
Depreciation	13	141,566	119,659	119,659
Finance Expenses	13	0	222,668	222,668
Total expenses		**29,241,863**	**23,464,915**	**23,464,915**
Surplus/(Deficit) for the period	14	**222,829**	**(863,092)**	**(863,092)**

* The figures given in respect of indirect contracting via SPO are presented on a modified cash basis
Further details on the 2016 comparitive figure restatement can be found in Note 14 (page 27).

** Restated figures adjust the amounts for the correction of a prior period presentation error.

NAPMA Statement of Changes in Net Assets/Equity

for the year ended 31 December 2017
(in USD equivalent)

	Capital assets	Cash Reserves	Accumulated gains/losses on foreign exchanges	Accumulated curr Transactions	Total
Balance at the beginning of the period 2016	**748,493**	**7,809,106**	**(319,642)**	**(1,941,189)**	**6,296,769**
Changes in accounting policy/prior period errors	0	0		0	0
Restated balance	748,493	7,809,106	(319,642)	(1,941,189)	6,296,769
Net gains/(losses) recognised directly in net assets/equity	0	0	0	0	0
Use of cash reserves	0	(520,768)	0	0	(520,768)
Net increase-decrease capital assets	(119,659)	0	0	0	(119,659)
Exchange difference on translating foreign operations	0	0	0	0	0
Net unrealised foreign exchange gains and losses	0	0	(222,668)	(115,348)	(338,016)
Change in net assets/equity for the year ended 2016	(119,659)	(520,768)	(222,668)	(115,348)	(978,443)
Balance at the end of the period 2016	**628,834**	**7,288,338**	**(542,310)**	**(2,056,537)**	**5,318,326**
Changes in accounting policy/correction prior period errors		(2,056,537)			
Restated balance	628,834	5,231,801	(542,310)	0	5,318,326
Net gains/(losses) recognised directly in net assets/equity	0	0	0	0	0
Use of cash reserves	0	(4,663)	0	0	(4,663)
Net increase-decrease capital assets	(75,844)	0	0	0	(75,844)
Exchange difference on translating foreign operations	0	(12,982)	0	0	(12,982)
Net unrealised foreign exchange gains and losses	0	432,365	303,336	0	735,702
Change in net assets/equity for the year ended 2017	(75,844)	414,720	303,336	0	642,212
Balance at the end of the period 2017	**552,990**	**5,646,521**	**(238,974)**	**0**	**5,960,538**

Change in presentational layout of the statement of changes in net assets/equity as recommended in the Management letter on IBAN report on the FS 2016 (IBA-AML(2017)10.
Further details can be found in the accounting policies (pages 12 - 18), Notes 11 and 14.

NAPMA Statement of Cash Flow

for the year ended 31 December 2017

(in USD equivalent)

	2017	2016
Cash Flow from Operating Activities		
Surplus/(Deficit) from Operating Activities	222,829	(863,091)
Add: Non-Cash Movements		
Depreciation	141,566	119,659
(Increase)/Decrease in Accounts Receivable	19,728,488	(32,560,569)
(Increase)/Decrease in Prepayments	(1,361,516)	(2,569,775)
Increase/(Decrease) in Accrued Bank Charges	(805)	451
Increase/(Decrease) in Accounts Payables	(12,234,116)	25,362,048
Increase/(Decrease) in Unearned Contributions	(87,152,011)	5,777,489
Increase/(Decrease) in Advances and Reimbursables NATO Entities	15,123,596	83,648,771
Change of Value in Deliverable to NAEW&C Force	160,801,532	96,769,108
Increase/(Decrease) in Goods Receipt	11,639,978	6,155,440
Net Cash Flow from Operating Activities	**106,909,543**	**181,839,530**
Cash Flow from Investing Activities		
Purchase of Assets	(65,722)	0
Additions to Work in Progress (WIP)	(160,801,532)	(96,769,108)
Net Cash Flow from Investing Activities	**(160,867,254)**	**(96,769,108)**
Cash Flow from Financing Activities		
Fund Transfer from Net Assets	**(12,982)**	**0**
Effect of Currency Valuations		
Currency Valuation Operating Activities	0	0
Currency Valuation Financing Activities	432,365	(115,352)
Total Currency Valuations	**432,365**	**(115,352)**
Net Increase (Decrease) in Cash/Cash Equival.	**(53,538,328)**	**84,955,070**
Cash and Cash Equiv. Beginning of Period	462,256,545	377,301,476
Cash and Cash Equiv. End of Period	**408,718,217**	**462,256,546**

ACCOUNTING POLICIES

Basis of Preparation

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

The NAPMA Financial Statements have been prepared on the accrual basis of accounting in accordance with the NATO Accounting Framework (NAF) which is based on the International Public Sector Accounting Standards (IPSAS) issued by the IPSAS Board (IPSASB) and relevant to NAPMA as decided by the North Atlantic Council in 2002.The IPSAS standards are applied whereas the NAF has not yet adopted variations from the standard in coherence with policies specific to NATO.

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

For the accounting of the expenditures related to indirect contracts, NAPMA records the amounts in the Financial Statements based on data/billing reports as provided by the US Government.

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

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

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

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

Accounting Period

The 2017 Financial Statements are based on the accounting records of NAPMA as of 31 December 2017. In accordance with the NAPMO Financial Regulations (NFRs), the financial year at NAPMA begins on 1 January and ends on 31 December.

Reporting Currency

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

Cash Flow Statement

IPSAS 2 – Cash Flow Statement allows the choice between presenting the cash flow based on the direct method or indirect method. NAPMA has selected the indirect method of presentation for these Financial Statements.

Revenue and Expense Recognition

Revenue is recognized from various sources including nations' contributions and currency gains. Effective 1 January 2007, all interest and other miscellaneous income is returned or credited to the Nations unless otherwise instructed by the NAPMO BOD.

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

Changes in Accounting Policies and corrections

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 2017 Financial Statements, the accounting policies have been applied consistently throughout the reporting period.

The following changes represent the correction resulting from the audit of the 2016 Financial Statements and a presentation error which was discovered during the audit of the Financial Statements 2016.

1. Change in the presentation layout of Financial Statements

In 2017 there has been a presentation change to the layout of the Statement of Changes in Net Assets/Equity, which results from a recommendation made by the IBAN in their audit report on the Financial Statements 2016.

2. Correction of a presentation error and restatement of 2016 comparative figures for project expenses.

A presentation error was discovered during the audit of the Financial Statements 2016 and therefore retroactively corrected (restated) in the comparative figures in the Statement of Financial Performance and the Notes.

Foreign Currency Transactions

Transactions in currencies, other than the functional currency, are translated into USD at the NATO exchange rates prevailing at the time of the transaction. Monetary assets and liabilities at year-end, which are in currencies other than USD, were translated into USD using the NATO exchange rates that were applicable on 31 December 2017.

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

Assets – Current Assets

The current assets of NAPMA are cash and cash equivalents, accounts receivables and prepayments. They are measured at fair value. Changes in fair value are recognized in the Statement of Financial Performance.

Cash and Cash Equivalents

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

Receivables

Receivables are reported at fair value in the Statement of Financial Position. No provisions are made against national debts as they are deemed to be collectable.

In accordance with IPSAS, receivables are broken down into amounts receivable from Nations, NATO Entities, Non-NATO Entities, Staff Members and other receivables, receivables from bank interest and long outstanding receivables.

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

Prepayments

Prepayments made to suppliers and to other NATO entities are reflected in the Statement of Financial Position.

Assets – Non-Current Assets

In this category, NAPMA is reporting all assets invested for more than 12 months.

Property, Plant and Equipment

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

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

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

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

The table for purchases in 2017 were as follows:

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

Leases

Leases are classified as finance leases whenever the terms of the lease transfers substantially all the risks and rewards of ownership to the lessee.

All other leases are classified as operating leases. NAPMA does not have any finance leases.

Work in Progress (other non-current assets)

The value of work in progress for an acquisition project will be transferred to the NAEW&C Force when the modernisation of the aircraft has been completed and is in use by NAEW&C Force. In accordance with the NAF for the accounting of the expenditures related to indirect contracts, NAPMA records the amounts in the Financial Statements based on data/billing reports as provided by the US Government. This data is presented on a modified cash basis.

Liabilities – Current Liabilities

Payables and Accruals

Payables are reported at fair value in the Statement of Financial Position. They represent amounts for which goods and services, supported by an invoice, have been received due to NATO and Non-NATO entities, commercial vendors and NAPMA Staff for goods received or services provided that remain unpaid as of the reporting date. Accruals are estimates of the cost for goods and services received but not yet supported by an invoice at year-end.

Unearned Contributions

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

Liabilities – Non-Current Liabilities

Advance Contributions

Advances on contributions represent the amounts of funds held on behalf of the Contributing Nations, which arise from a variety of sources including advances from some nations on calls for the following fiscal year, interest earned on Nations' cash balances, sales of residual assets and R&D recoupment.

Risk Mitigation Funds (RMF)

During BOD96, the NAPMO BOD approved the creation of a Risk Mitigation Fund (RMF) comprised of income generated from gross interest earned and investments to mitigate currency, interest, credit, programme and exchange risks.

The RMF is comprised of income generated from interest earned on bank accounts, investments in term/time deposits or money market accounts and gains or losses from foreign currency exchanges. The liquidity held in the fund will have no denomination or link to a particular programme rate or inflation factor.

Risk management procedures are implemented specifically pertaining to measuring and managing liquidity risk in both normal and adverse conditions.

Reimbursables NATO Entities

Advances received from NATO Entities to support Third Party Projects. Funds are received and expended on behalf of other NATO entities, predominantly the NAEW&C Force, for execution of projects and activities for Operations and Support.

Deliverables to NAEW&C Force (other non-current liabilities)

This value represents the cumulative amount which will be transferred to NAEW&C Force when the modermization of the aircraft will be completed and will be in use by NAEW&C Force. For the accounting of the expenditures related to indirect contracts, NAPMA records the amounts in the Financial Statements based on data/billing reports as provided by the US Government. This data is presented on a modified cash basis.

Provisions and Contingent Liabilities

Provisions are recognized for liabilities of uncertain timing or amount. It's a present obligation at the reporting date as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation. Provisions are measured at the General Manager's best estimate and the amounts can be measured reliably.

NAPMA discloses in the notes to the financial statements contingent liabilities where:

- NAPMA is exposed to possible financial liabilities that arose from events which occurred before the year-end, and where the confirmation of the existence of the liability will only be known through the occurrence or non-occurrence of one or more uncertain future events not wholly within the organisations control, or,

- NAPMA is exposed to a current financial liability which arose from events which occurred before the year-end where NAPMA does not believe it will be required to pay for the financial liability, or, the amount of the financial liability cannot be measured with sufficient reliability.

Net Assets

Net assets represent the net result of revenues and expenditures, and the accumulation of inventory, capital and retained earnings over the life-time of the NAPMA Programme.

The cash reserves are due to the recognition of non-contributing funds which have already been reported as revenue when it was earned in previous years, (including additional contributions subsequently received from new joiners to the programme).

Capital assets are the accumulated amount of fixed admin assets. This includes all purchases less disposals and depreciation.

Revenue and Expense Recognition

Revenue

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

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

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

Expenses

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

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

Surplus or Deficit for the Period

Accounting surpluses or deficits can occur when using existing funds to cover project expenditures and currency translation adjustments at year-end in accordance with IPSAS 4. Surpluses and deficits can also result from purchases of adiministrative assets minus the depreciation expenses.

NOTES TO THE STATEMENT OF FINANCIAL POSITION

Assets – Current Assets

1. Cash and Cash Equivalents

Cash and cash equivalents	2017	2016
Current Accounts	57,857	1,256,214
Saving Accounts	126,660,360	191,000,331
Fixed-Term Deposits	282,000,000	270,000,000
Total	**408,718,217**	**462,256,545**

Cash balances are held in current and deposit accounts spread between various reliable financial institutions. Multiple currencies are held in separate accounts. As of the 31st of December 2017 NAMPA invested a part of the cash holding in high rated short fixed-term deposits.

Fixed-Term Deposits held:

Bank	Duration	Currency	Total amount
WELLS FARGO	6 Months	USD	60,000,000
WELLS FARGO	3 Months	USD	72,000,000
DNB Bank	< 6 Months	USD	100,000,000
DNB Bank	< 3 Months	USD	50,000,000
	Grand Total	**USD**	**282,000,000**

The calls for contributions to participating nations are issued according to the 2017 approved budget based on the Medium Term Financial Plan (MTFP) approved by the BOD and according to Art. 29 of the NAPMO Financial Regulations (NFRs) and Financial Rules and Procedures (FRPs). The decrease in cash holdings in 2017 compared to the 2016 figures is the result of expenditures related to the procurement effort.

2. Accounts Receivable

Accounts receivable	2017	2016
Receivables from Nations	17,541,954	37,381,717
Receivables from NATO Entities	0	0
Receivables from Staff Members	0	0
Other Receivables/Recoverable	2,159	0
Receivables from Bank interest	761,672	704,131
Long outstanding Receivables	424,477	372,902
Total	**18,730,262**	**38,458,750**

Most receivables are due from Member Nations. It is deemed that all accounts receivable activities will be closed within 12 months from the end of the reporting period. No provisions are made against debts as they are deemed to be collectible.

The decrease in the Receivables is primarily due to payments of contributions received prior to the year end.

Long outstanding receivables represent an amount from FY 2012 not yet received from Germany.

3. Prepayments

Prepayments	2017	2016
NATO Entities	561,237	596,992
DFAS	4,390,509	3,021,417
NON-NATO Entities	227,116	192,758
Total	**5,178,862**	**3,811,167**

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

Advance payments to Non-Nato entities cover prepayments executed in 2017 related to administrative and operational transactions.

Assets – Non-Current Assets

4. Prepayments > 12 Months

Prepayments	2017	2016
NON-NATO Entities > 12 Months	9,478	15,656
Total	**9,478**	**15,656**

Prepayments executed in 2017 related to licences with validity through 2019.

5. Property, Plant and Equipment

During 2017, there were additions to PP&E in the amount of 65,722 USD equivalent.

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

	Automated Inf. System (NIMS)	Communication and IT Equipment	Office Furniture	Vehicles	Property / Structure	Installed and misc. Equipment	Totals
Opening Balance (01 January 2017)	150,456	0	54,932	0	417,999	5,448	628,835
Additions	0	65,722	0	0	0	0	65,722
Disposals/Corrections	0	0	0	0	0	0	0
Depreciation	90,501	21,907	12,846	0	15,097	1,215	141,566
Closing Balance (31 December 2017)	**59,955**	**43,815**	**42,086**	**0**	**402,901**	**4,233**	**552,991**
Gross Carrying Amount	7,500,612	65,722	668,851	63,137	603,899	12,149	8,914,369
Accumulated Depreciation	7,440,657	21,907	626,764	63,137	200,997	7,916	8,361,378
Net Carrying Amount	**59,956**	**43,815**	**42,086**	**0**	**402,901**	**4,233**	**552,991**

In 2017, NAPMA disposed of assets with a residual value of 0.00 USD equivalent and a historical value of 4,799.87 USD equivalent.

6. Work in Progress (WIP) (other non-current assets)

Work in Progress	2017	2016
Work in Progress (WIP)	243,380,727	293,497,664
Total	**243,380,727**	**293,497,664**

WIP - The value of work in progress for the acquisition projects will be transferred to the NAEW&C Force when the modernisation of the aircraft has been completed and is in use by NAEW&C Force.
The amount of 210,918,469 USD equivalent was transferred to the NAEW&C Force in 2017 in compliance with the NATO Accounting Framework (NAF),
In accordance with the NAF, NAPMA records the amounts of the expenditures related to indirect contracts in the Financial Statements based on data/billing reports as provided by the US Government. The amount of 93,625,218 USD equivalent is presented on a modified cash basis.

The below summary table shows additions and transfers occurred during the fiscal year as well as the accumulated amounts.

	Work in Progress (WIP)
Opening Balance (01 January 2017)	293,497,664
Additions	160,801,532
Transferred to NAEW&C	-210,918,469
Disposals/Corrections	0
Closing Balance (31 December 2017)	**243,380,727**
Gross Carrying Amount	2,215,277,435
Accumulated Transfers	1,971,896,708
Net Carrying Amount	**243,380,727**

Liabilities – Current Liabilities

7. Accounts Payable and Accruals

Accounts Payable	2017	2016
Payables to NATO Entities	17,288	71,175
Payables to Non-NATO Entities	341,525	285,662
Payables to Suppliers	14,415,183	26,655,207
Payables to Staff	7,323	3,390
Total	**14,781,319**	**27,015,434**

Payables to NATO Entities

Payables to NATO Entities include primarily invoices received from NATO Headquarter Brussels and NATO Communication and Information Agency (NCIA) that were not settled at year-end.

Payables to Non-NATO Entities

Payables to Non-NATO Entities include the DFAS US-Reimbursables that were not settled at year-end.

Payables to Supplier

Payables to suppliers include invoices received from commercial vendors not settled at year-end. This amount is mainly made of invoices from the prime contractor.

Payables to staff members

Amounts due to staff members such as travel expenses and education allowances.

Accruals	2017	2016
Accrued Bank charges	0	805
Goods receipt – Invoices to be received	20,630,916	8,990,938
Total	**20,630,916**	**8,991,743**

Goods receipt – Invoices to be received are the amounts based on estimates and assumptions made for goods/services that were delivered/performed during fiscal year 2017 but not invoiced by the 31 December 2017.

The variance between the comparative figures is explained by the delay in invoicing from the prime contractor.

8. Unearned Contributions

Unearned Contributions	2017	2016
Unearned Contribution - Current	244,824,338	335,501,270
Unearned Contribution - SESAR	6,687,848	3,162,927
Total	**251,512,186**	**338,664,197**

Unearned Contributions - Current represent the balance of Nations' contributions associated to the various programmes, inclusive of administrative support, that have not yet been recognized as revenue.The budgets and associated call for contributions are based on the Medium Term Financial Plan (MTFP) approved by the BOD. The decrease in unearned contributions shown in the 2017 figures is primarily due to a higher number of expenditures occurred in the fiscal year.

The NAPMO-USAF cooperatively developed CNS/ATM received funding from the Single European Sky Air Traffic Management Research (SESAR), for the efforts in defining, developing and delivering new or improved technologies and procedures (SESAR Solutions). The evaluation performed by SESAR awarded the funding to NAPMO in two grants. In 2017 the second payment was received and has been accounted for separetely.

9. Advances

Advances	2017	2016
Advances	57,591,072	0
Total	**57,591,072**	**0**

Advances are funds held on behalf of the Participating Nations which arise from calls for next year's budget as stated in the NAPMO FR art. 29.5.

Liabilities – Non-Current Liabilities

10. Advances > 12 Months and Reimbursables NATO Entities

Advances on Nations' Contributions	2017	2016
Advance Nation accounts	75,651,199	122,862,881
Total	**75,651,199**	**122,862,881**

Advances on Nations' contribution are funds held on behalf of the Participating Nations which arise from a variety of funding sources including calls for future year's budgets as stated in the NAPMO FR art. 29.5, interest earnings on Nations' cash balances, sales of residual assets, SESAR, R&D recoupment for the Radar System Improvement Project (RSIP).

Risk Mitigation Fund Nations	2017	2016
Risk Mitigation Fund Nations	6,965,741	0
Total	**6,965,741**	**0**

During BOD96, the NAPMO BOD approved the creation of a Risk Mitigation Fund (RMF) to mitigate currency, interest, credit, programme and exchange risks.

The RMF is comprised of income generated from interest earned on bank accounts, investments in term/time deposits or money market accounts and gains from foreign currency exchanges. The liquidity held in the fund will have no denomination or link to a particular programme rate or inflation factor.

Risk management procedures are implemented specifically pertaining to measuring and managing liquidity risk in both normal and adverse conditions.

Interest generated in bank accounts in 2014, 2015 and 2016, as agreed by the BOD, have been be placed in the fund.

Reimbursables	2017	2016
Reimbursables NATO Entities	96,839	2,318,373
Total	**96,839**	**2,318,373**

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

11. Other non-current liabilities (Deliverables)

Deliverable to NAEW&C Force	2017	2016
Deliverables	243,380,727	293,497,664
Total	**243,380,727**	**293,497,664**

Deliverables to NAEW&C Force represent the cumulative amount that is still to be transferred to NAEW&C Force when the modernisation of the aircraft has been completed and is in use by NAEW&C Force. For the accounting of the expenditures related to indirect contracts. In accordance with the NAF, NAPMA records the amounts expenditures related to indirect contracts in the Financial Statements based on data/billing reports as provided by the US Government. The amount of 93,625,218 USD equivalent is presented on a modified cash basis.

Changes in Deliverables for the year were as follows:

	Deliverables
Opening Balance (01 January 2017)	293,497,664
Additions	160,801,532
Transferred to NAEW&C	-210,918,469
Disposals/Corrections	0
Closing Balance (31 December 2017)	**243,380,727**
Gross Carrying Amount	2,215,277,435
Accumulated Transfers	1,971,896,708
Net Carrying Amount	**243,380,727**

12. Net Assets

Net assets represent the net result of revenues and expenditures, and the accumulation of inventory, capital and retained earnings over the life-time of the NAPMA Programme. Further details may be found in the Statement of Changes in Net Assets/Equity (page 10).

NOTES TO THE STATEMENT OF FINANCIAL PERFORMANCE

13. Revenue

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

Revenue	**2017**	**2016**
Revenue from Contributions	29,161,356	22,592,419
Financial Revenue	303,336	0
Other Revenue	0	9,405
Total	**29,464,693**	**22,601,824**

Revenue from Contributions has been recognised for project and administrative activities.

Financial revenue represents the accumulated exchange rate gains and losses due to transactions recorded in foreign currencies during the year, which reflect an unrealised gain or loss required for reporting purposes.

14. Expenses

Expenses are recognized by nature within the following groups.

Project Expenses	**2017**	**Restated 2016**	**Original 2016**
Projects direct	10,793,133	4,708,508	4,512,233
Projects indirect (via SPO)	88,225	606,740	803,015
Total	**10,881,357**	**5,315,248**	**5,315,248**

According to the observation in the management letter of the Financial Statements 2016 received from the IBAN, a presentation error was discovered. The breakdown of the balance between direct and indirect project expenses disclosed in the Statement of Financial Performance presented incorrect amounts. Therefore, a restated column was included to correctly present the comparative figures of 2016.

Project expenses are divided into direct and indirect and are not capitalized under WIP. Indirect expenses are incurred under the US agreement and are presented on a "modified cash" basis.

Administrative Expenses	2017	2016
Personnel	16,141,507	15,601,188
Operational	2,077,433	2,206,152
Total	**18,218,940**	**17,807,340**

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

The General Manager is entitled to receive a representation allowance as per PO(2013) 0154. The amount spent in 2017 was 11,049 USD equivalent. Expenditures made against this allowance are supported by invoices.

The remaining part of the administrative expenses relate to operational activities such as maintenance costs, travel expenses, communication and information systems. These expenses are needed to meet NAPMA's operational requirements.

The lease for three staff cars and photocopiers have been qualified as operating leases and are therefore also included in the administrative costs.

Depreciation Expenses	2017	2016
Depreciation Expenses	141,566	119,659
Total	**141,566**	**119,659**

Assets of PP&E are depreciated over their useful life (see also Note 5 on page 21).

Finance Expenses	2017	2016
Finance Expenses	0	222.668
Total	**0**	**222,668**

Finance expenses represent the accumulated exchange rate gains and losses due to transactions recorded in foreign currencies during the year which reflect an unrealised gain or loss required for reporting purposes.

15. Surplus for the Period

The 2017 surplus in the amount of 222,829 USD equivalent results from :

- The currency translation adjustments at the end of the year in accordance with IPSAS 4 presented under Financial Revenue in the amount of 303,336 USD equivalent;
- The usage of existing funds to cover project expenditures in the amount of 4,663 USD equivalent;
- And the purchase of administrative assets reported in revenue in the amount of 65,722 USD equivalent less the depreciation expenses in the amount of 141,566 USD equivalent, which total 75,844 USD equivalent.

EVENTS AFTER THE REPORTING DATE

NAPMA's reporting date is 31 December 2017 and the Financial Statements were authorized for issue by the General Manager on 28 March 2018. No material events, favorable or unfavorable, which would have an impact on the statements have occurred between the reporting date and the date on which the Financial Statements were authorized for issue.

RELATED PARTIES DISCLOSURE

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

The BOD members receive no remuneration and do not receive loans from the entity. Based on the BOD annual declarations for 2017, received from all the BOD Members, no significant related party relationships could be identified which could affect the operation of NAPMA.

Based on the annual declaration for 2017 received from the key management personnel of NAPMA, there were no significant related party relationships identified which could affect the operation of NAPMA.

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

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

Remuneration of Key Management Personnel For Period ended December 31, 2017				
Number	Grade	Gross Salary (Euro)	Gross Salary (USD)	USD Equiv. (At End Year Rate)
1	A7	191,192	0	226,753
3	A6	528,967	18,661	646,015
4	A5	645,765	27,596	793,474
8	A4	1,092,807	45,044	1,341,113
1	A3	116,475	0	138,139
17		**2,575,206**	**91,301**	**3,145,495**

Remunerations listed above are converted using NATO weekly posted exchange rates applicable on 31 December 2017.

BUDGET EXECUTION STATEMENT

The execution of the budget during fiscal year 2017 is shown in annex A.

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

The BOD approves the budgets based on programme/projects including administrative costs. Budgets may be subsequently amended by the Board, and on 17 May 2017 the PF/OPL approved a supplemental transfer of appropriation between projects (Annex A - Notes 3 and 4 on page 33).

As a result of discussion during PF20 on 24 - 26 October 2017, a change in Currency Clearing House reporting now recognizes Clearing House as Committed Appropriations vice Uncommitted Appropriations as reported in previous Budget Execution Statements (Annex A - Notes 5 and 6 on page 33).

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

In the Budget Execution Statement, actual expenditures are recorded on an accrual basis. Budgeted expenditures are recognized when the Service Entry (Good Receipt) is posted and the budget is consumed by an individual project.

The following table reconciles the differences between budget expenses (commitment basis) and actual expenses (accrual accounting basis) which are driven primarily by timing differences in Clearing House, accruals and capitalization. Exchange rate differences are generated because the BES expenditures are calculated at programme rate while the Financial Statement expenditures are calculated at market rate.

2017 Expenditure Reconciliation									
	Expenditure Comparison		Difference	Explanation					
Fund Center	BES Expense at Program Rate ($EQ)	Financial Stmt Expense at Market Rate (LC) (incl WIP)	BES Expense @ Program Rate less Fin Stmt Expense @ Mkt Rate	Exchange Difference Program Rate to Mkt Rate	Capitalization Difference	Currency Clearing House Difference	Accrual Difference	Delta	
PROJECTS	157,079,090.17	171,682,889.41	(14,603,799.24)	(1,476,433.53)		(1,406,897.66)	17,487,126.44	(3.99)	(1)
ADMIN	20,004,377.96	18,218,940.05	1,785,437.91	(1,747,018.50)	(65,722.18)		27,302.76	(0.01)	
TOTAL	**177,083,468.13**	**189,901,829.46**	**(12,818,361.33)**	**(3,223,452.03)**	**(65,722.18)**	**(1,406,897.66)**	**17,514,429.20**	**(4.00)**	

Note 1: A minor difference is generated due to rounding of USD Equivalents within the execution of ClearingHouse.

WRITE OFF

Assets which are currently providing operational service potential are deemed to be the reporting responsibility of NAEW&C Force, NAPMA only reports write-offs of NAPMA fixed admin assets and inventory. This results from the implementation of the NAF.

The NAPMO Financial Regulations require NAPMA to disclose any amounts written-off in the year. In 2017 NAPMA wrote-off assets with a netvalue of 0.00 USD equivalent and a historical value of 4,799.87 USD equivalent.

FINANCIAL INSTRUMENTS DISCLOSURE

NAPMA's financial requirements are set from its Member Nations. NAPMA does not borrow money to meet any financial obligation. Other than financial assets and liabilities which are generated by day-to-day operational activities, no long term financial instruments are held. The Risk Mitigation Fund's purpose is to mitigate currency, interest, credit, programme and exchange risks.

Liquidity risk

NAPMA's financial requirements and capital expenditures are met by its Member Nations and are typically funded in advance. NAPMA is therefore not exposed to material liquidity risks.

Credit risk
NAPMO nations are member and partner Nations of NATO, hence NAPMA is not exposed to material credit risks. Credit risk of financial institutions is mitigated by the Risk Mitigation Fund.

Foreign currency risk
NAPMA has limited exposure to foreign currency because some of its work is denominated in currencies other than the USD. However, risk related to foreign currency transactions is ultimately born by NAPMO Nations.

Annex A to the Financial Statements
Budget Execution Statement

2017 Budget Execution Statement

Funds Center	Appropriations current Budget Year($EQ)	Total Changes to Previous Appropriations ($EQ)	Uncommitted Appropr. Carried Forward from Previous FY($EQ)	(TOTAL) Commitments Carried Forward from Previous FY($EQ)	Lapse in current FY ($EQ)	Total Appropriations Available FY ($EQ)	Expense Program Rate ($EQ)	Uncommitted Appropriations Carried Forward ($EQ)	(TOTAL) Commitments Carried Forw. into Following FY($EQ)	Total Appropriations Used FY ($EQ)	Total Appropr. Available -Total Appropr. Used($EQ)	
	$	$	$	$	$	$	$	$	$	$	$	
PROJECTS	86,540,703.90	(17,826,016.04)	75,544,446.44	264,693,215.22	-	408,952,349.52	157,079,090.17	(66,900,854.59)	(184,964,999.33)	(408,944,944.09)	7,405.43	(1)
ADMIN	22,880,768.03	-	-	269,853.00	(2,856,415.41)	20,294,205.62	20,004,377.96	-	(302,579.76)	(20,306,957.72)	(12,752.10)	(2)
GRAND TOTAL	**109,421,471.93**	**(17,826,016.04)**	**75,544,446.44**	**264,963,068.22**	**(2,856,415.41)**	**429,246,555.14**	**176,964,674.29**	**(66,900,854.59)**	**(185,267,579.09)**	**(429,251,901.81)**	**(5,346.67)**	
	(3)	(4)	(5)	(6)	(7)							

Note 1: CNSATM 2016 Accrual of $60,000 only expended $52,594.63 in 2017. It is not possible in NIMS to CF partially consumed items.

Note 2: OPERATIONAL 2016 Goods Receipt of EUR not carried forward into 2017, but corresponding expenditures of EUR recorded in 2017.

Note 3: BOD/96 approved initial 2017 Appropriations. PF/OPL 17 May 2017 approved transfer of $17.8M between projects. The transfer was from CNSATM Appropriations from years prior to 2017 to FUTUREMODII in FY2017.

Note 4: PF/OPL 17 May 2017 approved transfer of $17.8M between projects. The transfer was from CNSATM Appropriations from years prior to 2017 to FUTUREMODII in FY2017.

Note 5: 2016 Uncommitted Appropriations Carried forward were ($129,796,697.08). A 2017 change in Currency Clearing House reporting now recognizes Clearing House as Committed Appropriations vice Uncommitted Appropriations as reported in previous BES. This explains the difference of ($54,252,250.64) between reporting years.

Note 6: 2016 Committed Appropriations Carried forward were ($210,072,974.64). This difference is explained in 2 parts. First, the Currency Clearing House reporting change which accounts for a difference of $54,252,250.64, and secondly the recognition of SAP transcritpion errors in past years accounting for $637,842.96.

Note 7: ADMIN Lapses are maintained within the NAPMA Programme. BOD approval will be sought for future use of cumulative ADMIN lapses.