

	<b>NATO</b>	NORTH ATLANTIC COUNCIL
	<b>OTAN</b>	CONSEIL DE L'ATLANTIQUE NORD

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17 February 2017

**DOCUMENT**  
C-M(2017)0008-AS1 (INV)

**IBAN REPORT ON THE AUDIT OF THE NATO STAFF CENTRE  
2014 FINANCIAL STATEMENTS**

**ACTION SHEET**

On 17 February 2017, under the silence procedure, the Council noted the IBAN report IBA-AR(2015)32 attached to C-M(2017)0008 (INV) and agreed the recommendations, including on public disclosure, contained in the RPPB report.

(Signed) Rose E. Gottemoeller  
Deputy Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2017)0003 (INV).

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9 February 2017

**DOCUMENT**  
C-M(2017)0008 (INV)  
**Silence Procedure ends:**  
**17 Feb 2017 15:00**

**IBAN REPORT ON THE AUDIT OF THE NATO STAFF CENTRE**  
**2014 FINANCIAL STATEMENTS**

**Note by the Deputy Secretary General**

1. I attach the International Board of Auditors for NATO (IBAN) report on the audit of the financial statements of the NATO Staff Centre the year ended 31 December 2014.
2. The IBAN has issued a qualified opinion on the 2014 financial statements of the NATO Staff Centre and a qualified opinion on compliance; however, this is an improvement in comparison to the disclaimer of opinion issued in respect of the 2011, 2012 and 2013 NATO Staff Centre Financial Statements. Following the approval of the new Staff Centre Mandate at the end of 2013, 2014 is the first year that the NATO Staff Centre financial statements have been prepared by the Office of the International Staff Financial Controller (OFC).
3. The IBAN recognises the significant effort undertaken by the OFC to present the financial statements in compliance with the NATO Financial Regulations/Financial Rules and Procedures and the NATO Accounting Framework and also to improve management and oversight of procurement and contracting activities. The remaining issues related to procurement and contracting activities should be resolved through the implementation of the Staff Centre's new operating model.
4. The IBAN report has been reviewed by the Resource Policy and Planning Board (RPPB), which has provided its own report (see Annex) with conclusions and recommendations to Council.
5. I consider that no further discussion regarding this report is required. Consequently, **unless I hear to the contrary by 15:00 hours on Friday, 17 February 2017**, I shall assume that the Council has noted the IBAN report IBA-AR(2015)32 and agreed the recommendations, including on public disclosure, contained in enclosed the RPPB report.

(Signed) Rose E.Goettemoeller

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**IBAN REPORT ON THE AUDIT OF THE NATO STAFF CENTRE 2014 FINANCIAL  
STATEMENTS**

**Report by the Resource Policy and Planning Board**

References:

- (a) IBA-A(2015)208 & IBA-AR(2015)32
- (b) BC-D(2016)0044
- (c) FC(2016)116, dated 15 September 2016

**Background**

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

**Discussion**

3. The Board notes that the IBAN has issued a qualified opinion on the 2014 NATO Staff Centre financial statements and a qualified opinion on compliance. The Board considers, also taking the BC report into account, that this is an improvement in comparison to the disclaimer of opinion issued in respect of the 2011, 2012 and 2013 financial statements. In this regard, the Board recalls that, following the introduction of the updated Staff Centre Mandate<sup>1</sup>, 2014 is the first year that the financial statements have been prepared by the International Staff (IS) Financial Controller (FC) and the first year that a complete set of statements has been presented to the IBAN.

3.1. The 2014 financial statements received a qualified opinion because the IBAN was unable to provide audit assurance on the comparability of 2014 balances to the corresponding 2013 figures given that the 2013 balances and other comparative amounts were not adjusted to reflect the application of the NATO Accounting Framework.<sup>2</sup> The Board notes that the issue of comparative figures should be resolved in future years, now that the Office of Financial Control (OFC) is responsible for preparing the NATO Staff Centre financial statements and notes in this regard also the IBAN's recognition of the significant effort made by the OFC to issue financial statements in accordance with the NATO Accounting Framework.

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<sup>1</sup> C-M(2013)0054

<sup>2</sup> C-M(2016)0023

3.2. The qualification on compliance is due to non-compliance with the NATO Financial Regulations (NFRs)<sup>3</sup> and the NATO Staff Centre Mandate in relation to contracting and procurement of goods and services and management of concession agreements. Although compliance with the NFR/Financial Rules and Procedures (FRP) was not fully achieved in 2014, the IBAN has recognised the significant effort undertaken by the OFC to introduce management and oversight in this area. The Board notes in this regard that following the implementation of the NATO Headquarters Commercial Operations Business Plan 2015-2019<sup>4</sup>, remaining issues related to the procurement of goods and services and concession agreements for the NATO Staff Centre should be resolved as the current mode of operations will cease under the new operating model. Nevertheless, the Board, also taking the BC report into account, encourages the OFC to take into consideration the recommendations of the IBAN when entering into new agreements for the new NATO HQ site. Following the implementation of the Business Plan, the Staff Centre Mandate is due to be reviewed by the Budget Committee; this will occur during the course of 2016.

4. With regard to public disclosure, the International Staff Financial Controller, having reviewed the statements in accordance with agreed policies<sup>5</sup>, originally had concerns related to sensitive information concerning a legal claim contained in the financial statements. After consultation with the Office of the Legal Adviser and having received confirmation that it has no issues with the said information, the International Staff Financial Controller concludes<sup>6</sup> that there are no issues with regard to the NATO categories of exemptions concerning public disclosure of these financial statements.

### **RPPB Conclusions**

5. The Board notes that the IBAN has issued a qualified opinion on the 2014 financial statements of the NATO Staff Centre and a qualified opinion on compliance; however, this is an improvement in comparison to the disclaimer of opinion issued in respect of the 2011, 2012 and 2013 NATO Staff Centre Financial Statements. Following the approval of the new Staff Centre Mandate at the end of 2013, 2014 is the first year that the NATO Staff Centre financial statements have been prepared by the Office of the International Staff Financial Controller (OFC).

6. Regarding the audit of the 2014 Financial Statements, the IBAN did not find any material misstatements of the 2014 Statement of Financial Performance, Statement of Financial Position and Cash Flow Statement. Furthermore, the 2014 Statements have been presented in accordance with the NATO Accounting Framework and the financial transactions and information reflected in the financial statements are in compliance with the NATO Financial Regulations (NFRs) and NATO Civilian Personnel Regulations. The Board notes that the IBAN recognises the significant effort undertaken by the OFC to present the financial statements in compliance with the NFRs/FRP and the NATO Accounting Framework and to improve management and oversight of procurement and contracting

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<sup>3</sup> C-M(2015)0025

<sup>4</sup> C-M(2015)0069

<sup>5</sup> C-M(2008)0116; AC/324-D(2014)0010-REV1

<sup>6</sup> FC(2016)116, dated 15 September 2016

activities. The Board is encouraged by the improvements implemented to date and notes that the remaining issues related to procurement and contracting activities should be resolved through the implementation of the Staff Centre's new operating model. Nevertheless, the OFC is invited to take into account the IBAN recommendations on concession agreements when entering into new contracts for the New NATO HQ site. As a result of the implementation of the new operating model, the Budget Committee is due to re-consider the Staff Centre Mandate; this will occur during the course of 2016.

7. Progress has been made in settling outstanding observations from prior years' audits with five of the 12 observations settled. It is expected that the remaining observations will be resolved by the end of 2016. The Board will continue to monitor the resolution of these issues.

8. The RPPB concludes that the subject IBAN report does not contain information which, according to NATO Policy on Disclosure of NATO Information<sup>7</sup>, shall be withheld from public disclosure, and in line with the agreed policy in PO(2015)0052, therefore recommends that the Council agree to the public disclosure of the subject IBAN report and the related financial statements.

#### **RPPB Recommendations**

9. The Resource Policy and Planning Board (RPPB) recommends that Council:
- (a) note the IBAN report IBA-AR(2015)32 along with the present report;
  - (b) endorse the conclusions outlined in paragraphs 6 through 9;
  - (c) invite the International Staff Financial Controller to implement the IBAN recommendations;
  - (d) note that the Resource Committees will continue to monitor the status of outstanding audit observations;
  - (e) in line with the agreed policy in PO(2015)0052, agree to the public disclosure of the NATO Staff Centre 2014 financial statements and the associated IBAN report (IBA-AR(2015)32).

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<sup>7</sup> C-M(2008)0116; AC/324-D(2014)0010-REV1

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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 Staff Centre  
for the year ended 31 December 2014**

The Staff Centre was established by Council in 1970. It is composed of the Sports Centre, the Restaurant, and the Shops and Medical Centre. It provides a service for the sporting and cultural activities of NATO Military and Civil International Staff and their families, the personnel of Delegations and Military Representations, Partner Nations and NATO retirees. The Staff Centre operations and activities are funded from membership fees, sports and social subscriptions, from trading and commercial activities, and from indirect support from the Civil Budget. The revenue of the Staff Centre for 2014 (Sports Centre, Restaurant, Shops and Medical Centre) was about EUR 4.8 million.

On 3 October, 2013, the Council approved a revised mandate and governance structure for the Staff Centre (C-M(2013)0054).

The Board issued a qualified opinion on the NATO Staff Centre 2014 Financial Statements due to the following reasons:

- No restatement of comparative 2013 figures.

The Board issued a qualified opinion on compliance due to the following reasons:

- Non-compliance with the NATO Financial Regulations and the NATO Staff Centre Mandate.
- Concession agreements signed in the Medical Centre need to be reviewed and re-negotiated.

The Board also made an observation on the late issuance of the 2014 Staff Centre Financial Statements. These findings are summarised in the Letter of Observations and Recommendations (Annex 4).



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**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

**AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF**

**THE NATO STAFF CENTRE**

**FOR THE YEAR ENDED 31 DECEMBER 2014**

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

**Report on the Financial Statements**

The International Board of Auditors for NATO (Board) audited the accompanying Financial Statements of the NATO Staff Centre, which comprised the Statement of Financial Position as at 31 December 2014, the Statement of Financial Performance, Statement of Changes in Net Assets and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Management's Responsibility for the Financial Statements*

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

*Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit 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 error or fraud. In making those risk assessments, internal control relevant to the entity's preparation and presentation of the 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 the entity's 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 audit opinion.

*Basis for Qualified Opinion on the Financial Statements*

The Board is not able to provide audit assurance on the 2014 Financial Statements in respect to the 2013 comparative information presented in those statements. This limitation is due to the fact that the Staff Centre did not adjust the 2013 balances and other comparative amounts properly to reflect the application of the NATO Accounting Framework. The Board issued a disclaimer of opinion on the 2013 Financial Statement of the Staff Centre.

As a result, our opinion on the current period's financial statements is modified because of the potential effect of this matter on the comparability of the current period's balances to the corresponding 2013 figures.

*Qualified Opinion on the Financial Statements*

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

## **Report on Compliance**

*Management's Responsibility for Compliance*

In addition to the responsibility for the preparation and presentation of the financial statements described above, management is also responsible for ensuring that the financial transactions and information reflected in the financial statements are in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations as authorised by the North Atlantic Council (NAC).

*Auditor's Responsibility*

In addition to the responsibility to express an opinion on the financial statements described above, our responsibility includes expressing an opinion on whether the financial transactions and information reflected in the financial statements are, in all material respects, in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations. This responsibility includes performing procedures to obtain reasonable assurance about whether the funds have been used for the settlement of authorised expenditure and whether their operations have been carried out in compliance with the financial and personnel regulations in force. Such procedures include the assessment of the risks of material non-compliance.

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

*Basis for Qualified Opinion on Compliance*

The Board found that the Staff Centre did not fully comply with the NFRs. In the area of procurement of goods and services, compliance with the procurement regulations were not fully in place as goods were acquired without proper bidding and contracting procedures.

Regarding the management of concession agreements, some agreements need to be renewed, for example in the Medical Centre. In addition, the Board found that new contracts were entered into in 2014 without proper approval.

*Qualified Opinion on Compliance*

In our opinion, except for the possible effects of the matters described in the section *Basis for Qualified Opinion on Compliance*, 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, 18 December 2015

Lyn Sachs  
Chairman

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

**LETTER OF OBSERVATIONS AND RECOMMENDATIONS**

**FOR THE NATO STAFF CENTRE**

**FOR THE YEAR ENDED 31 DECEMBER 2014**

## **Introduction**

The International Board of Auditors for NATO (Board) audited the NATO Staff Centre's Financial Statements for the year ended 31 December 2014, and issued a qualified opinion on the financial statements and a qualified opinion on compliance.

## **Observations and Recommendations**

During the audit, the Board identified four observations and provided five recommendations.

Two observations impact the audit opinion on compliance:

- Non-compliance with the NATO Financial Regulations and the NATO Staff Centre Mandate.
- Concession agreements signed in the Medical Centre need to be reviewed and re-negotiated.

One observation impacts the audit opinion on the financial statements:

- No restatement of comparative 2013 figures.

The remaining observation does not impact the audit opinions:

- Late issuance of the 2014 financial statements for the Staff Centre.

The Board also followed up on the status of observations from previous year's audits and noted that five have been settled, three partially settled, two superseded by current year observations and two are still outstanding.

## **OBSERVATIONS AND RECOMMENDATIONS**

### **1. NON-COMPLIANCE WITH THE NATO FINANCIAL REGULATIONS AND THE NATO STAFF CENTRE MANDATE**

#### **Reasoning**

1.1 According to the NATO Staff Centre Mandate approved by Council on 3 October 2013, the *“Staff Centre’s accounts and financial operations are subject to the NATO Financial Regulations, including procurement, in compliance with IPSAS and are subject to oversight by the IS Financial Controller [...]”*

1.2 According to Article XX.a of the Financial Rules and Procedures: *“Goods and services shall normally be procured from the most economical governmental or commercial services available”* and, *“Contracts of which the estimated value exceeds an amount equivalent to twice level B of the EFL [...] shall be awarded by a Contract Award Committee (CAC)”*.

#### **Observation**

1.3 In its audit of the Staff Centre’s Financial Statements for financial years 2011 (IBA-AR(2013)05), 2012 (IBA-AR(2014)01) and 2013 (IBA-AR(2015)02), the Board concluded that the Staff Centre did not comply with the NATO Financial Regulations and the Financial Rules and Procedures in the area of procurement and contracting. For example, proper bidding was not done for the purchase of food and beverages, and contracts were not in place when required. Further, contracts were not signed by the IS Financial Controller when required by the FRP.

1.4 Also, in its previous audits, the Board found that the management of concession agreements was not done properly and in compliance with regulations.

1.5 The Board found significant improvements in 2014 and 2015 in the involvement of the IS Office of Financial Control in the management of the Staff Centre. The IS Procurement Office has worked intensively on reviewing and re-negotiating contracts in the Staff Centre based on the prioritization of risks and available resources. At the end of 2014 and the beginning of 2015, three bids were launched for the procurement of goods in the restaurant and two concession services. The procurement action was done in accordance with the NFRs as the selections were based on CAC involvement and contracts were signed properly by the IS Financial Controller. Further, a number of concession contracts have been re-negotiated and approved by the IS Financial Controller

1.6 The Board recognises the significant effort and resources put into gaining management oversight and cleaning up in the area of contracting and procurement by the IS Office of Financial Control. The Board found, though, that for the financial year



2014, full compliance with the NFRs was not in place. In the area of goods and services acquired for the restaurant, compliance with the procurement regulations was not fully in place as goods are acquired without proper contracts and purchase orders in place. Also, for the purchase of tax-exempt fuel, no contract is yet in place and a re-bid needs to be performed.

1.7 Regarding the management of concession agreements, some concession agreements need to be renewed, for example in the Medical Centre. In addition, the Board found that new agreements were entered into in 2014 without proper approval. Also, contractual agreements with sports instructors had not yet been established.

### **Recommendation**

1.8 The Board recommends the IS to continue to work on ensuring full compliance with the NATO Financial Regulations in the Staff Centre.

### ***Comment of the International Staff***

*In 2015, a contract was signed with the NATO HQ catering company which will solve the issue of the procurement of food and beverages by the Staff Centre. For what concerns the other contracts, the IS will have to weigh the effort required in relation to the fact that the Staff Centre in its current mode of operations will end in 2016.*

*The IS is happy to note that IBAN recognises that significant improvements have been made. Measures are in place to mitigate the question related to agreements entered into without prior approval. The recommendation is agreed.*

## **2. CONCESSION AGREEMENTS SIGNED IN THE MEDICAL CENTRE NEEDS TO BE REVIEWED AND RE-NEGOTIATED**

### **Reasoning**

2.1 According to the NATO Staff Centre Mandate, the “*Staff Centre’s accounts and financial operations are subject to the NATO Financial Regulations, including procurement [...]*”.

### **Observation**

2.2 In its audit of the Staff Centre’s Financial Statements for financial years 2012 (IBA-AR(2014)01) and 2013 (IBA-AR(2015)02) the Board found that rental fee according to concession agreements signed with doctors at the Medical Centre did not in all cases reconcile to the actual rent received. Changes (both increases and decreases) to the

agreed rental fees according to the agreements were made without written agreement or amendments to existing agreements.

2.3 The Board also found that it was not clear how the rental fees were fixed and thus whether common operating costs, utilities and other administrative costs were part of the rental fee or were to be reimbursed separately by the concessionaires. It is therefore not fully clear whether the costs of operating the Medical Centre is balanced against the rental fees received from the concessionaires.

2.4 Further, the agreements were not properly signed and approved by the IS Financial Controller and some had expired and therefore need to be extended or re-bid.

2.5 The Board found that no progress had been made in 2014 in this area and thus concession agreements signed in the Medical Centre needs to be reviewed and re-negotiated.

2.6 The Board recognizes that since the implementation of the new mandate for the Staff Centre in October 2013, the IS Office of Financial Control has put significant effort into gaining oversight and management control of the Staff Centre activities. The IS Procurement Service and IS Financial Controller have reviewed and re-negotiated a number of concession agreements and contracts for personnel based on a prioritization of risks and available resources.

### **Recommendation**

2.7 Before the move to the new NATO Headquarter, the Board recommends the IS to review the operation of the Medical Centre and the agreements in place in the Medical Centre. The Board recommends the IS to ensure that rental fees charged to the concessionaires in the Medical Centre are fixed based on clear principles ensuring all costs of the facilities are covered including utilities and management administration.

2.8 These concession agreements should be reviewed and re-negotiated by IS Procurement Service and properly approved by the IS Financial Controller.

### **Comment of the International Staff**

*The IBAN recognizes the efforts and improvements made by the Office of Financial Control. This work has been prioritised based on risk and resources available. In this context contracts relating to the Medical Centre still need to be reviewed. Again, the effort will have to be weighed against the effort required in relation to the fact that the Staff Centre in its current mode of operations will end in 2016. As IBAN knows, the main focus of the procurement activities is on the requirements of the New Headquarters.*

### **3. LATE ISSUANCE OF THE 2014 FINANCIAL STATEMENTS FOR THE STAFF CENTRE**

#### **Reasoning**

3.1 According to Article 27 of the NFRs, the financial statements shall be issued no later than 30 April following the end of the financial year. As from the financial year 2015, financial statements shall be presented no later than 31 March.

#### **Observation**

3.2 2014 is the first year that the IS Financial Controller presents a complete set of financial statements for the Staff Centre. In prior years, incomplete financial statements were presented to the Board with little involvement of the IS Office of Financial Controller.

3.3 For the financial year 2014, the IS Financial Controller issued financial statements for the Staff Centre, prepared by the IS Office of Financial Controller with input from the Staff Centre. These financial statements, though, were provided to the Board on 13 August 2015, over three months after the deadline date.

#### **Recommendation**

3.4 The Board recommends the IS to develop a process that will allow it to adequately prepare, review and publish the financial statements by 31 March following the end of the financial year.

#### ***Comment of the International Staff***

*This was the first time that IS OFC issued the Staff Centre financial statements. We are happy to note that IBAN considers that the financial statements present fairly, in all material respects, the financial position of the Staff Centre as of 31 December 2014 and of its financial performance and its cash flows for the year then ended are in accordance with the NATO Accounting Framework. The late issuance is linked to the initial work required in setting up the framework given that this was the first time that IS OFC issued these statements.*

### **4. NO RESTATEMENT OF COMPARATIVE 2013 FIGURES**

#### **Reasoning**

4.1 The Staff Centre mandate was approved in October 2013 by Council but in practice it was implemented as of 1 January 2014. The financial reporting framework applied is the NATO Accounting Framework (adapted IPSAS). The previous mandate did

not clearly specify the accounting framework to be used.

4.2 According to paragraph 47 of IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery.

### **Observation**

4.3 2014 was the first year where a complete set of financial statements were prepared by the IS Financial Controller and presented to the Board. In prior years, the Board issued a disclaimer of opinion due to the presentation of an incomplete set of financial statements and no disclosure of the financial reporting framework used for the preparation of the statements.

4.4 The 2014 Financial Statements of the Staff Centre includes comparative 2013 balances. The Board found that the IS did not adjust the comparative 2013 balances and note disclosures properly to reflect the application of the NATO Accounting Framework.

4.5 The Board found that the 2013 comparative balances were materially misstated as proper restatement of comparative balances did not take place. For example, the Board found that 2013 inter-entity balances were not eliminated and 2013 revenue was overstated due to improper correction of prior year mistakes. Further, the Board found that adjustments to PP&E and Intangible assets were made in 2014 without proper adjustment of comparative balances. Also, no comparative segment information for 2013 was disclosed in the notes of the 2014 Financial Statements.

4.6 Further, some balances were reclassified in the 2014 Statement of Financial Position. However, the 2013 balances were not reclassified and therefore, comparability with prior year figures is reduced.

4.7 The Board did not find any material misstatements of the 2014 Statement of Financial Performance, Statement of Financial Position and Cash Flow Statement. The Board notes the significant effort put in place by the IS Office of Financial Control to issue financial statements in accordance with the NATO Accounting Framework.

### **Recommendation**

4.8 The Board recommends the IS to continue to improve the presentation of financial statements and to comply with the requirements in the NATO Accounting Framework (IPSAS 3) and properly present and adjust comparative balances when required.

***Comment of the International Staff***

*The 2013 statements were not issued under IS OFC responsibility, therefore, these could not be substantially changed to make them comparable to 2014. The issue of comparative figures should be solved in future years.*

## **FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS**

The Board reviewed the status of observations and recommendations arising from previous years' audits. The observation and its status are summarised in the table below.

### **Status of previous years' observations**

<b>OBSERVATION / RECOMMENDATION</b>	<b>ACTION TAKEN</b>	<b>STATUS</b>
<p><b>1. IBA-AR(2015)02 (FY 2013) paragraph 1</b>  <b>INCOMPLETE FINANCIAL STATEMENTS PRESENTED – NON-COMPLIANCE WITH THE NATO FINANCIAL REGULATIONS AND THE NATO STAFF CENTRE MANDATE</b></p> <p>As incomplete financial statements for the year ended 31 December 2013 were presented to the Board, the Board is not in a position to issue an opinion on the Staff Centre 2013 Financial Statements.</p> <p><b>Board's recommendation</b>  The Board recommends that a separate complete set of financial statements of the Staff Centre are prepared and approved in accordance with the NATO Financial Regulations and the NATO Accounting Framework.</p>	<p>The IS Financial Controller issued proper financial statements for 2014 for the Staff Centre.</p>	<p>Observation <b>Settled</b>.</p>
<p><b>2. IBA-AR(2015)02 (FY 2013) paragraph 2</b>  <b>PROCUREMENT OF GOODS AND SERVICES – NON-COMPLIANCE WITH THE NATO FINANCIAL REGULATIONS AND THE NATO STAFF CENTRE MANDATE</b></p> <p><b>Board's recommendation</b>  The Board recommends the Staff Centre to follow the NATO Financial Regulations and thus ensure that goods and services are procured in accordance with the requirements for tender unless a deviation is approved. Contracts should be signed for substantial purchases and co-signed by the International Staff Financial Controller.</p>	<p>Superseded by current year observation.</p>	<p>Observation <b>Superseded by current year observation</b>.</p>
<p><b>3. IBA-AR(2015)02 (FY 2013) paragraph 3</b>  <b>RISKS OF NEGATIVE NET ASSETS</b></p> <p>As at 31 December 2013, the total liabilities of EUR 2,046,426 exceeded the total assets of EUR 1,061,140. The Staff Centre is therefore in a negative net assets position, which presents risks to the Staff Centre. This was also the case in financial years 2011 and 2012.</p>	<p>As of 31 December 2014, the total liabilities of EUR 2,170,525 exceeded the total assets of EUR 860,539. Therefore, the Staff Centre, as in previous years, is in a negative net asset position.</p>	<p>Observation <b>Settled</b>.</p>

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ANNEX 4  
C-M(2017)0008 (INV)  
IBA-AR(2015)32

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<b>Board's recommendation</b> As the Staff Centre transitions to the New NATO Headquarters, the Board recommends the Staff Centre Executive Board and the nations to take into account the negative net asset position as it considers the business and price strategy of the Staff Centre. Both profit and cash flows will need to be fully disclosed and monitored in future years.	A business plan 2015-2019 for the Staff Centre has been approved by nations which provides a plan for the operation of commercial activities in a financially viable way.	
<b>4. IBA-AR(2015)02 (FY 2013) paragraph 4 THE NEED TO ESTABLISH A CONTRACT WITH SPORT INSTRUCTORS</b>  The Board found that no contract existed for the purchase of services from the sport instructors. In 2013, the total cost was EUR 50,562.  <b>Board's recommendation</b> The Board recommends that the Staff Centre and the International Staff establish a contractual agreement with the sport instructors agreeing prices, terms and conditions, etc.	Contractual agreement with the sports instructors had not yet been established.	Observation <b>Outstanding.</b>
<b>Comment of the International Staff</b>  <i>This is planned for 2016.</i>		
<b>5. IBA-AR(2014)01 (FY 2012) paragraph 5.3 LACK OF PROPER MANAGEMENT OF CONCESSION CONTRACTS IN THE COMMERCIAL AREA OF THE STAFF CENTRE AND THE NATO HQ</b>  The Board found significant weakness in the management of the concession contracts in the Staff Centre. Because of these management weaknesses, contracts and amendments to contracts have been signed which have significantly changed the contractual and financial conditions making it less advantageous to the Staff Centre and thus impacting the profitability of these concessions.  Further, occupancy fees according to concession contracts had not been collected in several cases and thus revenue and net assets were EUR 117,000 less than they should have been.  Additionally, contracts were not co-signed by the IS FC and no consultation had taken place between the Staff Centre and the International Staff on the significant changes in contract conditions for two contracts.	During 2013 and 2014, the Staff Centre, the IS Financial Controller's Office, and the Executive Board worked closely to review and update current concession contracts and implement new procedures for the management of concession contracts.  A number of concession contracts have been re-viewed and re-negotiated and new contracts signed by the IS Financial Controller. Also, 3 new contracts were signed based on application of proper bidding procedures.  Remaining contracts are under	Observation <b>Superseded by current year observation.</b>

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ANNEX 4  
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OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p>The Board finds that there was a lack of communication between the International Staff and the Staff Centre and to the SCMC who are responsible for the proper operation of the Staff Centre according to the previous mandate. Also, the Board found that the International Staff had not properly executed its role as given in the Financial Rules and Procedures in relation to ensuring a sound system of internal controls and regularly reviews of non-appropriated funds (Articles 18 and 21).</p> <p><b>Board's recommendation</b></p> <p>The Board recommends that the concession contract where an "intervention amount" is currently being paid be reviewed. The Staff Centre, in close consultation with the International Staff, should assess whether the presence of this type of service is desirable to NATO. Based on the outcome of this, a new contract could possibly be made.</p> <p>The Board recommends the International Staff to seek legal advice on the validity of both contracts referred to in paragraph 5.3.17.</p> <p>The Board recommends that all contracts in the future be co-signed by the International Staff Financial Controller, or alternatively, the Head of Procurement Services, depending on the value of the contract. Further, all contracts should be reviewed and updated and expired contracts should be extended or re-competed.</p> <p>The Board recommends that the outstanding occupancy fees be collected in accordance with the contracts.</p> <p>The Board recommends that cooperation between the IS and the Staff Centre be improved, including consultation with the International Staff Procurement Services and Legal Adviser on complex contracts.</p> <p>The International Staff Financial Controller should ensure that a sound system of internal controls is in place in the Staff Centre in accordance with the Financial Rules and Procedures and regular reviews should be performed.</p> <p>The Board recommends that the International Staff and the Staff Centre ensure that the Business plan for 2014 – 2018 for the Staff Centre, which is currently being developed, is built on reliable,</p>	<p>review by the IS Procurement Service. The main area outstanding is the review of contracts in the Medical Centre. Occupancy fees not previously collected have been collected.</p> <p>In one case, the concession fee for 2013 and 2014 has not yet been collected due to discussions with the concessionaire about the calculation of the commission fee.</p>	



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OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
correct information, reflecting all costs and revenue generating activities.		
<p><b>6. IBA-AR(2014)01 (FY 2012) paragraph 5.4 MEDICAL CENTRE – UPDATE OF CURRENT CONTRACTS NECESSARY</b></p> <p>The Board found that changes to the agreed rents according to the contracts with contractors were made without written agreement or contract amendments. Furthermore, contracts were not signed by the International Staff Financial Controller, and two contracts had expired.</p> <p><b>Board's recommendation</b>  The Board recommends that no changes to the agreed rent according to the contracts are made without written agreement. Also, contracts should be co-signed by the International Staff Financial Controller.</p>	Superseded by current year observation.	Observation <b>Superseded by current year observation.</b>
<p><b>7. IBA-AR(2014)01 (FY 2012) paragraph 5.6 RISK OF NOT COLLECTING OUTSTANDING RECEIVABLES DUE TO LEGAL DISPUTE</b></p> <p>The Board found that it is uncertain whether the Staff Centre will be able to fully collect outstanding receivables. This continuing situation impacts the Staff Centre's daily cash flow needs.</p> <p><b>Board's recommendation</b>  The Board recommends the Staff Centre, in cooperation with the International Staff Financial Controller and the International Staff Legal Advisor, to consider the reasonableness of the outstanding receivable or whether allowance for doubtful debts is necessary in accordance with IPSAS.</p>	<p>The legal dispute is still on-going. The Budget Committee and the Resource Policy and Planning Board (RPPB) have been briefed on several occasions on this issue.</p> <p>The IS provided a cash advance in 2014 in order to transfer the liquidity impact of this from the Staff Centre.</p> <p>The legal dispute involves another NATO body and therefore, depending on the outcome of the dispute, the IS Financial Controller expects to collect the outstanding amounts from this other NATO body.</p>	Observation <b>Partially Settled.</b>
<p><b>Comment of the International Staff</b></p> <p><i>The IS agrees with the recommendation. The legal dispute referred to relates to a contractual matter between KFOR and a private firm regarding services provided in Kosovo. The dispute is neither attributable to the Staff Centre nor to the IS. The private firm involved some of the vendors at the Staff Centre in legal procedures that are ongoing before the Host Nation's courts. OLA closely follows up on these proceedings and regularly informs about the status of those court procedures.</i></p>		

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<p><b>8. IBA-AR(2013)05 (FY 2011) paragraph 5.2.6 DIFFERENCES BETWEEN FINANCIAL STATEMENTS AND DETAILED DATA - UNDERSTATEMENT OF PROPERTY, PLANT &amp; EQUIPMENT (PP&amp;E) AND REVENUE IN PRIOR YEARS</b></p> <p>The Board found that revenue in prior years were understated by EUR 293,242 and the gross values of PP&amp;E were understated by the same amount. This was due to misstatements of revenue by decreasing values of PP&amp;E instead of recognizing income as revenue. Also, the Board noted unexplained differences in the values of PP&amp;E.</p> <p><b>Board's recommendation</b>  The Board recommends the Staff Centre to make proper corrections ensuring that the values of PP&amp;E are correct. Also, the Board recommends the Staff Centre to regularly (at least annually) ensure the reconciliation of sub-ledgers and general ledgers to identify errors in PP&amp;E.</p>	<p>The Board found that the Staff Centre had corrected some of the differences but noted that there were still differences between sub-ledgers and general ledgers related to PP&amp;E that has not yet been corrected. The differences are in the CP areas.</p> <p>The Board recommends the Staff Centre to make proper corrections ensuring that the PP&amp;E values are correct.</p> <p>Also, the Board recommends the Staff Centre to regularly (at least annually) ensure the reconciliation of sub-ledgers and general ledgers to identify errors in PP&amp;E.</p>	<p>Observation  <b>Outstanding.</b></p>
<p><b>9. IBA-AR(2013)05 (FY 2011) paragraph 5.3.1 OVERSTATEMENT OF REVENUE AND EXPENSES DUE TO NON-ELIMINATION OF INTER-ENTITY BALANCES</b></p> <p>Inter-entity balances of in total EUR 24,830 were not properly eliminated in the 2011 financial statements, resulting in an overstatement of revenue, expenses and receivables and payables.</p> <p><b>Board's recommendation</b>  The Board recommends the Staff Centre to strengthen the identification and elimination of inter-entity balances in the process of preparing the financial statements to ensure a fair and true view of the revenues and expenses in the Staff Centre.</p>	<p>All material inter-entity balances had been eliminated in consolidation.</p>	<p>Observation  <b>Settled.</b></p>

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<p><b>10. IBA-AR(2013)05 (FY 2011) paragraph 5.3.2 BUILDING UP OF A RESERVE FUND FOR THE MOVE TO NEW HQ</b></p> <p>The Staff Centre did not disclose the buildup of a reserve for the move to the New NATO Headquarters by earmarking and reserving part of the Net Assets. Also, the Staff Centre's liabilities currently exceed its assets, and thus, the Staff Centre is not in a position to build up a reserve for the New Headquarters.</p> <p><b>Board's recommendation</b>  The Board recommends the Staff Centre, once it is in a position to build up a reserve for the New NATO Headquarters (i.e. once it has positive net equity), to properly disclose such a reserve within the Net Assets.</p>	<p>As the total liabilities of the Staff Centre in 2014 exceed the assets, the Staff Centre is not in a position to build up a reserve for the New HQ.</p> <p>A business plan 2015-2019 for the Staff Centre has been approved by nations which provides a plan for the operation of commercial activities in a financially viable way.</p> <p>Any costs related to re-location of the Staff Centre to the New HQ will be funded from the Transition Programme Budget.</p>	<p>Observation  <b>Settled.</b></p>
<p><b>11. IBA-AR(2013)05 (FY 2011) paragraph 5.4.1 Payment of Shift Allowance</b></p> <p>Shift allowance was granted to two staff members in category A without the proper approval. This is not in accordance with the CPRs.</p> <p><b>Board's recommendation</b>  If the International Staff wishes to continue to pay shift allowance to these Staff Centre staff, the Board recommends the International Staff to seek the proper approval from the appropriate finance committee.</p>	<p>The two staff continued to receive shift allowance during 2012, 2013 and 2014 without proper approval. In total, EUR 4,314 was received in shift allowance in 2014.</p> <p>A decision was taken by the Staff Centre Executive Board to stop the payment of shift allowance as from 1 October 2015.</p>	<p>Observation  <b>Settled.</b></p>
<p><b>12. IBA-AR(2013)05 (FY 2011) paragraph 5.5 WEAKNESSES IN THE INTERNAL CONTROLS AND ACCOUNTING POLICIES</b></p> <p>The Board found that the current internal written accounting policies of the Staff Centre did not cover all accounting areas and processes. Also, the Board found weaknesses in the internal controls and inadequate segregation of duties, including in the area of inventory management, leading to the increased risk of error and fraud.</p> <p><b>Board's recommendation</b>  Based on a decision by Council on a revised</p>	<p>During 2014 and 2015, the IS Office of Financial Control has become significantly more involved in the day-to-day operations of the Staff Centre, for example all contracts are now managed by Procurement Services.</p> <p>The Board found that there was</p>	<p>Observation  <b>Partially Settled.</b></p>

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<p>governance structure and mandate of the Staff Centre, the Board recommends the Staff Centre to develop adequate accounting policies covering the main accounting areas and processes to ensure an effective financial administration.</p> <p>Also, the Board recommends the Staff Centre to improve the current internal controls, ensuring the proper segregation of duties in key areas, such as inventory, and strengthening the review and monitoring of controls by involving the International Staff Financial Controller.</p>	<p>still a need to update and revise the internal written accounting policies Standard Operating Procedures (SOP's) as the current SOP's do not in detail cover all accounting areas and processes, especially in the area of inventory management, disposal policies etc.</p> <p>There is a concentration of responsibilities in the hands of a few key staff, especially in the area of inventory management of food and beverages where the responsibilities for ordering, inputting and updating inventory records, receiving of goods, controlling and performing physical inventory checks and storage are assigned to the same person.</p> <p>Also in relation to bank transactions, complete segregation of duties is not possible due to the size of the Staff Centre.</p> <p>The IS Financial Controller should ensure proper internal controls are in place in key areas of the Staff Centre business. The Board recommends that the IS office of Financial Control increases its involvement in areas such as bank transactions and inventory management in order to ensure a sound system of internal controls.</p>	

**NATO STAFF CENTRE  
FINANCIAL STATEMENTS AS AT 31/12/2014  
FINANCIAL YEAR 2014**

**Annexes:**

- 1 Statement of financial position
- 2 Statement of financial performance
- 3 Cash Flow Statement
- 4 Statement of changes in net assets
- 5 Explanatory notes to the financial statements

**Nato Staff Center Statement of Financial Position**

As at 31 December 2014

	Notes	EUR Current year 31-Dec-14	EUR Prior Year 31-Dec-13	EUR Variance CY-PC
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
<b>Cash and Cash equivalents</b>	<b>4</b>			
Cash		4,120.00	4,120.00	0.00
Current bank accounts		164,046.17	312,057.80	-148,011.63
Cash equivalents		9,214.13	29,369.75	-20,155.62
<b>Total Cash and Cash Equivalents</b>		<b>177,380.30</b>	<b>345,547.55</b>	<b>-168,167.25</b>
<b>Receivables</b>	<b>5</b>			
Receivables from Nations		0.00	0.00	0.00
Receivables from clients		287,573.87	406,197.39	-118,623.52
Other Receivables		3,787.65	3,261.34	526.31
<b>Total Receivables</b>		<b>291,361.52</b>	<b>409,458.73</b>	<b>-118,097.21</b>
<b>Inventories</b>	<b>6</b>			
Inventory sports		7,583.67	6,119.13	1,464.54
Inventory restaurant		25,340.99	22,798.50	2,542.49
Inventory commercial area		338,393.24	275,537.35	62,855.89
<b>Total Inventories</b>		<b>371,317.90</b>	<b>304,454.98</b>	<b>66,862.92</b>
<b>TOTAL CURRENT ASSETS</b>		<b>840,059.72</b>	<b>1,059,461.26</b>	<b>-219,401.54</b>
<b>NON CURRENT ASSETS</b>				
	<b>7</b>			
Receivables		0.00	0.00	0.00
Infrastructure, Plant and Equipment		2,878.88	1,679.10	1,199.78
Land and buildings		0.00	0.00	0.00
Other		17,600.00	0.00	17,600.00
<b>TOTAL NON CURRENT ASSETS</b>		<b>20,478.88</b>	<b>1,679.10</b>	<b>18,799.78</b>
<b>TOTAL ASSETS</b>		<b>860,538.60</b>	<b>1,061,140.36</b>	<b>-200,601.76</b>

**Nato Staff Center Statement of Financial Position**

As at 31 December 2014

	Notes	EUR Current year 31-Dec-14	EUR Prior Year 31-Dec-13	EUR Variance CY-PC
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
<b>Payables</b>	<b>8</b>			
Payable to suppliers		524,893.15	466,312.50	58,580.65
Current portion of debt payable after one year		9,600.00		9,600.00
<b>Total Payables</b>		<b>534,493.15</b>	<b>466,312.50</b>	<b>68,180.65</b>
<b>TOTAL CURRENT LIABILITIES</b>		<b>534,493.15</b>	<b>466,312.50</b>	<b>68,180.65</b>
<b>NON-CURRENT LIABILITIES</b>				
	<b>9</b>			
Long-term Pension debt and charges		1,401,671.64	1,580,113.42	-178,441.78
Long-term loans		234,360.03		234,360.03
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>1,636,031.67</b>	<b>1,580,113.42</b>	<b>55,918.25</b>
<b>TOTAL LIABILITIES</b>		<b>2,170,524.82</b>	<b>2,046,425.92</b>	<b>124,098.90</b>
<b>NET ASSETS</b>				
	<b>10</b>			
Surplus (deficit) of previous years		-985,285.56	-1,021,969.53	36,683.97
Surplus (deficit) of the period		-324,700.66	3,350.64	-328,051.30
Capital subsidies		0.00	33,333.33	-33,333.33
<b>TOTAL NET ASSETS</b>		<b>-1,309,986.22</b>	<b>-985,285.56</b>	<b>-324,700.66</b>
<b>TOTAL BALANCE</b>		<b>860,538.60</b>	<b>1,061,140.36</b>	<b>-200,601.76</b>

**Nato Staff Center Statement of Financial Performance**  
For the year ended 31 December 2014

	Notes	EUR Current year 31-Dec-14	EUR Prior Year 31-Dec-13	EUR Variance CY-PC
<b>Revenue</b>	<b>11</b>			
Sales		4,480,886.09	4,655,111.50	-174,225.41
Concessions		341,331.17	469,441.79	-128,110.62
Financial revenue		3,574.66	5,508.03	-1,933.37
Other revenue		500.00	0.00	500.00
<b>TOTAL REVENUE</b>		<b>4,826,291.92</b>	<b>5,130,061.32</b>	<b>-303,769.40</b>
<b>Expenses</b>	<b>12</b>			
Wages, salaries and employee benefits		1,872,705.82	2,053,942.12	-181,236.30
Outsourced services		1,252,994.86	942,670.12	310,324.74
Operating costs		206,166.06	239,132.05	-32,965.99
Cost of goods sold		1,795,500.41	1,858,077.20	-62,576.79
Depreciation and amortization		13,059.22	23,435.42	-10,376.20
Financial costs		10,566.21	9,453.77	1,112.44
<b>TOTAL EXPENSES</b>		<b>5,150,992.58</b>	<b>5,126,710.68</b>	<b>24,281.90</b>
<b>SURPLUS (DEFICIT) FOR THE PERIOD</b>	<b>10</b>	<b>-324,700.66</b>	<b>3,350.64</b>	<b>-328,051.30</b>



ANNEX 3 to  
FC(2015)071**Nato Staff Center Cash Flow Statement**

As at 31 December 2014

	Notes	EUR Current year 31-Dec-14	EUR Prior Year 31-Dec-13
<b>Cash flows from operating activities</b>			
Surplus (deficit) of the period	<b>11&amp;12</b>	-324,700.66	3,350.64
Depreciation	<b>12</b>	13,059.22	
Loss on sale of PPE			
Decrease (increase) in receivables	<b>5</b>	118,097.21	-127,807.97
Decrease (increase) in inventories	<b>6</b>	-66,862.92	84.94
Increase (decrease) in payables	<b>8</b>	58,580.65	154,251.41
<b>Net cash flows from operating activities</b>		<b>-201,826.50</b>	<b>29,879.02</b>
<b>Cash flows from investing activities</b>			
Purchase of PPE	<b>7</b>	-3,059.00	-1,679.10
Proceeds from sale of PPE			
<b>Net cash flows from investing activities</b>		<b>-3,059.00</b>	<b>-1,679.10</b>
<b>Cash flows from financing activities</b>			
Reimbursement of pensions' liability	<b>9</b>	-178,441.78	-222,981.46
Advances received	<b>9</b>	243,960.03	
Finance lease liability	<b>7&amp;14</b>	-28,800.00	
<b>Net cash flows from financing activities</b>		<b>36,718.25</b>	<b>-222,981.46</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>-168,167.25</b>	<b>-194,781.54</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>4</b>	<b>345,547.55</b>	<b>540,329.09</b>
<b>Cash and cash equivalents at end of period</b>	<b>4</b>	<b>177,380.30</b>	<b>345,547.55</b>

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**Nato Staff Center**  
**Statement of changes in net assets**

	<b>Accumulated surplus (deficit)</b>
<b>Balance at 31/12/2012</b>	<b>-988,636.20</b>
Revaluation of investments	0.00
Net surplus (deficit) for the period	3,350.64
<b>Balance at 31/12/2013</b>	<b>-985,285.56</b>
Revaluation of investments	0.00
Net surplus (deficit) for the period	-324,700.66
<b>Balance at 31 december 2014</b>	<b>-1,309,986.22</b>

**EXPLANATORY NOTES TO THE NATO STAFF CENTRE  
2014 FINANCIAL STATEMENTS**

**NOTE 1: GENERAL INFORMATION**

These financial statements cover the financial operations relating to the NATO Staff Centre.

The NATO Staff Centre provides morale, welfare, and recreational activities and services at NATO Headquarters in Brussels for the personnel and families of the NATO International Staff, International Military Staff, NATO Agencies, member nations' Delegations and Military Representations, to personnel and families of Partner Nations, and to other approved users.

The NATO Staff Centre is located on the premises of the NATO Headquarters in Brussels.

The NATO Staff Centre shares the legal status of NATO.

The NATO Staff Centre is considered a part of the NATO-IS International Staff. The budgetary resources of the NATO International Staff and for the operations of the NATO Headquarters in Brussels are provided through the Civil Budget which is approved by the North Atlantic Council.

**Governance:**

On 3 October 2013, the North Atlantic Council approved under reference C-M(2013)0054 a new "Staff Centre Governance and Mandate" with the objective of achieving a substantial decrease in the level of contribution from the Civil Budget from 2014 onwards and moving to a fully customer funded model after the move to the New NATO Headquarters.

Governance can be summarised as follows:

- The Staff Centre Executive Board is responsible for the oversight and guidance of the Staff Centre, its proper administration and management. It is chaired by the Assistant Secretary General for Executive Management (NATO International Staff). Members of the Executive Board are the Assistant Secretary General for Executive Management, the Director Staff Centre, the Deputy Assistant Secretary General for Headquarters Support and Transformation, the Deputy Assistant Secretary General for Human Resources, the International Military Staff Executive Coordinator, and the Head, Budget and Planning and Analysis, International Staff. Two members of the Budget Committee attend ex-officio and therefore do not take part in the decision making.
- The Staff Centre Customer Service Board, chaired by the Assistant Secretary General for Human Resources, exercises oversight and quality control over customer service and activities at the Staff Centre. Members of the Executive Board comprise representatives of management and customers of the Staff Centre.
- The Director Staff Centre is responsible for the day-to-day management of the Staff Centre and reports to the Assistant Secretary General for Executive Management. The Director is an ex-officio member of the Executive and Customer Services Boards.

**Funding:**

The Staff Centre Mandate defines the funding guidelines of the NATO Staff Centre and in particular the activities that can receive support from Civil Budget funding.

Activities which support the mission of the Organisation, staff members and families and foster community environment (Category A activities) may be eligible for budgetary contributions from NATO (Civil Budget funding). Activities which provide indirect support to the mission of the Organisation, provide convenience to staff members and families, or generate revenue (Category B activities), are to be funded by membership and user fees, income from commercial concessions, and not through budgetary contributions from NATO (Civil Budget funding).

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**Activity:**

The NATO Staff Centre has a membership of about 4,600. The Restaurant department serves meals and organises banquets. The Sports department organises sports activities and lessons for adults and children (tennis, swimming, squash, fitness, etc.). The Commercial Services Area has a variety of shops and services managed through concession agreements (optician, pharmacy, retail store, bank, medical centre, jewelry, showroom) and a perfume shop which is run directly by the Staff Centre.

**NOTE 2: ACCOUNTING POLICIES**

The principal accounting policies adopted in the preparation of these financial statements are set out below.

**Basis of preparation**

The financial statements are presented in EUR.

The financial year begins on 1 January and ends on 31 December of the same year.

**Declaration of conformity**

The NATO-Staff Centre financial statements have been prepared on the basis of the NATO Accounting Framework as approved by nations under C-M(2013)0039 on 2 August, 2013 (which adapts a small number of IPSAS standards to better suit the specific requirements of the Alliance), the Staff Centre Governance and Mandate, together with the NATO Financial Regulations (NFR) and the Financial Rules and Procedures (FRP).

IPSAS 6: Consolidated and Separate Financial:

The Staff Centre should be considered as controlled by the NATO International Staff in accordance with the control criteria set up by IPSAS 6 "Consolidated and Separate Financial Statements" paragraphs 38 to 42.

The adaptation to IPSAS 6 approved by the North Atlantic Council provides that "*NATO reporting entities shall not consolidate Morale and Welfare Activities and/or Staff Association activities into their respective financial statements even when they are considered to be under the control, from a financial reporting perspective, of the NATO reporting entity*" and that "*where this requirement conflicts with another requirement of IPSAS this adapted requirement shall apply*". It applies as from reporting year 2013. As a consequence, the financial statements of the NATO Staff Centre are presented separately and not consolidated with those of the NATO International Staff.

The same adaptation provides that the NATO Reporting Entities "*should present financial information in support of such activities by way of a disclosure note to their financial statements*".

On the other hand, as indicated above the North Atlantic Council when approving the NATO Staff Centre Mandate and Governance decided that the NATO Staff Centre would issue its own and separate financial statements. The NATO Staff Centre's mandate provides that its financial statements should comply with the IPSAS and should be "incorporated" into the financial statements of the NATO International Staff.

This decision was taken after the decision on the IPSAS adaptation and is considered to have superseded it in this particular aspect. As a consequence, beyond a disclosure note in the statements of the International Staff, NATO Staff Centre financial statements are presented separately, rather than incorporated into those of the NATO International Staff, and apply the NATO Accounting Framework, as this provides more transparency with regard to morale, welfare and recreational activities and contributes to consistency with the financial statements of the other NATO bodies.

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IPSAS 20 "Presentation of Budget Information in Financial Statement":

The NATO Staff Centre's financial activity is not controlled through a budgetary process resulting in a formal approval by NATO nations, contrary to most of the other NATO entities. The Staff Centre's mandate does not provide for such a budgetary mechanism. Although some form of forecasting/projection of income and expenditure is conducted for management and internal supervision purposes, there is no budget approval mechanism that would for instance establish a legal limit to expenditure according to different categories within which the NATO Staff Centre should operate; funding is not provided through calls for contributions from NATO member nations; there are no such concepts as appropriations, commitment of credits, etc. As a consequence, it is considered that IPSAS 20 "Presentation of Budget Information in Financial Statement" is not applicable to these financial statements.

The following IPSAS have no material effect on the 2014 financial statements of the NATO Staff Centre:

IPSAS 5: Borrowing Costs  
IPSAS 7: Investments in Associates.  
IPSAS 8: Interests in Joint Ventures  
IPSAS 10: Financial Reporting in Hyperinflationary Economies  
IPSAS 11: Construction Contracts  
IPSAS 16: Investment Property  
IPSAS 21: Impairment of Non-Cash Generating Assets  
IPSAS 26: Impairment of Cash-Generating Assets  
IPSAS 27: Agriculture  
IPSAS 32: Service Concession Arrangements: Grantor

The Cash Flow Statement has been prepared using the indirect method.

**Going concern basis:**

The Staff Centre benefits from a series of in-kind contributions from the NATO International Staff which are essential to its capacity to operate, such as electricity, water, administrative services, etc., and are estimated to amount to about EUR 1.2 million which is about 23% of its turnover. The Staff Centre would not be financially viable without this support.

In addition, as can be seen in the present financial statements, the NATO Staff Centre has negative net assets, mainly due to a liability towards the NATO Defined Benefit Pension Scheme. The NATO Staff Centre would be technically insolvent if operating on a purely commercial basis, independently, in a standard business environment.

There are however a number of indicators that the NATO Staff Centre could continue to operate for the foreseeable future, in particular because of the support it could obtain from NATO in accordance with NAC agreed principles concerning the regulation of morale and welfare activities in international military headquarters and agencies (see PO(97)98). The Staff Centre is part of the NATO International Staff which is common funded by NATO member nations and is a going-concern. The Staff Centre's situation is not likely to have a material impact on the ability of the NATO International Staff to continue being a going concern. NATO member Nations agreed in July 2015 to transition the Staff Centre from its current structure towards a new structure summarised in the NATO HQ Commercial Operations Business Plan (see Note on Post Balance Sheet Events).

**Segment Reporting**

A segment is a distinguishable activity or group of activities for which it is appropriate to separately report financial information. For NATO Staff Centre the segment information is based on its principal activities, which have different means of funding and eligibility criteria for support from the NATO Civil Budget. In this instance, the following segments have been adopted: Sports, Restaurant, Commercial Services Area and Management/Overheads.

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**Changes in Accounting Policy**

Nothing to report as these are the first financial statements to be presented in this format.

**Reclassification of previous years' financial statements**

2014 is the first financial year for which Staff Centre financial statements have been prepared by the NATO International Staff, Office of Financial Control. 2013 data is provided but may not always be directly comparable with the current year's. Differences are not considered to have a material effect.

**Use of estimates**

In accordance with generally accepted accounting principles, the financial statements include amounts based on estimates and assumptions by management, according to the most reliable information available, judgement and assumptions. Estimates include accrued revenue and expenses. Actual results could differ from those estimates. Changes in estimates are reflected in the period in which they become known.

**Foreign currency transactions**

Foreign currency transactions, as required, are accounted for at the exchange rates prevailing on the date of the transaction. Monetary assets and liabilities at year-end denominated in foreign currencies are converted into EUR using the NATO exchange rates applicable at 31 December 2014.

Realised and unrealised gains and losses resulting from the settlement of such transactions and from the revaluation at the reporting dates of monetary assets, and liabilities denominated in foreign currencies are recognised in the Statement of Financial Performance.

**Financial risks**

The NATO-Staff Centre uses only non-derivative financial instruments as part of its normal operations. These financial elements include cash, bank accounts and deposit accounts.

All the financial instruments are recognised in the Statement of Financial Position at their fair value.

The Organisation is exposed to a variety of financial risks, including foreign exchange risk, credit risk, currency risk, liquidity risk and interest rate risk.

a. Foreign currency exchange risk

There is very limited exposure to foreign currency risk. All of the NATO-Staff Centre's income is labelled and collected in Euro. With the exception of a small number of suppliers, all invoices are labelled and paid in Euros. The NATO Staff Centre's bank accounts are in Euros.

b. Credit risk

Concerning cash and cash equivalent, the NATO-Staff Centre credit risk is managed by holding current bank accounts and short term highly liquid deposits that are readily convertible to a known amount of cash held with ING Bank (Belgium) and with Banca Monte Paschi Belgio. The latter does not have specific ratings, being owned by Monte dei Paschi di Siena S.p.A. whose ratings are indicated below:

	Short term credit Ratings as at 10.08.2015			
	Fitch	S&P	Moody's	Date of last rating update
ING Bank	A	A	A1	19.05.2015
Monte Paschi	B	not rated	not rated	22.04.2015

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c. Liquidity risk

The liquidity risk, also referred to as funding risk, is based on the assessment as to whether the Organisation will encounter difficulties in meeting its obligations associated with financial liabilities. A liquidity risk could arise from a short term liquidity requirement.

The NATO Staff Centre is exposed to liquidity risk because its normal activities may not generate enough to cash for it to repay its pension liability to the NATO Coordinated Pension Scheme and because a source of commercial income (concessions) is subject of a litigation which deprives it from the related cash in-flow. In the short term, and in order to make compulsory payments, this may result in the necessity for the NATO International Staff to make cash advances and/or for the NATO Staff Centre to delay its payments of amounts due to the NATO International Staff.

d. Interest rate risk

Except for certain cash and cash equivalent balances, the NATO Staff Centre financial assets and liabilities do not have associated interest rates. The NATO Staff Centre is restricted from entering into borrowings and investments, and, therefore, there is an insignificant interest rate risk.

**Current Assets**

a. Cash and cash equivalents

Cash and cash equivalents are defined as short-term assets. They include cash in hand, deposits held with banks, other short term highly liquid investments.

b. Funds managed for third parties

Funds managed on behalf of third parties are held in cash and are presented as a liability. They are accounted for when cash is effectively received. They are represented as a separate item in the cash flow statement of the entity in order to avoid any confusion.

c. Receivables

Receivables are stated at net realisable value, after provision for doubtful and uncollectable debts.

d. Prepayments

A prepayment is a payment in advance of the period to which it pertains and is mainly in respect of advance payments made to third parties.

e. Inventories

As mentioned above, NATO's adaptations of IPSAS were spelled out in C-M(2013)0039 of July 2013, which included IPSAS 12 Inventories. It is described as follows:

Control of NATO-Staff Centre Inventories was refined with a set of 10 criteria to be used in assessing the level of control of an asset. A positive response on six of the criteria will lead to the asset being capitalised in the financial statements if it is above the capitalization threshold. This is applied from January, 2013.

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<b>Criteria that may indicate control of an asset</b>
The act of purchasing the asset carried out (or resulted from instructions given) by the NATO Reporting Entity.
The legal title is in the name of the NATO Reporting Entity.
The asset is physically located on the premises or locations used by the NATO Reporting Entity.
The asset is physically used by staff employed by the NATO Reporting Entity or staff working under the NATO Reporting Entity's instructions.
The fact that the NATO Reporting Entity can decide on an alternative use of the asset.
The fact that the NATO Reporting Entity can decide to sell or to dispose the asset.
The fact that the NATO Reporting Entity, if it has to remove or destroy the asset, can take the decision to replace it.
The fact that a representative of the NATO Reporting Entity regularly inspects the asset to determine its current condition.
The fact that the asset is used in achieving the objectives of the NATO Reporting Entity.
The fact that the asset will be retained by the NATO Reporting Entity at the end of the activity.

Capitalization thresholds relevant to the financial statement are as follow:

<b>Category</b>	<b>Threshold</b>	<b>Basis</b>
Consumables	€50,000	Per location/warehouse
Spare Parts	€50,000	Per location/warehouse
Ammunition	€50,000	Per location/warehouse
Strategic stocks	€50,000	Per location/warehouse

Slow moving inventory – Assuming turnover of stock is over a 12 month period, any items not used over a 36 month period will be deemed to be slow moving.

NATO-Staff Centre will capitalise inventory which it controls in its financial statements. Where there is a conflict between more than one NATO Reporting Entity as to the control of inventory, only the end-user entity will report the inventory in its financial statements, based on reliable information provided by the NATO services provider entity as defined in individual agreements between the two entities.

NATO-Staff Centre will include transportation costs involved in bringing the inventories to their present location and condition in the initial valuation of inventory. These costs will be measured on the actual cost of transportation per item of inventory or by using an apportionment of the global transportation costs of bringing the inventories to their present location and condition across all inventory items in the period. Transportation costs involved in the subsequent movement of inventory which brings them into operational use will not be included in the value of inventory. The method of measuring these costs will be disclosed.

For inventory held prior to 1 January 2013, and not previously recognized as an asset, NATO-Staff Centre provides a brief description of inventory held within its inventory recording systems in the notes to the financial statements.

Where this adaptation conflicts with another requirement of IPSAS this adaptation shall apply. For the remainder, IPSAS 12 shall apply.

Inventories are valued at the lower of cost (purchase cost or including labour costs) or net realizable value. Items held in the retail shop are valued at cost, adjusted as required if damaged.



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Annex 5 to  
FC(2015)071**Fixed assets (Property, Plant & Equipment and Intangible Assets)****a. Property, Plant & Equipment**

As mentioned above, NATO's adaptations of IPSAS were spelled out in C-M(2013)0039 of July 2013, which included IPSAS 17 Property Plant and Equipment. It is described as follows:

Control of NATO PPE was refined with a set of 10 criteria to be used in assessing the level of control of an asset – they are the same as mentioned above under Inventory. A positive response on six of the criteria will lead to the asset being capitalised in the financial statements if it is above the capitalization threshold. This is applied from January 2013.

Capitalization thresholds relevant to the financial statement are as follow:

Category	Threshold	Depreciation life	Method
Land	€200,000	N/A	N/A
Buildings	€200,000	40 years	Straight line
Other infrastructure	€200,000	40 years	Straight line
Installed equipment	€ 30,000	10 years	Straight line
Machinery	€ 30,000	10 years	Straight line
Vehicles	€ 10,000	5 years	Straight line
Aircraft	€200,000	Dependent on type	Straight line
Vessels	€200,000	Dependent on type	Straight line
Mission equipment	€ 50,000	3 years	Straight line
Furniture	€ 30,000	10 years	Straight line
Communications	€ 50,000	3 years	Straight line
Automated information Systems	€ 50,000	3 years	Straight line

In light of the forthcoming move to a New NATO HQ in 2016, it has been decided, in general, that core PPE relating to the current HQ premises, including the Staff Centre, will be fully expensed as will any fixed equipment and furniture that is not to be transferred to the New HQ. Only movable items purchased with a view to being used again in the New HQ environment will be capitalized.

PPE items not reported as a consequence of this IPSAS adaptation include, or PPE items purchased prior to 1 January 2013 of which the Staff Centre makes use comprise: a restaurant facility including kitchen, dining room, storage area and a bar; a series of sports facilities (swimming pool, fitness room, squash courts, gymnasium, tennis courts, football pitch), office space.

When NATO moves to the new HQ in 2016, the foregoing items, along with the rest of the former HQ premises, will be returned to Host Nation Belgium at no cost.

The premises also include infrastructure dedicated to commercial activities (pharmacy, retail shop, jewelry, perfume shop, bank) and office space for NATO retiree associations.

Where and as appropriate, specific elements of PPE (for example buildings), will be broken down into component parts to allow depreciation of different parts of the asset at different rates. The Staff Centre has considered PP&E acquired prior to 1 January 2013 as fully expensed. For PPE held prior to 1 January 2013, and not previously recognized as an asset, the Staff Centre will provide a brief description in the Notes below.

NATO Staff Centre deems that the NAC, by approving this guideline, recognized that the resources necessary to deal with the issues capitalising the legacy assets would exceed the benefits. In light of this, and combined with the fact that substantial assets will not survive the move to the New NATO HQ at the end of 2015, NATO Staff Centre decided to apply the IPSAS principle of balance between Benefit and Cost (IPSAS 1, Appendix A).

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b. Intangible Assets

As mentioned above, NATO's adaptations of IPSAS were spelled out in C-M(2013)0039 of July 2013, which included IPSAS 31 Intangible Assets. It is described as follows:

Control of NATO Intangible Assets was refined with a set of 10 criteria to be used in assessing the level of control of an asset – they are the same as mentioned above under Inventory. A positive response on six of the criteria will lead to the asset being capitalised in the financial statements if it is above the capitalization threshold. This is applied from January, 2013.

NATO Intangible Assets Capitalization Thresholds – NATO-Staff Centre will capitalise each intangible asset item that is above the following agreed NATO thresholds:

Category	Threshold	Depreciation life	Method
Computer software (commercial off the shelf)	€50,000	4 years	Straight line
Computer software (bespoke)	€50,000	10 years	Straight line
Computer database	€50,000	4 years	Straight line
Integrated system	€50,000	4 years	Straight line

NATO-Staff Centre will capitalize all controlled intangible assets above the NATO Intangible Asset Capitalization Threshold. For anything below the threshold, the Staff Centre will have the flexibility to expense specific items.

NATO-Staff Centre will capitalize other types of intangible assets acquired after 1 January 2013 including:

- Copyrights
- Intellectual Property Rights
- Software development

NATO Staff Centre may consider intangible assets acquired prior to 1 January 2013 as fully expensed.

NATO Staff Centre will report controlled intangible assets in its financial statements. Where there is a conflict between more than one NATO Reporting Entity as to the control of intangible assets, only the end-use entity will capitalise the intangible asset in its financial statements based on reliable information provided by the NATO services provider entity as defined in individual agreements between the two entities.

For intangible assets held prior to the 1 January 2013, and not previously recognized as an asset, NATO Staff Centre will provide a brief description of intangible assets held in its intangible asset recording systems in the notes to the financial statements. Such disclosure will include as a minimum the types of intangible held, locations where intangible assets are held and the approximate number of items held per asset category.

If an intangible asset is upgraded after 1 January 2013, only the portion related to the modification will be capitalized.

Where this adaptation conflicts with another requirement of IPSAS this adaptation will apply. For the remainder, IPSAS 31 shall apply. This adaptation is effective for financial reporting periods beginning on 1 January 2013.

### **Current liabilities**

#### **a. Payables**

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

#### **b. Advances**

Advances are recognised when they are called if they result from an agreement or when received if the decision is in the hands of the paying entity.

#### **c. Provisions**

Provisions are recognised when the Staff Centre has a present obligation (legal or constructive) as a result of past events when it is probable that it will have to bear the cost and when a reliable estimate of the amount of the obligation can be made. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the date of the present financial statements.

### **Loans**

The NATO Staff Centre has not entered into any kind of loan from the banking sector. However, a cash advance received from the NATO International Staff has been recognised as a loan in consideration of the likely duration of such advance.

### **Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. The leased item is recorded as an asset in the statement of financial position and depreciated according to the rules applicable to the same category of assets. All other leases are classified as operating leases and are recognised in the statement of financial performance.

### **Revenue recognition**

#### **a. Revenue from non-exchange transactions**

There is no revenue from non-exchange transactions; the Staff Centre is not funded by assessed contributions from NATO member nations.

In-kind contributions of services are currently not recognised in the Statement of Financial Performance.

#### **b. Revenue from exchange transactions**

All revenue of the NATO Staff Centre is considered revenue from exchange transactions because of its commercial nature. Revenue comprises mainly sales of goods at the perfume shop, the sports shop and the restaurant, fees paid by users of the sports facilities, reimbursement of expenses and occupancy fees from concessionaires. Revenue is recognised to the extent that it is probable that the economic benefit will flow to the Staff Centre. It is measured at fair value of the consideration received or receivable is recognised upon delivery of the service or on the date of the sale of goods.

### **Expense recognition**

Expenses are recognised as goods are received and services delivered.

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**NOTE 3: IN-KIND CONTRIBUTIONS RECEIVED**

The NATO Staff Centre benefits from a series of in-kind contributions from the NATO International Staff. These contributions are neither recognised in the statement of financial position nor in the statement of financial performance.

**Infrastructure:**

The NATO Staff Centre operates on infrastructure that was originally funded by the NATO Civil Budget in the early 1970s. These are made available at no cost to the Staff Centre. They comprise: a restaurant facility (including kitchen, dining room), storage area, a bar, a series of sports installations (swimming pool, fitness room, squash courts, gymnasium, tennis courts, football pitch, bowling), and office space.

When NATO moves to its new premises in 2016, these items will form part of the overall premises returned to Host Nation Belgium at no cost.

The land on which this infrastructure is built is the object of a specific agreement between NATO and Host Nation Belgium. No rent or equivalent is charged by NATO to the Staff Centre.

**Operating costs and minor investments:**

Miscellaneous Operating and Maintenance expenses directly attributable to the Staff Centre's activity are charged to the NATO Civil Budget (such as fuel, water, gardening, communications, etc.) in the overall amount of EUR 927,232 (EUR 988,348 in 2013). Some smaller Staff Centre expenses are commingled with the NATO Civil Budget where the contract does not allow for an accurate allocation of cost.

None of these expenses were charged back to the Staff Centre up to 2013. As from 2014, an increasing portion will be reimbursed by the Staff Centre (EUR 45,500 in 2014).

**Administrative Support:**

In addition, NATO-IS provided administrative support to the Staff Centre at an estimated cost of EUR 279,407 (EUR 274,145 in 2013).

**NOTE 4: CASH AND CASH EQUIVALENTS**

The current bank accounts are held in EUR. Deposits are held in interest-bearing bank current accounts that are immediately available.

**NOTE 5: ACCOUNTS RECEIVABLE**

**Receivable from Nations**

None: the Staff Centre is not funded by contributions from Nations.

On an individual basis national delegations may be clients of the Staff Centre in which cases they are considered in the same way as the other clients.

**Receivable from Clients**

These are essentially amounts due by concessionaires in relation to the Commercial Services Area.

**Prepayments**

None.

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Annex 5 to  
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Inventories consist mainly of food, beverages, perfume, petrol cards, minor sport items for sale, and office supplies.

**NOTE 7: NON-CURRENT ASSETS**

Reconciliation of the carrying amount of non-current assets as at 31 December 2014 is presented below:

(amounts in EUR)	Carrying Amount end 2013	Accumulated Depreciation end 2013	Additions	Disposals	Annual Depreciation	Impairment	Carrying Amount end 2014
Land and buildings	1,336,032.56	1,336,032.56	0.00	0.00	0.00	0.00	0.00
Installed Equipment	162,532.88	160,853.78	3,059.00	0.00	1,859.22	0.00	2,878.88
Office Equipment	223,406.37	223,406.37	0.00	0.00	0.00	0.00	0.00
Financial Leases	0.00	0.00	28,800.00	0.00	11,200.00	0.00	17,600.00
<b>TOTAL</b>	<b>1,721,971.81</b>	<b>1,720,292.71</b>	<b>31,859.00</b>	<b>0.00</b>	<b>13,059.22</b>	<b>0.00</b>	<b>20,478.88</b>

There has been no impairment, no revaluation during 2013 and 2014.

**Land and buildings**

Land and buildings are shown at fair value, based on internal valuation and judgment on each reporting date.

NATO Staff Centre facilities are located on a piece of land granted by Belgium to NATO by way of concession on which NATO is authorized to erect all necessary buildings and facilities needed to perform its functions. A symbolic price is paid by NATO International Staff to Host Nation Belgium annually for the rent. NATO is the full owner of all structures built thereon. Belgium remains the sole and full owner of the land, which is public domain ("domaine public"). The concession ends 180 days after NATO has left the buildings and facilities. At the end of the concession, there will be no property rights transferred to NATO. No rent related to land is charged by NATO International Staff to the NATO Staff Centre.

The main element of Constructions is the building wherein the Staff Centre operates its Commercial Services Area (pharmacy, retail store, perfume shop, bank, jewelry), essentially by way of concession of premises to specific commercial entities, and is totally depreciated.

**Financial Leases**

Financial leases is related to specific software for the restaurant and the management of memberships for the sports area. This lease had not been recognised the previous 2013 financial statements. To regularize the situation the financial lease was recognised in 2014 at its net value.

**Material and non-recorded items purchased prior to 1 January 2013**

The original buildings of the current NATO Staff Centre facilities are estimated as having a zero value in consideration of their age, of the terms of the concession agreement, of the limited value for money of an evaluation study and of the planned move to new premises in 2016. There is also an extension to the restaurant dining room which was funded several years ago through a contribution by a major supplier.

**Depreciation**

Straight-line depreciation method is used for all categories, with the life cycles being those stated in the accounting policy.

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**Impairment of fixed assets**

The carrying amounts of fixed assets are reviewed for impairment if events or changes of circumstances indicate that they may not be recoverable. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the impairment loss. Any provision for impairment losses is charged against the Statement of Financial Performance in the year concerned.

**NOTE 8: ACCOUNTS PAYABLE**

**Payable to Nations**

None: there is no specific financial process (e.g. budgetary) that involves NATO member Nations directly and globally with the Staff Centre.

**Payable to Suppliers**

In addition to amounts due to the suppliers directly linked to the Staff Centre's activity, this item includes amounts due to the NATO International Staff for miscellaneous operating costs (EUR 238,710.65).

EUR 9,600 is the short term portion of amounts due in relation to financial leases.

**NOTE 9: NON-CURRENT LIABILITIES**

**Long Term Pension Debt**

The Staff Centre did not pay its employer contributions (currently 18% of basic salaries) to the NATO Defined Benefit Pension Scheme between 2001 and late 2010. The employee contributions, however, have always been paid. As from May 2011, further to an agreement with the NATO-IS Financial Controller, the Staff Centre was required to pay monthly contributions of EUR 25,000 towards its employer liability. This amount is about 50% more than its normal annual employer contributions and the amount was determined so as to strike a balance between a timely reimbursement of the liability and sustainability for the Staff Centre's financial situation. The annual payment of EUR 300,000 represents about 7% of the Staff Centre's annual turnover. Over time, as fewer Staff Centre employees participate in the Defined Benefit Pension Scheme (it was closed to new entrants on 1 July 2005), the amount of normal contributions due will decrease. Maintaining payments at EUR 300,000 per year will, therefore, accelerate the settlement of arrears and it was originally planned that the liability could be totally repaid by 2021.

Further to the payments made in the course of the year, the net liability of the Staff Centre on 31 December 2014 amounted to EUR 1,401,671.64 (EUR 1.58 million 31 December 2013).

**Loan from the International Staff**

At the end of 2014, NATO International Staff made a cash advance (EUR 226,360) to the Staff Centre in order to temporarily compensate for funds due to the Staff Centre but seized in a context that NATO considers as a violation of its immunity of jurisdiction and execution. From a financial perspective this resulted in the Staff Centre's inability to collect related cash amounts. This situation has been reported to the Budget Committee. Given the likely long term nature of the underlying issue, this advance is considered as a loan. Considering that the litigation originates from a contract signed by another NATO body, the NATO International Staff will seek reimbursement of the advance from the latter.

This item also includes the long term part (EUR 8,000) of amounts due in relation to a financial lease.

**NOTE 10: NET ASSETS**

The previous years' deficit is essentially due to the recognition of the non-payment by the Staff Centre of its employer contributions to the NATO Defined Benefit Pension Scheme between 2001 and 2010 (originally EUR 1.770 million due end 2010).

Up until 2013, an amount of EUR 33,333.33 was erroneously presented as Capital Expenses' Subsidy. To regularise the situation, this amount was incorporated in the Previous Years' Surplus/Deficit account.

**NOTE 11: REVENUE**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the result can be measured reliably.

**Sales**

Revenue is essentially derived from sales in the restaurant and the commercial area, and membership and usage fees from the sports area.

**Concession Revenue**

The other main source of revenue corresponds to concession fees and reimbursements of costs from concessionaires located on the Staff Centre premises. It also includes revenue from some concessions at NATO Headquarters. NATO member nations agreed that such income would be collected by the NATO International Staff and thereafter transferred to the NATO Staff Centre (EUR 84,960 in 2014 and EUR 99,041 in 2013).

**Financial Revenue**

Financial revenue is essentially made of interests earned on bank accounts.

**NOTE 12: EXPENSES**

**Wages, salaries and employee benefits:**

The personnel related costs include all staff expenses, as well as other non-salary related expenses in support of the Staff Centre's activities. The amounts include expenses for salaries and emoluments for approved NATO-Staff Centre positions, including overtime, and temporary personnel.

The decrease in the staff expenses between 2013 and 2014 is linked to the decision to outsource certain activities conducted by staff previously employed under the temporary staff provisions of NATO's Civilian Personnel Regulations (see Note 19).

**Outsourced Services:**

The increase is due to the partial outsourcing of functions previously performed by staff employed under the temporary staff provisions of NATO's Civilian Personnel Regulations (See Note 19).

**Operating costs:**

The operating costs relate primarily to costs necessary to the day to day operation of the Staff Centre, including sponsorship.

**Costs of goods sold:**

These consist mainly in food, beverage, perfume and petrol coupons.

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**Depreciation**

In accordance with the accounting policy this item is limited to the PPE recognised as from 2013 and to the part corresponding to financial leases.

**Financial costs**

Financial costs include bank charges and credit card fees.

**NOTE 13: SEGMENT INFORMATION**

The tables below provide segment information for financial performance and financial position for 2014.

	Sports	Restaurant	Commercial Area	Overhead	Eliminations	Total
Cash	3,791.79	96,852.74	76,735.77			177,380.30
Receivables	1,612.29	33,971.46	255,777.77			291,361.52
Inventory	7,583.67	25,340.99	338,393.24			371,317.90
PPE and financial lease	19,639.33	-	839.55			20,478.88
<b>TOTAL ASSETS</b>	<b>32,627.08</b>	<b>156,165.19</b>	<b>671,746.33</b>	<b>-</b>	<b>-</b>	<b>860,538.60</b>
Payables	102,681.03	118,235.53	268,076.59	45,500.00		534,493.15
Pensions liability	668,520.76	697,124.80	36,026.08			1,401,671.64
Advances	8,000.00		226,360.03			234,360.03
<b>TOTAL LIABILITIES</b>	<b>779,201.79</b>	<b>815,360.33</b>	<b>530,462.70</b>	<b>45,500.00</b>	<b>-</b>	<b>2,170,524.82</b>

It should be noted that the breakdown of the pensions liability is based on the pension scheme to which related staff belong, which in turn depends on the date the latter joined NATO. Therefore this breakdown does not reflect any other specific relationship between the management of the segments' activity and this liability. To a certain extent this liability could be considered as an unallocated central liability. The part relating relating to the Overhead/Management segment could not be assessed.

	Sports	Restaurant	Commercial Area	Overhead	Eliminations	Total
<b>Revenue</b>						
Sales	1,017,706.88	1,673,052.13	1,818,121.76	-	- 27,994.68	4,480,886.09
Concessions	-	-	341,331.17	-	-	341,331.17
Financial revenue	-	-	-	3,574.66	-	3,574.66
Other revenue	-	-	-	500.00	-	500.00
<b>TOTAL REVENUE</b>	<b>1,017,706.88</b>	<b>1,673,052.13</b>	<b>2,159,452.93</b>	<b>4,074.66</b>	<b>-27,994.68</b>	<b>4,826,291.92</b>
<b>Expenses</b>						
Wages, salaries and employee benefits	644,377.78	747,464.45	130,146.76	350,716.83	-	1,872,705.82
Outsourced services	486,924.33	579,803.54	186,266.99	-	-	1,252,994.86
Operating costs	45,850.11	9,947.10	132,863.53	45,500.00	- 27,994.68	206,166.06
Cost of goods sold	24,764.55	457,997.69	1,312,738.17	-	-	1,795,500.41
Depreciation and amortization	12,219.67	-	839.55	-	-	13,059.22
Financial costs	-	-	-	10,566.21	-	10,566.21
<b>TOTAL EXPENSES</b>	<b>1,214,136.44</b>	<b>1,795,212.78</b>	<b>1,762,855.00</b>	<b>406,783.04</b>	<b>- 27,994.68</b>	<b>5,150,992.58</b>
<b>SURPLUS (DEFICIT) FOR THE PERIOD</b>	<b>- 196,429.56</b>	<b>- 122,160.65</b>	<b>396,597.93</b>	<b>- 402,708.38</b>	<b>-</b>	<b>324,700.66</b>

**NOTE 14: LEASES**

An analysis of lease contracts was conducted and it was considered that some of them had characteristics that could have led them to be considered as finance leases (in the IPSAS 13 sense) in particular as relates to the leasing of the specialised software used by the Staff Centre.

The Staff Centre has signed a lease agreement covering software for ticketing, bookings and registrations and server support. The lease, which is for 36 months starting on 1 November 2013 and expiring in 2016, is classified as a finance lease. The company can, after the initial lease term, purchase the property at the then fair value of the property.



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Total Value of Financial Lease	28,800.00
Economic life	36 months
Residual value	0.00
Monthly lease payments	800.00

**Asset Balances at 31 December**

amounts in EUR	2014	2013
Software and Server	27,200.00	-
Less: Accumulated Depreciation	9,600.00	-
Net Amount	17,600.00	-

Financial Lease Obligation Amortisation Table			
	01-Jan	Depreciation	31-Dec
2013	28,800.00	1,600.00	27,200.00
2014	27,200.00	9,600.00	17,600.00
2015	17,600.00	9,600.00	8,000.00
2016	8,000.00	8,000.00	-

Fees payable under operating lease agreements are accounted as expenses in the Statement of Financial Performance on a straight-line basis over the relevant lease term.

**NOTE 15: RESTRICTIONS ON FIXED ASSETS**

There are no restrictions on fixed assets.

**NOTE 16: CONTINGENT LIABILITIES**

A number of contingent liabilities have been identified, but the total possible obligation relating to these items is not expected to be material.

Some staff have lodged complaints with the NATO Administrative Tribunal concerning the conversion of their contracts from the previous temporary staff position to international civilian staff.

Further to a litigation involving another NATO body and one of its suppliers, Belgian courts allowed seizure on behalf of this third party of amounts due by several vendors to the NATO Staff Centre (which partakes of NATO's legal personality). NATO considers this a violation of the special legal status it enjoys under the Agreement on the status of the North Atlantic Treaty Organization, national representatives and international staff, done in Ottawa on 20 September 1952 (the Ottawa Agreement), in particular the Organization's immunity of jurisdiction and of execution. Formal proceedings are still ongoing before several Courts of the Host Nation.

This situation does not result from any wrongdoing or omission by the Staff Centre. If in the end any amounts are to be paid, they would be due from the NATO body concerned.

**NOTE 17: CONTINGENT ASSETS**

Nothing to report.

**NOTE 18: WRITE-OFFS**

There has been no write-off of Staff Centre property during 2014.

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**NOTE 19: EMPLOYEE DISCLOSURE**

Accounting for employee benefits is accounting for any liability in relation to all forms of consideration given by an entity in exchange of service rendered by employees.

**Contractual situation**

In order to regularise the situation of staff employed under different contractual vehicles (e.g. temporary personnel), and in particular the concern that the NATO Civilian Personnel Regulations may not be fully designed for the activities undertaken by the Staff Centre, a series of measures have been taken in 2014.

Staff previously employed under the Temporary Staff provisions of the NATO Civilian Personnel Regulations, student jobs, etc. were gradually transferred according to their specific situation to permanent international civilian staff positions, manpower contracts or eventually under a technical assistance agreement with a third party supplier. As a consequence, Personnel Expenses decreased in 2014, whereas Operating Costs (for the part corresponding to the related outsourcing of services), increased.

**Specific benefits**

NATO Staff Centre employees working in the restaurant (about fifteen persons including management) are allowed a lunch per day worked whilst their monthly salary is reduced by EUR 61.02 to EUR 81.36 (depending on grade). This benefit is a long established practice and is not available to other NATO staff members but derives from a customary practice in the restaurant economic sector.

**Establishment**

At 31 December 2014, NATO Staff Centre had an approved Personnel Establishment of 37 positions of which 31 were occupied as of December 2014.

At 31 December 2014, NATO Staff Centre had 158 days of untaken leave. The NATO regulations allow for the carry forward of untaken leave to the following year. Any untaken days carried forward must be taken by 30 April of the following year unless an exception is granted by the Human Resources Department in which case untaken leave days are forfeited after 30 October. The vast majority of days are taken before 30 April. The related amount is not considered material and is considered stable from one year to the next, therefore the value of this is not recognised in the financial statements.

**Pension Contributions**

The NATO International Staff centrally manages three pension schemes, namely the Defined Benefit Pension Scheme (DBPS), the Provident Fund and the Defined Contribution Pension Scheme (DCPS), as well as the Retirees Medical Claims Fund (RMCF), covering staff employed by all NATO bodies. NATO wide financial statements are issued by the NATO International Staff Office of Financial Control for the three pension schemes and the RMCF; therefore, no related assets or liabilities are recognised in these financial statements.

There were no Staff Centre personnel affiliated to the NATO Provident Fund.

13 staff members participate in the Defined Contribution Pension Scheme (DCPS) administered by NATO (6 end 2013). The DCPS provides that the NATO-Staff Centre budget makes a 12% monthly matching contribution to the staff members' contributions for current service.

18 employees participate in NATO's Defined Benefit Pension Scheme (DBPS) (20 end 2013). A deduction of 9% of their salaries is made and contributed to the annual financing of this Plan. In addition, the NATO Staff Centre, in accordance with rules agreed for small size NATO entities, fully discharges its employer liability by making a monthly matching contribution of 18% to the DBPS.

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These contributions are expensed during the year in which the services are rendered and represent the total pension obligation of the entity. The situation concerning amounts due in this respect of past years are analysed under Note 9.

The contributions for pensions paid are as follows (excluding amounts related to the Staff Centre DBPS employer contributions liability for past years):

amounts in EUR	2014			2013		
	Staff	Employer	Total	Staff	Employer	Total
Provident Fund	-	-	-	-	-	-
Co-ordinated Pension Scheme	82,454.55	164,909.10	247,363.65	92,909.40	185,818.80	278,728.20
Defined Contribution Pension Scheme	27,769.09	40,497.72	68,266.81	20,354.79	30,532.15	50,886.94
<b>TOTAL</b>	<b>110,223.64</b>	<b>205,406.82</b>	<b>315,630.46</b>	<b>113,264.19</b>	<b>216,350.95</b>	<b>329,615.14</b>

**NOTE 20: KEY MANAGEMENT PERSONNEL**

The Staff Centre Executive Board is the governing body of NATO Staff Centre. Its voting members are paid either from the Civil Budget or by their respective national authorities in the case of the International Military Staff representative. They do not receive any additional remuneration for their responsibilities or access to benefits from the NATO Staff Centre nor any other NATO body.

For the purposes of IPSAS 20 implementation, the key management personnel of the NATO Staff Centre are the Assistant Secretary General for Executive Management and the Director Staff Centre. Only the Director Staff Centre is paid by the NATO Staff Centre and his remuneration is based on the A5 salary scale as approved for NATO salaries in Belgium.

There is no other remuneration or benefits to key management personnel and their family members. Key management personnel is entitled to receive loans which are also available to other members of NATO.

**NOTE 21: RELATED PARTIES**

There have been the following related party relations.

**Member Nations**

Up until 31 December 2013 the Belgian Ministry of Defence provided free lifeguard services in the swimming pool in exchange for free access for its staff. This arrangement was terminated as from 1 January 2014 and the Staff Centre has hired lifeguards at cost from a manpower company (estimated annual cost EUR 104,000).

**NATO International Staff**

The governance of the Staff Centre which involves some NATO senior management members is described under Note 1.

NATO-IS provides certain administrative support and covers some operating and maintenance services, as described under Note 3, for a total estimated at EUR 1,206,639 in 2014 (EUR 1,262,493 for which in 2013) which was not charged to NATO Staff Centre. These are estimates based on physical criteria (surface, number of staff served etc.) and may not correspond exactly to the value of the service received by the Staff Centre.

In 2014, for the first time, NATO International Staff charged an amount of EUR 45,500 to the Staff Centre as a partial contribution towards the costs borne by the former in support of the latter. The plan is to increase this amount gradually with the expectation that the Staff Centre become fully customer funded before NATO moves to its new premises in 2016.

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NATO-IS has made a cash advance (EUR 226,360) to the Staff Centre in order to temporarily compensate for funds due to the Staff Centre but seized in a context that NATO considers as a violation of its immunity of jurisdiction and execution (see Note 9).

NATO-IS charges the Staff Centre for operating costs due to the activity of the Staff Centre's concessionaires (EUR 26,533.59 for 2014); to date the amounts still due are EUR 238,710.65.

Concession contributions owed by occupants of commercial areas in the NATO HQ are collected by the IS and transferred to the Staff Centre in accordance with decisions taken by the Budget Committee, although they are not concessions managed by the Staff Centre (EUR 84,960 in 2014 and EUR 99,041 in 2013).

Conversely the Staff Centre management may on occasion provide services to the NATO International Staff, at no cost.

**NATO Defined Benefit Pension Scheme**

As explained above, the Staff Centre has a long term liability towards the NATO Defined Benefit Pension Scheme in the amount of EUR 1,401,671.64 as at end 2014.

**Charities**

The Staff Centre has organised and provided, free of charge, support to charitable events in which partners of NATO International Staff Key Management Personnel participated pro bono. It has also supported the NATO Charity Bazaar by providing free beverages during preparatory meetings.

**NOTE 22: POST BALANCE SHEET EVENTS**

On 22 July 2015, the Budget Committee approved a NATO HQ Commercial Operations Business Plan (BC-D(2015)0123-REV2) which foresees a substantial change in the management of a series of services and/or concessions presently handled by the Staff Centre. In order to transition to the future setup for commercial operations in the NATO HQ, some restructuring costs may be incurred, in particular Loss of Job Indemnities. The latter are estimated in a potential amount of EUR 1.4 million and would, if incurred, most likely be borne by the NATO Civil Budget and the New NATO HQ Project.

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