

	NATO	NORTH ATLANTIC COUNCIL
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1 February 2017

DOCUMENT
C-M(2017)0002-AS1 (INV)

IBAN AUDIT ON THE 2015 FINANCIAL STATEMENTS OF THE NATO STAFF CENTRE

ACTION SHEET

On 1 February 2017, under the silence procedure, the Council noted the IBAN report on the 2015 financial statements of the NSC attached to C-M(2017)0002 (INV) and agreed the RPPB recommendation regarding public disclosure.

(Signed) Rose E. Gottemoeller
Deputy Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2017)0002 (INV).

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27 January 2017

DOCUMENT
C-M(2017)0002 (INV)
Silence Procedure ends:
01 Feb 2017 17:00

IBAN AUDIT ON THE 2015 FINANCIAL STATEMENTS OF THE NATO STAFF CENTRE

Note by the Deputy Secretary General

1. I attach the International Board of Auditors for NATO (IBAN) report on the audit of the 2015 financial statements of the NATO Staff Centre (NSC).
2. The IBAN report sets out an unqualified opinion on the financial statements of the NSC and a qualification on compliance for the year 2015. This is an improvement in comparison to prior years' audit findings and is the first time since the introduction of regular financial audits that the financial statements have received an unqualified opinion. The IBAN report has been reviewed by the Resource Policy and Planning Board (RPPB) (see Annexes) which has provided its own report with conclusions and recommendations to Council.
3. I do not believe that this matter requires discussion in the Council. Consequently, **unless I hear to the contrary by 17:00 hours on Wednesday, 01 February 2017**, I shall assume that the Council has noted the IBAN report on the 2015 financial statements of the NSC and agreed the RPPB recommendation regarding public disclosure

(Signed) Rose E. Gottemoeller

4 Annexes
1 enclosure

Original: English

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IBAN AUDIT ON THE 2015 FINANCIAL STATEMENTS OF THE NATO STAFF CENTRE

Report by the Resource Policy and Planning Board

References:

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|-------------------|--|
| a) IBA-A(2016)89 | (IBAN Report) |
| b) C-M(2015)0025 | (NATO Financial Regulations) |
| c) C-M(2013)0054 | (Staff Centre Mandate and Governance) |
| d) BC-D(2016)0044 | (BC Report on Audit of 2014 Staff Centre Financial Statements) |
| e) FC(2015)039 | (Disclosure statement by Financial Controller) |

BACKGROUND:

1. This report covers the audit of the 2015 revised Financial Statements of the NATO Staff Centre. The IBAN audit has been carefully considered by the Budget Committee (BC) and their report (BC-D(2016)0211-FINAL (INV) forms the basis of this report by the RPPB.

DISCUSSION:

2. The IBAN has issued (reference A) an unqualified opinion on the 2015 NATO Staff Centre revised Financial Statements and a qualified opinion on compliance. The RPPB is pleased that since the International Staff Financial Controller has taken responsibility for the preparation of the financial statements, there has been continued improvement in the audit findings and this is the first time the Staff Centre Financial Statements have received an unqualified opinion¹.

3. The IBAN identified three observations:

- i. non-compliance with the NATO Financial Regulations (NFRs) (Reference b) and the NATO Staff Centre Mandate (Reference C);
- ii. weaknesses in the preparation of the financial statements resulted in non-material errors; and
- iii. proper closure of current Staff Centre business needs to be ensured.

Qualified Opinion on Compliance

4. The qualified opinion on compliance with the NFRs and Staff Centre Mandate is because prior to 01 October 2015 goods for the Staff Centre restaurant were purchased without proper contracts and purchase orders in place which is not in compliance with procurement regulations. The procurement actions undertaken since October 2015 were conducted in accordance with the NFRs and Staff Centre Mandate.

¹ Regular financial audits for the Staff Centre were introduced in 2011. For Financial Years (FY) 2011, 2012 and 2013 the IBAN issued disclaimers of opinion. Responsibility for the preparation of the Financial Statements was subsequently transferred to the IS Financial Controller and the Financial Statements for FY 2014 were the first set issued by the IS FC.

5. The issue of non-compliance with the NFRs in the area of procurement was addressed by the BC in its review of the 2014 audit findings in May 2016 (Reference D). The BC has reiterated its satisfaction with the improvements introduced by the Office of Financial Control (OFC) and welcomes the IBAN's recognition of the significant effort by the OFC and the resources put into gaining management oversight and taking corrective action in the area of contracting and procurement since 2014. The BC is also aware that any remaining issues related to the procurement of goods and services should be resolved through the continued implementation of the NATO Headquarters Commercial Operations Business Plan 2015-2019², and acknowledges the need for the OFC focus to its efforts on procurement actions in relation to the New NATO Headquarters (NNHQ). This notwithstanding, the BC encourages the OFC to take into consideration the recommendations of the IBAN when entering into new agreements for the NNHQ site and to re-bid, as soon as practicable, the fuel contract.

6. The Staff Centre Mandate needs to be reviewed following implementation of the Commercial Operations Business Plan, but has been deferred pending the outcome of the bidding processes for the provision of Morale, Welfare and Recreation (MWR) activities on the NNHQ site.

Observations that do not Impact the Audit Opinion

7. A number of errors and omissions were identified by the IBAN as it audited the 2015 financial statements. Some of these errors were material and led to the issuance of revised financial statements on 12 July 2016. Consequently, the IBAN recommended that the OFC establish robust verification procedures to ensure the accuracy of the information. The OFC has already taken action to improve the exchange of information with management of the Staff Centre and as the OFC gains experience in generating the Staff Centre financial statements (2015 is the second iteration) it can better assess the need for further remedial actions.

8. The IBAN has drawn attention to the need to ensure that sufficient resources are allocated in relation to the closure of the current Staff Centre, particularly those in relation to the termination of Staff contracts, the termination of current concession contracts and, linked to this, the return of stock and equipment. The IS has already undertaken actions in relation to the close-out of the current Staff Centre and further coordination with all relevant stakeholders will continue throughout the closure process. The move to the NNHQ site will impact these activities and the OFC will ensure that the risk, if any, to common funding is minimised to the extent possible, and present requests to the BC for temporary personnel, if required, as soon as possible. The BC has expressed concern with regard to the settlement of outstanding liabilities for the Staff Centre. Solutions should be found concerning any outstanding financial liabilities as part of the close-out of the Staff Centre on the current site. The RPPB expects the Staff Centre Executive Board (SCEB) to pursue remedial actions in this regard and to present recommendations to the BC, as required.

² C-M(2015)0069

Status of Prior Years' Observations

9. The IBAN has followed up on the status of prior years' observations and has concluded that of the eight observations identified, three have been settled, one has been superseded by a current year observation (paragraph 3, above), one has been partially settled and three remain outstanding. The BC will continue to monitor the resolution of these matters and fully expects all outstanding observations to be resolved by the end of 2017.

Other considerations

10. The OFC has expressed concern that during the current close-out phase of the Staff Centre and the transition to the new management model provided by the Commercial Operations Business Plan, the effectiveness of internal control is at risk. The OFC indicated a preference to incorporate the financial management of the Staff Centre into the Enterprise Resource Planning (ERP) system in order to maintain an appropriate level of financial control over the Staff Centre's activities. An analysis is being undertaken to see if this is relevant and possible within existing resources. The OFC will keep the BC informed of any issues that may develop with regard to financial management.

Public Disclosure

11. The FC has confirmed that the 2015 financial statements can be publicly disclosed (reference E).

CONCLUSIONS

12. The IBAN has issued an unqualified opinion on the 2015 NATO Staff Centre revised Financial Statements and a qualified opinion on compliance. This is an improvement in comparison to prior years' audit findings and is the first time since the introduction of regular financial audits that the financial statements have received an unqualified opinion. The IBAN has recognised the significant effort undertaken by the OFC to present financial statements that are in compliance with the NFR and Staff Centre Mandate and to improve management and oversight of procurement and contracting activities. The Budget Committee, through the OFC, will continue to monitor the financial management of the Staff Centre as the new operating model is implemented. The move to the NNHQ will impact the close-out activities for the current Staff Centre and the Staff Centre has a number of outstanding financial liabilities. Actions are in-hand through the SCEB and the OFC and remedial actions will be presented to the Budget Committee for consideration, as required.

RECOMMENDATION

13. The RPPB recommend that Council:
- a) note the IBAN Report (Reference A);
 - b) note this report and endorse its conclusions in paragraph 12; and,
 - c) approve the public disclosure of this report, the IBAN audit (reference a)) and the associated 2015 financial statements of the NATO Staff Centre.

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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 2015**

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 2015 was about EUR 4.3 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 an unqualified opinion on the Financial Statements for the year ended 31 December 2015.

The Board issued a qualified opinion on compliance for the year ended 31 December 2015 due non-compliance with the NATO Financial Regulations related to procurement.

The Board also made observations on weaknesses in the preparation of the financial statements and on the need for proper closure of the current Staff Centre business. These findings are summarised in the Letter of Observations and Recommendations (Annex 4).

For the International Staff's Formal Comments see 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 2015

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

Report on the Financial Statements

The International Board of Auditors for NATO (Board) audited the accompanying Financial Statements of the NATO Staff Centre, which comprised the Statement of Financial Position as at 31 December 2015, 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.

Opinion on Financial Statements

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Staff Centre as of 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with the NATO Accounting Framework.

Report on Compliance

Management's Responsibility for Compliance

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

Auditor's Responsibility

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

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

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 some goods were acquired during 2015 without proper bidding and contracting procedures.

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, 23 August 2016

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 2015

Introduction

The International Board of Auditors for NATO (Board) audited the NATO Staff Centre's Financial Statements for the year ended 31 December 2015, and issued an unqualified opinion on the financial statements and a qualified opinion on compliance.

Observations and Recommendations

During the audit, the Board identified 3 observations and provided 3 recommendations.

One observation impacts the audit opinion on compliance:

- Non-compliance with the NATO Financial Regulations and the NATO Staff Centre Mandate.

The remaining two observations do not impact the audit opinion:

- Weaknesses in the preparation of the financial statements resulted in non-material errors.
- Proper closure of current staff centre business needs to be ensured.

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

The Board also issued a Management Letter (reference IBA-AML(2016)08) to the Financial Controller, International Staff, with observations for management's attention.

This Letter of Observations and Recommendations was formally cleared with the International Staff, Financial Controller, and the formal comments are included.

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)”*.

Observations

1.3 In the Board’s audit of the Staff Centre’s Financial Statements for financial years 2011 (reference IBA-AR(2013)05), 2012 (reference IBA-AR(2014)01), 2013 (reference IBA-AR(2015)02), and 2014 (reference IBA-AR(2015)32), the Board concluded that the Staff Centre did not comply with the NATO Financial Regulations (NFRs) and the Financial Rules and Procedures (FRPs) 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 FRPs.

1.4 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 worked intensively on reviewing and re-negotiating contracts in the Staff Centre based on the prioritization of risks and available resources. During 2015, and the beginning of 2016, five new contracts were signed. The procurement action was done in accordance with the NFRs and selections were based on CAC involvement and contracts were signed properly by the IS Financial Controller. Further, a number of concession contracts were re-negotiated and approved by the IS Financial Controller

1.5 The Board recognises the significant effort and resources put into gaining management oversight and taking corrective actions in the area of contracting and procurement by the IS Office of Financial Control. However, the Board found that for the financial year 2015, full compliance with the NFRs was not yet in place. In the area of goods and services acquired for the restaurant, compliance with the procurement regulations was

not fully in place for nine months of the year as goods were acquired without proper contracts and purchase orders in place. As from 1 October 2015, a contract was signed with the NATO HQ catering company who now supplies the Staff Centre with food and non-food products. Therefore, as from October 2015, the Staff Centre is complying with the NFRs in this area.

1.6 For the purchase of tax-exempt fuel, no written contract is yet in place and a re-bid needs to be performed.

Recommendation

1.7 The Board recommends the IS to continue to work on ensuring full compliance with the NFRs in the Staff Centre.

Comment of the International Staff

For what concerns the contracts that are still not yet in full compliance with the NFRs, the IS has to weigh the effort required in relation to the fact that the Staff Centre in its current mode of operations will end in early 2017 and that the business model in the NNHQ will be substantially different. This work has been prioritised based on risk and resources available. The main focus of the IS OFC procurement activities is on the requirements of the New Headquarters.

The IS is happy to note that IBAN recognises that significant improvements have been made. The recommendation is agreed.

2. WEAKNESSES IN THE PREPARATION OF THE FINANCIAL STATEMENTS RESULTED IN NON-MATERIAL ERRORS

Reasoning

2.1 The final financial statements should be free of any mathematical errors, non-reconciling items, or any other errors caused by lack of control during its preparation. Entities should have proper internal controls, including reviews, in place to ensure the consistency and accuracy of information presented in the statements before its issuance.

Observations

2.2 The Board found several errors and/or omitted information in the financial statements of the Staff Centre as published on 1 April 2016 (FC(2016)0038). The following errors were identified:

- no segment reporting was disclosed for 2015 in the notes as otherwise required by IPSAS 18;
- segment reporting for 2014 was not restated to reflect restatement of comparative 2014 balances in the Statement of Performance and Statement of Position;
- comparative 2014 balances were restated but there was no clear disclosure of the amounts restated as the original 2014 balances, as presented in the 2014 Financial Statements, were not disclosed;
- inter-entity balances within receivables and payables of EUR 24,829 were not eliminated correctly;
- the cash flow from investing and financing activities were not disclosed correctly;
- payables of EUR 76,404 were incorrectly netted against receivables thus underestimating assets and liabilities;
- a payable of EUR 45,495 was incorrectly classified as non-current liability.

2.3 Some of the errors were immaterial, but some led to material misstatements of certain parts of the financial statements, including the segment reporting. These findings were discussed with the IS and the material errors were corrected by the IS during the audit. As a result, the IS issued revised financial statements on 12 July 2016 (reference FC(2016)038-REV1) which were audited by the Board.

Recommendation

2.4 The Board recommends the IS to establish robust verification procedures of the figures and other information in the financial statements before its final issuance.

Comment of the International Staff

The IS is happy to note that IBAN issued an unqualified opinion on the 2015 financial statements. The recommendation is agreed.

3. PROPER CLOSURE OF CURRENT STAFF CENTRE BUSINESS NEEDS TO BE ENSURED

Reasoning

3.1 As detailed in the NATO Headquarters Commercial Operations Business Plan, (C-M(2015)0069), a new operating model will be introduced for the Staff Centre in the New Headquarters (HQ) and the current commercial operations will be phased out. A significant number of staff positions were or will be deleted during 2016 before the move to the New HQ. The Business plan is based on outsourcing as many commercial activities as possible and aims at ensuring long-term financial viability and sustainability.

3.2 The closure of the current Staff Centre requires a number of actions and decisions to be made and the Board wishes to draw management attention to some of these.

Observations

3.3 The Board notes that a number of current concession contracts will need to be terminated (typically 3 or 6 months' notice) as well as a number of supplier contracts. As an example, current contracts in place for the online accounting system and membership system may need to be terminated which also includes ensuring that NATO obtains and retains all historical data from the service provider.

Comment of the International Staff

The Staff Centre has identified all concession and other contracts that need to be terminated. The Staff Centre will work with the Transition Office for terminating contracts. As of this date, the vast majority of contracts are scheduled to terminate on 31 December 2016, however they can be prolonged until the projected final closure date of the Staff Centre, 31 March 2017. The Staff Centre will coordinate with OFC (Procurement) to insure uninterrupted service and supply until the closure of the Staff Centre, albeit with decreasing availability of supplies in order to avoid a large amount of remaining stock.

3.4 Further, the Board is aware that some stock and equipment in the restaurant was provided by suppliers and will need to be returned once the contracts are terminated. Also, a significant amount of property will have to either be disposed, sold, donated or moved to the New HQ. A full stock take of all property needs to take place, and a decision taken on what course of action to follow (e.g. write off, hand-over, donation, etc.). In the case of inventory in the restaurant (beverages) belonging to the Staff Centre, a decision on what should happen with the ending stock also needs to be taken. Some of these items might be considered attractive by nature, although not material in value.

Comment of the International Staff

There are a number of stock and equipment owners in the Staff Centre, including the Staff Centre itself, NATO, sports clubs, concessionaires, contractors and suppliers. Staff Centre will work with the various owners to conduct a comprehensive inventory and disposal plan for all the stock and equipment. The Staff Centre will work with the Transition Office as part of the decommissioning and handback of the current NATO Headquarters to deal with NATO and Staff Centre equipment. The catering company will buy back food and wine stocks, which, under the current contract, procures it for the Staff Centre restaurant. Other suppliers and contractors (concessionaires) will remove their equipment.

3.5 In addition, as the number of staff decreases in the Staff Centre during 2016, the internal controls weaken and segregation of duties in key areas may not be ensured. This

increases the risk of mistakes and fraud and, thus, requires compensatory controls to be put in place and close management attention. Finally, as the date of the Staff Centre move to the New HQ is not fully certain, this has an impact on when current staff positions will be terminated and termination letters issued (normally 6 months' notice). This needs to be closely managed and monitored by Human Resources.

Comment of the International Staff

Concerning contract termination, those Staff Centre employees on definite contracts have had their contracts extended to 31 March 2017. Those on indefinite contracts should be notified by 1 October 2016 if their contracts will be terminated 31 March 2017. Human Resources has identified all of these personnel and is tracking them on a by-name basis.

3.6 During this and the prior year's audit, the Board also noted a number of long outstanding receivables and payables balances. In some cases, it is uncertain whether the receivable balance can be collected and in other cases, there are indications that a liability no longer exists. Thus, management action is required to settle and if necessary write off these long outstanding balances.

Recommendation

3.7 The Board recommends the IS to ensure sufficient resources are allocated to the closure of the current Staff Centre. The IS should ensure that necessary actions are taken to ensure proper closure of the accounts of the current Staff Centre, proper hand over of supplier equipment and proper procedures for write off and disposal of equipment. Furthermore, the IS should ensure that all contracts are terminated on time and in accordance with contract terms and conditions.

Comment of the International Staff

Agreed. In order to implement this recommendation and given the decreasing number of IS employees and staff on sick leave at the Staff Centre, there will be a need to find temporary resources.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

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

Status of previous years' observations

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p>1. IBA-AR(2015)32 (FY 2013) paragraph 1 NON-COMPLIANCE WITH THE NATO FINANCIAL REGULATIONS AND THE NATO STAFF CENTRE MANDATE</p> <p>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.</p> <p>Board's recommendation The Board recommends the IS to continue to work on ensuring full compliance with the NATO Financial Regulations in the Staff Centre.</p>	<p>Superseded by current year observation.</p>	<p>Observation Superseded by current year observation.</p>
<p>2. IBA-AR(2015)32 (FY 2013) paragraph 2 CONCESSION AGREEMENTS SIGNED IN THE MEDICAL CENTRE NEEDS TO BE REVIEWED AND RE-NEGOTIATED</p> <p>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.</p> <p>Board's recommendation 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.</p>	<p>The operation of the Medical Centre and the agreements in place in the Medical Centre has not yet been reviewed by the IS.</p> <p>This was due to resource constraints and the fact that higher priority was given by the IS to prepare the restructuring of the Staff Centre and the new operating model for the New HQ.</p> <p>In the New HQ, the Board understands that the Medical</p>	<p>Observation Outstanding.</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
These concession agreements should be reviewed and re-negotiated by IS Procurement Service and properly approved by the IS Financial Controller.	Centre (as part of retail services) will be fully outsourced and new contracts will be put in place.	
<p>Comment of the International Staff</p> <p><i>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 early 2017. The main focus of the procurement activities is on the requirements of the New Headquarters.</i></p>		
<p>3. IBA-AR(2015)32 (FY 2013) paragraph 3 LATE ISSUANCE OF 2014 FINANCIAL STATEMENTS FOR THE STAFF CENTRE</p> <p>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.</p> <p>Board's recommendation 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.</p>	<p>The financial statements for 2015 for the Staff Centre were issued on 1 April 2016.</p>	<p>Observation Settled.</p>
<p>4. IBA-AR(2015)32 (FY 2013) paragraph 4 NO RESTATEMENT OF COMPARATIVE 2013 FIGURES</p> <p>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.</p> <p>Board's recommendation</p>	<p>The IS correctly restated comparative 2014 balances to correct prior period errors.</p> <p>There was, though, no clear disclosure of the amounts restated as the original 2014 balances, as presented in the 2014 Financial Statements, were not disclosed in the face of the statements. Also, the 2014 segment reporting was not restated and therefore did not</p>	<p>Observation Partially Settled.</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
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.	reconcile to the restated 2014 comparative balances. This is not fully in compliance with IPSAS.	
Comment of the International Staff <i>Agreed. This will be addressed with the next set of financial statements.</i>		
5. IBA-AR(2015)02 (FY 2013) paragraph 4 THE NEED TO ESTABLISH A CONTRACT WITH SPORT INSTRUCTORS 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. Board's recommendation 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 agreements with the sports instructors were signed in January 2016	Observation Settled .
6. IBA-AR(2014)01 (FY 2012) paragraph 5.6 RISK OF NOT COLLECTING OUTSTANDING RECEIVABLES DUE TO LEGAL DISPUTE 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. Board's recommendation 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.	The legal dispute is still ongoing. The Budget Committee and the Resource Policy and Planning Board (RPPB) have been briefed on several occasions on this issue. The IS provided a cash advance in 2014 and 2015 in order to transfer the liquidity impact of this from the Staff Centre. The legal dispute is disclosed as a contingent liability in the Notes to the Financial Statements. 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.	Observation Settled .

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p>7. IBA-AR(2013)05 (FY 2011) paragraph 5.2.6 DIFFERENCES BETWEEN FINANCIAL STATEMENTS AND DETAILED DATA - UNDERSTATEMENT OF PROPERTY, PLANT & EQUIPMENT (PP&E) AND REVENUE IN PRIOR YEARS</p> <p>The Board found that revenue in prior years were understated by EUR 293,242 and the gross values of PP&E were understated by the same amount. This was due to misstatements of revenue by decreasing values of PP&E instead of recognizing income as revenue. Also, the Board noted unexplained differences in the values of PP&E.</p> <p>Board's recommendation</p> <p>The Board recommends the Staff Centre to make proper corrections ensuring that the values of PP&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&E.</p>	<p>The Board noted that there were still differences between sub-ledgers and general ledgers related to PP&E that had not yet been corrected. The differences are in the CP segment.</p> <p>The Board recommends the Staff Centre to make proper corrections ensuring that the PP&E values are correct.</p>	<p>Observation Outstanding.</p>
<p>Comment of the International Staff</p> <p><i>Agreed.</i></p>		
<p>8. IBA-AR(2013)05 (FY 2011) paragraph 5.5 WEAKNESSES IN THE INTERNAL CONTROLS AND ACCOUNTING POLICIES</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>Board's recommendation</p> <p>Based on a decision by Council on a revised governance structure and mandate of the Staff Centre, the Board recommends the Staff Centre to develop adequate accounting policies covering the</p>	<p>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 IS Procurement Services and the IS Office of Financial Controller has access to making bank payments.</p> <p>The Board found that there is a concentration of responsibilities</p>	<p>Observation Outstanding.</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p>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>in the hands of a few key staff, especially in the area of inventory management of 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. Also, monthly inventory counts were not properly signed by the two staff conducting the counts.</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.</p>	
<p><i>Comment of the International Staff</i></p> <p><i>The recommendation is agreed. IBAN recognizes the inherent difficulty in achieving proper segregation of duties and internal controls in the context of downsizing the Staff Centre. This will be addressed in conjunction with current year Recommendation 3.</i></p>		

**NATO STAFF CENTRE
FINANCIAL STATEMENTS AS AT 31/12/2015
FINANCIAL YEAR 2015**

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
For the year ended 31 December 2015**

	Notes	EUR Current year 31-Dec-15	EUR Prior Year 31-Dec-14	EUR Variance CY-PC
ASSETS				
CURRENT ASSETS				
Cash and Cash equivalents	4			
Cash		4,120.00	4,120.00	0.00
Current bank accounts		280,074.55	164,046.17	116,028.38
Cash equivalents		3,676.70	9,214.13	-5,537.43
Total Cash and Cash Equivalents		287,871.25	177,380.30	110,490.95
Receivables	5			
Accounts receivable		284,706.17	286,504.32	-1,798.15
Other Receivables		49,834.03	3,787.65	46,046.38
Total Receivables		334,540.20	290,291.97	44,248.23
Inventories	6			
Inventory sports		3,200.48	7,583.67	-4,383.19
Inventory restaurant		26,236.09	25,340.99	895.10
Inventory commercial area		157,211.78	338,393.24	-181,181.46
Total Inventories		186,648.35	371,317.90	-184,669.55
TOTAL CURRENT ASSETS		809,059.80	838,990.17	-29,930.37
NON CURRENT ASSETS				
Receivables	7			
		0	0.00	0.00
Infrastructure, Plant and Equipment		1,019.66	2,878.88	-2,878.88
Land and buildings		0.00	0.00	0.00
Other		8,000.00	17,600.00	-17,600.00
TOTAL NON CURRENT ASSETS		9,019.66	20,478.88	-20,478.88
TOTAL ASSETS		818,079.46	859,469.05	-859,469.05

**Nato Staff Center Statement of Financial Position
For the year ended 31 December 2015**

	Notes	EUR Current year 31-Dec-15	EUR Prior Year 31-Dec-14	EUR Variance CY-PC
LIABILITIES				
CURRENT LIABILITIES				
Payables	8			
Payable to Third Parties		506,668.49	541,282.66	-34,614.17
Current portion of debts payable after one year		8,000.00	9,600.00	
Total Payables		514,668.49	550,882.66	-36,214.17
TOTAL CURRENT LIABILITIES		514,668.49	550,882.66	-36,214.17
NON CURRENT LIABILITIES				
	9			
Long-term Pension debt and charges		1,263,105.57	1,401,671.64	-138,566.07
Long-term loan		261,898.75	234,360.03	27,538.72
TOTAL NON CURRENT LIABILITIES		1,525,004.32	1,636,031.67	-111,027.35
TOTAL LIABILITIES		2,039,672.81	2,186,914.33	-147,241.52
NET ASSETS				
	10			
Previous results		-1,327,445.28	-985,285.56	-342,159.72
Current result		105,851.93	-342,159.72	448,011.65
Capital subsidies		0.00	0.00	0.00
Total Net Assets		-1,221,593.35	-1,327,445.28	105,851.93
TOTAL NET ASSETS		-1,221,593.35	-1,327,445.28	105,851.93
TOTAL BALANCE		818,079.46	859,469.05	-41,389.59

Nato Staff Center Statement of Financial Performance
For the year ended 31 December 2015

	Notes	EUR Current year 31-Dec-15	EUR Prior Year 31-Dec-14	EUR Variance CY-PC
REVENUE	11			
Sales		3,446,904.41	4,395,925.89	-949,021.48
Concessions		524,964.90	425,221.82	99,743.08
Financial Revenue		2,543.95	3,574.66	-1,030.71
Other Revenue		337,500.00	500.00	337,000.00
TOTAL REVENUE		4,311,913.26	4,825,222.37	-513,309.11
Expenses	12			
Wages, salaries and employee benefits		1,837,590.73	1,872,705.82	-35,115.09
Outsourced Services		951,478.99	1,252,994.86	-301,515.87
Operating Costs		53,215.02	222,555.57	-169,340.55
Cost of Goods Sold		1,299,466.12	1,795,500.41	-496,034.29
Other costs		52,847.58	10,566.21	42,281.37
Depreciation and amortization		11,462.89	13,059.22	-1,596.33
TOTAL REVENUE		4,206,061.33	5,167,382.09	-961,320.76
SURPLUS (DEFICIT) FOR THE PERIOD	10	105,851.93	-342,159.72	448,011.65

Nato Staff Center Cash Flow Statement
For the year ended 31 December 2015

	Notes	EUR Current year 31-Dec-15	EUR Current year 31-Dec-14
Cash flows from operating activities			
Surplus (deficit) of the period	11&12	105,851.93	-342,159.72
Depreciation	12	11,462.89	13,059.22
Loss on sale of PPE			
Cash from operations before working capital changes		117,314.82	-329,100.50
Decrease (Increase) in receivables	5	-44,248.23	119,166.76
Decrease (increase) in inventories	6	184,669.55	-66,862.92
Increase (decrease) in payables	8	-34,614.17	74,970.16
Net cash flows from operating activities		223,121.97	-201,826.50
interest paid		0.00	0.00
Net cash flows from operating activities		223,121.97	-201,826.50
Cash flows from investing activities			
Purchase of PPE	7	-11,462.89	-3,059.00
Proceeds from sale of PPE			
Net cash flows from investing activities		-11,462.89	-3,059.00
Cash flows from financing activities			
Reimbursement of pensions' liability	9	-138,566.07	-178,441.78
Advances received	9	25,938.72	243,960.03
Proceeds from finance lease liabilities	7&14	11,459.22	-28,800.00
Net cash flows from financing activities		-101,168.13	36,718.25
Net increase (decrease) in cash and cash equivalents		110,490.95	-168,167.25
Cash and cash equivalents at beginning of period	4	177,380.30	345,547.55
Cash and cash equivalents at end of period	4	287,871.25	177,380.30

Nato Staff Center
Statement of changes in net assets

	Accumulated supluses
Balance at 31/12/2013	-985,285.56
Revaluation of investments	0.00
Net surplus (deficit) for the period	-342,159.72
Balance at 31/12/2014	-1,327,445.28
Revaluation of investments	0.00
Net surplus (deficit) for the period	105,851.93
Balance at 31/12/2015	-1,221,593.35

**EXPLANATORY NOTES TO THE NATO STAFF CENTRE
2015 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 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.

The post Director Staff Centre was deleted in 2015. The Deputy Director has been acting.

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).

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.

Restructuring

On 2 October 2015, the North Atlantic Council approved a NATO HQ Commercial Operations Business Plan 2015-2019 (C-M(2015)0069) which foresees a substantial change in the management of a series of services and/or concessions presently handled by the Staff Centre. In particular, the number of established posts, which was 33 at the beginning of 2015, should decrease to 3 by early 2017. In order to transition to the future setup for commercial operations in the NATO HQ, restructuring costs may be incurred, in particular Loss of Job Indemnities. The latter were estimated at a potential amount of EUR 1.4 million and would, if incurred, be borne by the NATO Civil Budget using lapsed credits from 2014 that would otherwise have been returned to member Nations (C-M(2015)0088 and PO(2015)0602).

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) as existed in 2015.

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. This situation was further clarified by Nations in 2016.

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. Some expenses linked to the restructuring of the Staff Centre, in particular Loss of Job Indemnities, are paid by the NATO Civil Budget. The Staff Centre would not be financially viable without this support.

In 2015, the NATO Staff Centre also benefited from a series of exceptional contributions from the NATO International Staff: the transfer of EUR 324,000 as a reduction of the Staff Centre's long term pension liability and a EUR 50,000 back-payment of service fees. In the absence of these, the Staff Centre would have shown a deficit of about EUR 270,000.

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 September 2015 to transition the Staff Centre from its current structure towards a new structure summarised in the NATO HQ Commercial Operations Business Plan.

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.

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

Minor reclassifications of 2014 data were done. They concern essentially the re-allocation of concession income previously posted under Sales, and minor adjustments to accrued income and accrued expenses. The impact is not material.

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 2015.

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 30.03.2016			
	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	19.05.2015

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 do 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

NATO-Staff Centre capitalises inventory which it controls in its financial statements. Inventory is essentially comprised of goods to be sold.

NATO-Staff Centre will include transportation costs involved in bringing the inventories to their present location and condition in the initial valuation of inventory.

Inventory may include items held prior to 1 January 2013.

The valuation of inventory is based on a weighted average calculation.

Fixed assets (Property, Plant & Equipment and Intangible Assets)

a. Property, Plant & Equipment

The NATO Staff Centre accounts for PPE based on the expected useful life of the goods or works concerned. No threshold is applied. It includes fully depreciated items acquired before 1 January 2013.

In light of the forthcoming move to a New NATO HQ in 2017, 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 and 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 2017, 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.

b. Intangible Assets

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.

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 and 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.

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 2017, 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 782,779 (EUR 927,232 in 2014). 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. The Budget Committee decided that as from 2014, an increasing portion should be reimbursed by the Staff Centre (EUR 45,500 in 2014 and planned EUR 129,900 for 2015). However, in light of the financial situation of the Staff Centre, the Budget Committee agreed that these amounts should not be claimed for 2014 to 2016. As a consequence, amounts already paid (for 2014) by the Staff Centre to the NATO International Staff were reimbursed in 2015.

Administrative Support:

In addition, NATO-IS provided administrative support to the Staff Centre at an estimated cost of EUR 254,196 (EUR 279,407 in 2014).

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 case 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.

NOTE 6: INVENTORIES

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 2015 is presented below:

(amounts in EUR)	Carrying Amount end 2014	Additions	Disposals	Annual Depreciation	Impairment	Carrying Amount end 2015
Land and buildings	0.00	0.00	0.00	0.00	0.00	0.00
Installed Equipment	2,878.88	0.00	0.00	1,859.22	0.00	1,019.66
Office Equipment	0.00	0.00	0.00	0.00	0.00	0.00
Financial Leases	17,600.00	0.00	0.00	9,600.00	0.00	8,000.00
TOTAL	20,478.88	0.00	0.00	11,459.22	0.00	9,019.66

(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
TOTAL	1,721,971.81	1,720,292.71	31,859.00	0.00	13,059.22	0.00	20,478.88

There has been no impairment or revaluation during 2014 and 2015.

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 "Buildings" 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

A single financial lease 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, the terms of the concession agreement, and the limited value for money of an evaluation study, and the planned move to new premises in 2017. 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.

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 219,825.79 end 2015 and EUR 238,710.65 end 2014).

EUR 8,000 is the short term portion of amounts due in relation to financial leases (EUR 9,600 end 2014).

NOTE 9: NON-CURRENT LIABILITIES

Long Term Pension Debt

The Staff Centre did not pay its employer contributions (currently 19% 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-International Staff 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.

In 2015, an amount of EUR 324,000 – corresponding to an accumulated surplus related to sales of tax free petrol cards to NATO IS staff - was used by the NATO International Staff to offset NATO Staff Centre pension contributions. The payment was done by NATO International Staff directly into the NATO Defined Benefit Pension Scheme's account. No other contributions were made by the Staff Centre in 2015.

Further to the payments made in the course of the year, the net liability of the Staff Centre on 31 December 2015 amounted to EUR 1,225,267.42 (EUR 1,401,671.64 on 31 December 2014).

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. An additional advance was made in 2015 bringing the total advance to EUR 261,898.75. 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.

End 2014, this item also included the long term part (EUR 8,000) of amounts due in relation to a financial lease. There was none end 2015.

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).

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. The decline of sales is linked to the reduction in the Staff Centre's activity, in part because of the limitation, at times, of external clients' physical access to NATO HQ premises for security reasons.

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 80,036 in 2015 and EUR 84,960 in 2014).

Financial Revenue

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

Other Revenue

This item includes, in 2015, a one-off revenue of EUR 324,000 from the NATO International Staff to offset amounts due by the Staff Centre in relation to pension contributions (See Note 9 above).

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.

There was a decrease in the staff expenses between 2013 and 2014 due 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). During 2015, in the context of the NATO HQ Commercial Operations Business Plan 2015-2019, 10 posts were deleted. The financial impact on 2015 is limited because the posts were deleted towards the end of the year and some (6) were vacant. For staff whose post is deleted but who are on sick leave, the costs are borne by the NATO Civil Budget until the notification can be processed in accordance with Civilian Personnel Regulations.

Outsourced Services:

Functions previously performed by staff employed under the temporary staff provisions of NATO's Civilian Personnel Regulations were outsourced as from 2014 (See Note 19). Expenses are adjusted in function of the level of activity.

Operating costs:

The operating costs relate primarily to costs necessary to the day to day operation of the Staff Centre, including sponsorship. The reimbursement in 2015 of EUR 45,500 paid to the NATO International Staff in 2014 as a contribution to costs incurred by the latter on behalf of the NATO Staff Centre was treated as a reduction of expenses. In light of the financial situation of the Staff Centre, the Budget Committee agreed that these amounts should not be claimed for 2014 to 2016 (See Note 3 above). This situation and the fact that the NATO Staff Centre management reduced expenses (in light of its reduced activity and of its financial situation) explains the decrease of these expenses.

Costs of goods sold:

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

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 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.

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The tables below provide segment information for financial position and financial performance for 2015.

	Sports	Restaurant	Commercial Area	Overhead	Eliminations	Total
Cash	79,815	49,283	158,773		-	287,871
Receivables	21,411	57,910	286,171	45,495	- 76,446	334,540
Inventory	3,200	26,236	157,212		-	186,648
PPE and financial lease	9,020	-	-		-	9,020
TOTAL ASSETS	113,446	133,429	602,155	45,495	- 76,446	818,079
Payables	151,388	155,729	283,998	-	- 76,446	514,668
Pensions liability	635,381	582,229	-	45,495	-	1,263,106
Advances		-	261,899		-	261,899
TOTAL LIABILITIES	786,769	737,958	545,897	45,495	- 76,446	2,039,673
NET ASSETS	- 673,323	- 604,528	56,258	-	0	- 1,221,593

	Sports	Restaurant	Commercial Area	Overhead	Eliminations	Total
Revenue						
Sales	872,904.66	1,223,189.77	1,305,315.20	45,494.78	-	3,446,904.41
Concessions			524,964.90	-	-	524,964.90
Financial revenue				2,543.95	-	2,543.95
Other revenue			-	337,500.00	-	337,500.00
TOTAL REVENUE	872,904.66	1,223,189.77	1,830,280.10	385,538.73	0.00	4,311,913.26
Expenses						
Wages, salaries and employee benefits	470,682.65	644,188.18	356,931.41	365,788.49	-	1,837,590.73
Outsourced services	435,657.21	463,010.17	52,811.61	-	-	951,478.99
Operating costs	21,805.35	4,653.70	75,730.21	- 48,974.24	-	53,215.02
Cost of goods sold	12,751.63	315,924.73	970,789.76		-	1,299,466.12
Other costs	1,910.14	2,140.04	3,302.17	45,495.23	-	52,847.58
Depreciation and amortization				11,462.89	-	11,462.89
TOTAL EXPENSES	942,806.98	1,429,916.82	1,459,565.16	373,772.37	-	4,206,061.33
SURPLUS (DEFICIT) FOR THE PERIOD	- 69,902.32	- 206,727.05	370,714.94	11,766.36	-	105,851.93

The tables below provide segment information for financial position and financial performance 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
TOTAL ASSETS	32,627.08	156,165.19	671,746.33	-	-	860,538.60
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
TOTAL LIABILITIES	779,201.79	815,360.33	530,462.70	45,500.00	-	2,170,524.82

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	Sports	Restaurant	Commercial Area	Overhead	Eliminations	Total
Revenue						
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
TOTAL REVENUE	1,017,706.88	1,673,052.13	2,159,452.93	4,074.66	- 27,994.68	4,826,291.92
Expenses						
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
TOTAL EXPENSES	1,214,136.44	1,795,212.78	1,762,855.00	406,783.04	- 27,994.68	5,150,992.58
SURPLUS (DEFICIT) FOR THE PERIOD	- 196,429.56	- 122,160.65	396,597.93	- 402,708.38	-	- 324,700.66

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.

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

EUR	2015	2014
Software and Server	17,600.00	27,200.00
Less: Accumulated Depreciation	9,600.00	9,600.00
Net Amount	8,000.00	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. In 2015, the financial consequence of one of these cases was carried by the NATO International Staff (EUR 45,495.23).

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, concluded 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. An amount of EUR 5,877.50 relating to 2015 was written-off further to a discrepancy concerning the reception of goods delivered.

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. End 2015 there were no longer any staff employed under Temporary Staff provisions.

Specific benefits

NATO Staff Centre employees working in the restaurant (about fifteen persons including management) are allowed a lunch per day worked in exchange for a monthly salary reduction of EUR 61.02 to EUR 81.36 (depending on grade). In 2015, these amounts were increased to EUR 110. 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. End 2015, all former beneficiaries had decided to opt out.

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. In 2015, a series of posts were deleted resulting in an establishment of 23 posts at the end of the year from an initial number of 33. Further deletions are foreseen in 2016 by the NATO HQ Commercial Operations Business Plan 2015-2019 approved by the North Atlantic Council decreasing the total establishment to 3. As from 1 July 2016, a post Catering and Retail Manager is created to prepare for the future operating model in the New NATO HQ.

In accordance with the NATO HQ Commercial Operations Business Plan 2015-2019 (C-M(2015)0069), three occupied posts which were deleted in 2015 required the payment of an amount of EUR 300,279.24 in Loss of Job Indemnities, funded by the NATO Civil Budget using lapsed credits from 2014 that would otherwise have been returned to member Nations (C-M(2015)0088 and PO(2015)0602).

At 31 December 2015, NATO Staff Centre had 306 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.

12 staff members participate in the Defined Contribution Pension Scheme (DCPS) administered by NATO (13 end 2014). The DCPS provides that the NATO-Staff Centre budget makes a 12% monthly matching contribution to the staff members' contributions for current service.

11 employees participate in NATO's Defined Benefit Pension Scheme (DBPS) (18 end 2014). A deduction of 9.5% of their salaries (9.0% in 2014) 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 19% to the DBPS (18% in 2014). 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 (for amounts related to the Staff Centre DBPS employer contributions liability for past years and the specific fund transfer from the NATO International Staff, see Note 9):

amounts in EUR	2015			2014		
	Staff	Employer	Total	Staff	Employer	Total
Provident Fund	-	-	-	-	-	-
Co-ordinated Pension Scheme	72,901.01	145,802.02	218,703.03	82,454.55	164,909.10	247,363.65
Defined Contribution Pension Scheme	40,395.44	57,732.96	98,128.40	27,769.09	40,497.72	68,266.81
TOTAL	113,296.45	203,534.98	316,831.43	110,223.64	205,406.82	315,630.46

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 acting Director Staff Centre. Only the acting Director Staff Centre is paid by the NATO Staff Centre and his remuneration is based on the A2 salary scale as approved for NATO salaries in Belgium.

There are 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

The following concerns related parties.

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 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 1,036,975 (EUR 1,206,639 in 2014) 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 was to increase this amount gradually with the expectation that the Staff Centre become fully customer funded before NATO moves to its new premises in 2017. However, in light of the financial situation of the Staff Centre, the Budget Committee agreed that these amounts should not be claimed for 2014 to 2016. As a consequence, amounts already paid (for 2014) by the Staff Centre to the NATO International Staff were reimbursed in 2015.

NATO-IS has made a cash advance (EUR 261,898.75) 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; to date the amounts still due are EUR 219,825.79 (EUR 238,710.65 end 2014).

The Staff Centre charges the NATO International Staff EUR 25,000 per annum for the services it provides in managing in the name of NATO International Staff -Executive Management – Human Resources. These are official activities linked to the registration of vehicles of individuals working at NATO.

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 80,036 in 2015 and EUR 84,960 in 2014).

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

In accordance with the NATO HQ Commercial Operations Business Plan 2015-2019 (C-M(2015)0069), three occupied posts which were deleted in 2015 required the payment of an amount of EUR 300,279.24 in Loss of Job Indemnities, funded by the NATO Civil Budget using lapsed credits from 2014 that would otherwise have been returned to member Nations (C-M(2015)0088 and PO(2015)0602).

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 1,225,267.42 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.
