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|  | NATO | NORTH ATLANTIC COUNCIL |
| | OTAN | CONSEIL DE L'ATLANTIQUE NORD |

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03 January 2019

DOCUMENT
C-M(2018)0069-AS1

IBAN AUDIT ON THE 2017 FINANCIAL STATEMENTS OF THE NATO STAFF CENTRE

ACTION SHEET

On 21 December 2018, under the silence procedure, the Council noted the IBAN report on the 2017 financial statements of the NATO Staff Centre attached to C-M(2018)0069, endorsed the RPPB report, and agreed to the public disclosure of the report, the IBAN audit report and associated 2017 financial statements of the NSC.

(Signed) Jens Stoltenberg
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2018)0069.

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14 December 2018

DOCUMENT

C-M(2018)0069

Silence procedure ends:

21 Dec 2018 15:30

IBAN AUDIT ON THE 2017 FINANCIAL STATEMENTS OF THE NATO STAFF CENTRE

Note by the Secretary General

1. I attach the International Board of Auditors for NATO (IBAN) report on the audit of the 2017 financial statements of the NATO Staff Centre. The IBAN audit produced an unqualified opinion on the financial statements and a qualified opinion on compliance for the NATO Staff Centre.
2. The IBAN report has been reviewed by the Resource Policy and Planning Board (RPPB) (see Annex 1).
3. I do not believe this issue requires further discussion. Therefore, **unless I hear to the contrary by 15:30 hours on Friday, 21 December 2018**, I shall assume the Council noted the IBAN report on the 2017 financial statements of the NATO Staff Centre, endorsed the RPPB report, and agreed to the public disclosure of this report, the IBAN audit report and associated 2017 financial statements of the NSC.

(Signed) Jens Stoltenberg

1 Annex
1 Enclosure
1 Appendix

Original: English

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**IBAN AUDIT ON THE 2017 FINANCIAL STATEMENTS OF NATO STAFF CENTRE
(NSC)**

Report by the Resource Policy and Planning Board (RPPB)

References:

- | | |
|-------------------------|--|
| A. IBA-A(2018)0123 | IBAN Audit on the 2017 Financial Statements of NSC |
| B. BC-D(2018)0067-FINAL | Commercial Activities Governance And Morale, Welfare and Recreation Activities Mandate in the New NATO Headquarters and Estimated Close Out Costs of the Current NATO Staff Centre |
| C. PO(2015)0052 | Wales Summit tasker on transparency and accountability |

BACKGROUND

1. This report addresses the IBAN audits of the 2017 financial statements and compliance of NSC. The IBAN audits set out an unqualified opinion on the financial statements and a qualified opinion on compliance (reference A).

DISCUSSION

2. The IBAN found the information reflected in the financial statements is accurate. However, the IBAN issued a qualified audit opinion on compliance due to one observation: material weaknesses in the internal controls and segregation of duties in key areas in the NATO Staff Centre such as cash management, revenue collection and inventory management as well as a lack of control over the recruitment of temporary staff. Additionally, the IBAN issued an observation due to inaccuracies and material errors identified in the financial statements which did not impact the audit opinion. The Financial Controller (FC) noted the transition to the Enterprise Resource Planning (ERP) system on 1 January 2018 will introduce a higher level of internal controls and segregation of duties that will reduce the risks of errors and inaccuracies in the financial statements. Additionally, the new governance model coupled with the ERP and new procedures at the new NSC will reduce or eliminate concerns over internal controls and segregation of duties raised by the IBAN. The FC considers both observations settled. Refer to the Action Plan at Appendix I for more information.

3. The IBAN followed up on the status of observations from the previous years' and found four were settled, two were superseded, and two remained outstanding. The outstanding observations related to proper closure of the old staff centre (handover of supplier equipment, disposal of equipment, etc.) and proper closure of its financial accounts. The observation remained in 2017 due to the delay of the new NATO headquarters move. The FC considers both observations settled. Refer to the Action Plan at Appendix I for more information.

4. The IBAN noted as an Emphasis of Matter¹ in its audit opinion that Nations agreed in September 2015 to transition the Staff Centre to a new structure. As agreed, the prior structure of the Staff Centre closed at the end of August 2018. The main cost items related to the closure and settlement of net outstanding liabilities and will be funded from the NATO Civil Budget through the use of lapsed prior year appropriations. Currently, these liabilities are estimated to be approximately €2.1 million (reference B).

CONCLUSION

5. The IBAN have issued an unqualified opinion on the financial statements and a qualified opinion on compliance for financial year 2017. The RPPB is pleased to note the Financial Controller expects all observations to be remediated by the issuance of the 2018 financial statements, but notes that active participation by Executive Management may be necessary to fully settle some observations.

RECOMMENDATIONS

6. The RPPB recommends the Council:

6.1. note the IBAN reports (reference A);

6.2. endorse the conclusion at paragraph 5 and

6.3. approve the public disclosure of this report, the IBAN audit report and the associated 2017 financial statements of the NSC.

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

Action Plan to Remediate Outstanding Observations

1. The action plan provides details of the status of the outstanding observations reflected in the IBAN audit report (reference A). Management has assessed each observation as Open, In progress or Closed based on the following definitions:

- 1.1. Open – Management is reviewing how best to address the observation or will address the observation at a later date.
- 1.2. In progress – Management is actively working to resolve the observation and has made progress in resolving the issue.
- 1.3. Settled – Management considers the observation satisfactorily closed or considers it is unable to take further corrective action.

| IBAN Opinion Impact & Observation | Action Plan | Current Assessment | Resolution Timeline |
|---|---|---------------------------|--|
| <i>Compliance Impact</i> Weaknesses in the internal controls of the Staff Centre | The Office of Financial Control brought the financial transactions related to the Staff Centre into the ERP beginning 1 January 2018. This will introduce a higher level of internal controls including the area of segregation of duties. The new governance model for the commercial activities and morale, welfare and recreation is significantly different and some of the risks mentioned in the IBAN report will no longer exist. Proper contract management procedures for outsourced activities are in place for the new NATO HQ Staff Centre. | Settled | NA - The observation is considered Settled |

| IBAN Opinion Impact & Observation | Action Plan | Current Assessment | Resolution Timeline |
|---|---|--------------------|--|
| <i>No impact on opinion</i> Inaccuracies and material errors identified in the financial statements | Similar to the New NATO Headquarters and International Staff audits, the fact that all transactions related to the new and previous staff Centres are now centralised in the OFC and managed in the ERP should contribute to a reduction of the risks of errors and inaccuracies in the financial statements. | Settled | NA - The observation is considered Settled |
| <i>No impact on opinion</i> Proper closure of current Staff Centre business needs to be ensured | The closure of accounts, termination of staff contracts and concession contracts and write off and disposal of assets already occurred or are addressed in the context of the more general closure of the Previous NATO HQ. | Open | Upon issuance of the 2018 financial statements |
| <i>No impact on opinion</i> Differences between financial statements and detailed data - understatement of property, plant & equipment (PP&E) and revenue in prior years | The differences concerned the accounting system used by the Staff Centre. Since beginning 2018 all transactions are recorded in the IS ERP. | Settled | NA - The observation is considered Settled |



NORTH ATLANTIC TREATY ORGANIZATION
ORGANISATION DU TRAITÉ DE L'ATLANTIQUE NORD
INTERNATIONAL BOARD OF AUDITORS
COLLÈGE INTERNATIONAL DES COMMISSAIRES AUX COMPTES
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IBA-A(2018)0123
29 October 2018

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

Cc: Assistant Secretary General, Executive Management Division
Financial Controller, International Staff
Acting Moral & Welfare Manager, NATO Staff Centre
Chairman, Resource Policy & Planning Board (RPPB)
Branch Head, Plans and Policy Branch, NATO Office of Resources (NOR)
Private Office Registry

Subject: ***International Board of Auditors for NATO (Board) Auditor's Report and Letter of Observations and Recommendations on the audit of the Restated Financial Statements of the NATO Staff Centre for the year ended 31 December 2017 – IBA-AR(2018)0016***

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

The Board's report sets out an unqualified opinion on the Financial Statements of the NATO Staff Centre and a qualified opinion on compliance for financial year 2017.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Hervé-Adrien Metzger".

Hervé-Adrien Metzger
Chairman

Attachments: As stated above.



**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 2017**

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 2017 was about EUR 2 million.

In 2015, NATO member nations agreed to transition the Staff Centre from its current structure towards a new structure, as summarised in the NATO HQ commercial operations Business Plan (C-M(2015)0069). The current Staff Centre closed at the end of August 2018 and a new restructured Staff Centre opened in the new NATO HQ on 3 September 2018.

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

The Board issued a qualified opinion on compliance for the year ended 31 December 2017 due to material weaknesses in the internal controls and segregation of duties in key areas in the Staff Centre such as cash management, revenue collection and inventory management as well as a lack of control over the recruitment of temporary staff.

The findings are summarised in the Letter of Observations and Recommendations (Annex 3).

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

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ANNEX 2
IBA-AR(2018)0016

26 October 2018

INTERNATIONAL BOARD OF AUDITORS FOR NATO

**AUDITOR'S REPORT ON THE RESTATED FINANCIAL STATEMENTS OF
THE NATO STAFF CENTRE
FOR THE YEAR ENDED 31 DECEMBER 2017**

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**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 Restated Financial Statements of the NATO Staff Centre, which comprised the Statement of Financial Position as at 31 December 2017, 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. 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 Restated Financial Statements

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

Emphasis of matter

We draw your attention to Note 1 of the Restated Financial Statements where it is described that NATO member nations agreed, in September 2015, to transition the Staff Centre from its current structure towards a new structure, as summarised in the NATO HQ commercial operations Business Plan. As agreed, the current Staff Centre closed at the end of August 2018. The main cost items related to the closure and the settlement of any net outstanding liabilities will be funded from the NATO Civil Budget through the use of lapsed prior year appropriations. Currently, these liabilities are estimated to be approximately EUR 2.1 million (BC-D(2018)0067-FINAL). Our opinion is not modified in respect to this matter.

Report on Compliance

Management's Responsibility for Compliance

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

Auditor's Responsibility

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

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

Basis for Qualified Opinion on Compliance

The Board found material weaknesses in the internal controls and segregation of duties in key areas in the Staff Centre such as cash management, revenue collection and inventory management as well as a lack of control over the recruitment of temporary staff. Weaknesses in the internal controls was confirmed in NATO Staff Centre's Statement of Internal Control.

Qualified Opinion on Compliance

In our opinion, except for the effects and 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, 26 October 2018

A handwritten signature in blue ink, appearing to read 'H Metzger', with a long horizontal flourish extending to the right.

Hervé-Adrien Metzger
Chairman

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ANNEX 3
IBA-AR(2018)0016

26 October 2018

INTERNATIONAL BOARD OF AUDITORS FOR NATO

LETTER OF OBSERVATIONS AND RECOMMENDATIONS

FOR THE NATO STAFF CENTRE

FOR THE YEAR ENDED 31 DECEMBER 2017

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Introduction

The International Board of Auditors for NATO (Board) audited the NATO Staff Centre's Restated Financial Statements for the year ended 31 December 2017, and issued an unqualified opinion on the financial statements and a qualified opinion on compliance.

Observations and Recommendations

During the audit, the Board made two observations.

One observation impacts the audit opinion on compliance:

1. Weaknesses in the internal controls of the Staff Centre,

The remaining observation does not impact the audit opinion:

2. Inaccuracies and material errors identified in the financial statements

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

The Board also issued a Management Letter (IBA-AML(2018)0011) to the International Staff Financial Controller with the follow-up of prior years' observations.

This Letter of Observations and Recommendations was formally cleared with the International Staff and the formal comments are included in the Appendix (Annex 3).

OBSERVATIONS, CONCLUSIONS AND RECOMMENDATIONS

1. WEAKNESSES IN THE INTERNAL CONTROLS OF THE STAFF CENTRE

Reasoning

1.1 Article 12 of the NATO Financial Regulations (NFRs) states that the Heads of NATO bodies shall ensure the necessary internal management functions are in place to support effective internal control. Internal control activities shall include, but be not limited to; segregation of duties, avoidance of conflicts of interests, procedures for monitoring of performance and for follow-up of identified internal control weaknesses.

1.2 According to the NATO Staff Centre mandate, the day-to-day management of Staff Centre activities and operations is the responsibility of a Director or the Deputy Director in his or her absence. The Staff Centre Director reports to the Assistant Secretary General for Executive Management. The Staff Centre Executive Board, chaired by the Assistant Secretary General for Executive Management, is responsible for the oversight and guidance of the Staff Centre. The Executive Board is also responsible for advising the Director in the management of the Staff Centre and its operations. The Director of the Staff Centre left NATO in 2015 and the post was deleted based on Council decision (C-M(2015)0069). Instead, the Deputy Director assumed the role and responsibilities of the Director's post. As of 1 January 2016, the Deputy Director post was converted to the post of Morale, Welfare and Recreational (MWR) Manager.

1.3 The Staff Centre located at the previous NATO HQ closed in August 2018 and a new restructured Staff Centre opened in the new NATO HQ 3 September 2018. Following the restructuring of the new Staff Centre, the majority of its operations have been outsourced to contractors.

1.4 In 2018, the Staff Centre is expected to issue financial statements relating to the previous NATO HQ, for the period 01 January to 31 August. Thereafter, financial reporting on the new Staff Centre's operations will be included in the consolidated financial statements of the International Staff (IS).

Observations

1.5 The MWR Manager, was absent over most of 2017. The Executive Management did not appoint an acting MWR for the Staff Centre in 2017 to ensure key management functions were addressed, in accordance with the mandate. The Staff Centre Accountant acted as a manager during several months of 2017, in addition to his normal responsibilities, making decisions regarding the operations of the Staff Centre. Therefore, no segregation of duties could be applied based on the MWR's role and responsibilities.

1.6 Weaknesses in internal controls including segregation of duties were found in the following areas:

- Inventory management. With the outsourcing of the restaurant to a contractor as of 1 May 2017, the standing inventory of food, beverages and alcohol (value of EUR 30,186) was sold to the contractor. The accountant performed a stock take of the inventory and issued an invoice to the contractor based on the inventory value of inventory. No segregation of duties was therefore applied over the sale of inventory to the Contractor, which increases the risk of error or fraud.
- Management of cash. Three internal control weaknesses were noted related to the management of cash. Firstly, no segregation of duties was applied over the cash management process. Secondly, there were delays of up to eight months, in depositing cash at the bank, after the cash had been earned at the restaurant. Finally, no cash count was made at year end. All three weaknesses noted increase the risk of error or fraud.
- Management of temporary staff. Requests for temporary staff were directly submitted by the Staff Centre's subcontractor to the manpower agency. Associated temporary staff costs were then re-invoiced to the Staff Centre. The Staff Centre management did not perform controls over this process to ensure that requests for temporary staff were made in its best interest. This potential conflict of interest increases the risk of error or fraud and could lead to an unnecessary rise of personnel costs.
- Revenue collection: In two instances, revenue owed by concessionaires was not properly identified, invoiced and recorded in the Staff Centre Financial Statements according to contract terms and conditions. Therefore, revenue disclosed in the financial statements of the Staff Centre for the year 2017 was understated.

1.7 The lack of a full time manager ensuring appropriate segregation of duties resulted in a weak internal control environment in 2017. In prior years' audits of the Staff Centre (since the audit of the 2011 Financial Statements), we reported on material weaknesses in internal controls. We found that internal controls were still deficient in 2017, despite some measures taken by the IS Office of Financial Control (OFC) to ensure segregation of duties and internal controls in some areas. The weaknesses in internal controls worsened during 2017 due to the reduction of the number of staff and the MWR Manager being absent during almost all of 2017. IS officials informed us that the Administrative Officer for Executive Management (EM) was assigned as acting MWR manager in December 2017, following a decision of the Assistant Secretary General for EM.

Conclusion

1.8 Given the fact that the current Staff Centre closed its operations at the end of August 2018 and a new governance model for the commercial activities and Morale, Welfare and Recreation activities in the new Headquarters has been implemented, the Board does not provide any recommendations. However, we encourage the Executive

Management to ensure that proper contract management procedures are put in place for the management of outsourced activities in the new Headquarters.

2. INACCURACIES AND MATERIAL ERRORS IDENTIFIED IN THE FINANCIAL STATEMENTS

Reasoning

2.1 According to International Public Sector Accounting Standards (IPSAS) 1, the financial statements should present fairly the financial position, financial performance, and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue, and expenses set out in IPSAS.

2.2 Financial Statements should be free of misstatements, mathematical errors, non-reconciling items, or any other errors or omissions caused by lack of control during preparation. Entities should have proper internal controls, including reviews and reconciliations in place to ensure the consistency and the accuracy of information presented in the Financial Statements.

Observations

2.3 The IS FC issued 2017 Financial Statements for the NATO Staff Centre on 29 March 2018 (reference FC(2018)0043). We found material errors in these financial statements and the disclosure notes did not in all cases comply with requirements in the NATO Accounting Framework.

2.4 We found two main errors in the financial statements, which in our view are material. The first related to the incorrect estimation of provisions for losses in the restaurant and thus underestimation of expenses by EUR 84,000. The second was the incorrect accounting of the sale of inventory in the restaurant to the contractor which resulted in an underestimation of revenue and expenses by EUR 30,186. These errors were corrected by the IS OFC by the issuance of restated 2017 Financial Statements on 04 July 2018 (reference FC(2018)0043-REV1).

Recommendation

2.5 The Board recommends the IS to establish robust verification procedures of the figures and other information disclosed in the financial statements before its final issuance in order to comply with the NATO Accounting Framework.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

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

| OBSERVATION / RECOMMENDATION | ACTION TAKEN | STATUS |
|--|---|---|
| <p>(1) STAFF CENTRE FY 2016 IBA-AR(2017)11, paragraph 5</p> <p>WEAKNESSES IN THE INTERNAL CONTROLS IN THE STAFF CENTRE</p> <p>Board's Recommendation The Board recommends the IS financial controller, in coordination with the Staff Centre Executive Board, to ensure that a minimum set of internal controls and segregation of duties in key areas are in place in 2017 for example by implementing compensatory controls by Office of Financial Control and by strengthening the review and monitoring of controls by the IS Financial Controller.</p> | | <p>Observation Superseded by current year observation 1.</p> |
| <p>(2) STAFF CENTRE FY 2016 IBA-AR(2017)11, paragraph 8 and 10</p> <p>WEAKNESSES IN CONTRACT MANAGEMENT OF THE SERVICE CONTRACT FOR THE RESTAURANT</p> <p>Board's Recommendation The Board recommends the IS and Staff Centre to ensure procedures are in place to monitor contractors. Since the majority of Morale and Welfare Activities will be fully outsourced in the New NATO HQ, monitoring of contractors performance will be critical. Further, the Board recommends the IS Financial Controller to ensure that, when necessary, service contracts include proper performance indicators and incentives for the contractor to perform in the best interest of NATO.</p> | <p>As from 2 May 2017, the restaurant was outsourced to a contractor. A concession contract was signed whereby the Staff Centre will compensate the contractor up to a maximum of EUR 12,000 per month for losses. In case of profit, it will be shared at a 50% rate.</p> <p>With the closing of the current Staff Centre, this contract was terminated in 2018.</p> | <p>Observation Settled.</p> |

| OBSERVATION / RECOMMENDATION | ACTION TAKEN | STATUS |
|---|---|---|
| <p>(3) STAFF CENTRE FY 2016 IBA-AR(2017)11, paragraph 3</p> <p>LATE ISSUANCE OF THE FINANCIAL STATEMENTS</p> <p>Board's Recommendation The Board recommends that future financial statements be submitted by 31 March, in accordance with the deadline in the NFRs.</p> | <p>The financial statements for 2017 was submitted on 31 March 2018, in accordance with the deadline in the NFRs.</p> | <p>Observation Settled.</p> |
| <p>(4) STAFF CENTRE FY 2016 IBA-AR(2017)11, paragraph 4</p> <p>WEAKNESSES IN THE PREPARATION OF THE FINANCIAL STATEMENTS RESULTED IN NON COMPLIANCE WITH THE NATO ACCOUNTING FRAMEWORK AND OTHER ERRORS</p> <p>Board's Recommendation The Board recommends the IS to establish robust verification procedures of the figures and other information in the financial statements before its final issuance in order to comply with NATO Accounting Framework.</p> <p>Also, the Board recommends keeping all accounting transactions and records in the main accounting software.</p> | | <p>Observation Superseded by current year Observation 2.</p> |
| <p>(5) STAFF CENTRE FY 2016 IBA-AR(2017)11 (FY 2016) paragraph 3</p> <p>LIQUIDITY PROBLEMS IN THE STAFF CENTRE INCREASE THE RISKS FOR THE NEED FOR COMMON FUNDS</p> <p>Board's Recommendation The Board recommends that a plan should be developed to ensure the re-payment of all Staff Centre's obligations.</p> <p>The Board also refers to the Board's performance audit on the need to revise NATO-wide Framework on Morale and Welfare Activities (reference IBA-AR(2017)01) where it recommended strategies be in place to assure the implementation of the principle of self-sustainability of MWA operations.</p> | <p>According to BC-D(2018)0067-Final and BC-D(2018)0076, an estimate of the close-out costs of the NATO Staff Centre has been prepared and approved by the Budget Committee. The Council agreed to cover these close out costs through the use of special carry forward of lapsable appropriations from the 2016 Civil budget. The closure of the current Staff Centre took place 31 August</p> | <p>Observation Settled.</p> |

| OBSERVATION / RECOMMENDATION | ACTION TAKEN | STATUS |
|---|---|------------------------------------|
| | <p>2018. The liabilities are currently estimated at EUR 1.9 million but could increase to EUR 2.1 million.</p> <p>A new mandate governing the commercial activities and Morale, Welfare and Recreation activities in the new Headquarters was approved by the Budget Committee on 25 June 2018 and is awaiting Council approval. The new governance model is based on the principle of self-sustainability.</p> | |
| <p>(6) STAFF CENTRE FY 2015 IBA-AR(2016)16, paragraph 3</p> <p>PROPER CLOSURE OF CURRENT STAFF CENTRE BUSINESS NEEDS TO BE ENSURED</p> <p>Board's Recommendation 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.</p> | <p>The move of the Staff Centre to the New HQ was delayed until August 2018.</p> <p>We will follow up on the closure of accounts, termination of staff contracts and concession contracts and write off and disposal of asset during the audit of the 2018 Staff Centre Financial Statements.</p> | Observation Outstanding. |
| <p>(7) STAFF CENTRE FY 2014 IBA-AR(2015)32, paragraph 2</p> <p>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</p> | <p>The operation of the Medical Centre and the agreements in place in the Medical Centre was not reviewed by the IS in 2017.</p> <p>The IS stated that this was due to resource constraints and the fact that higher priority was given by the IS to prepare the restructuring of</p> | Observation Lapsed. |

| OBSERVATION / RECOMMENDATION | ACTION TAKEN | STATUS |
|---|--|--|
| <p>costs of the facilities are covered including utilities and management administration.</p> <p>These concession agreements should be reviewed and re-negotiated by IS Procurement Service and properly approved by the IS Financial Controller.</p> | <p>the Staff Centre and the new operating model for the New HQ.</p> <p>In the New HQ, the Medical Centre (as part of retail services) is fully outsourced and new contracts were put in place in 2018.</p> | |
| <p>(8) STAFF CENTRE FY 2011 IBA-AR(2013)05 (FY 2011) paragraph 5.2.6</p> <p>DIFFERENCES BETWEEN FINANCIAL STATEMENTS AND DETAILED DATA - UNDERSTATEMENT OF PROPERTY, PLANT & EQUIPMENT (PP&E) AND REVENUE IN PRIOR YEARS</p> <p>Board's Recommendation 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 sports (CP) segment.</p> <p>These differences should be cleared by the IS OFC as part of the closure of the accounts of the Staff Centre in 2018.</p> | <p>Observation Outstanding.</p> |

**INTERNATIONAL STAFF (IS)
FORMAL COMMENTS ON THE
LETTER OF OBSERVATIONS AND RECOMMENDATIONS**

**OBSERVATION 1:
WEAKNESSES IN THE INTERNAL CONTROLS IN THE STAFF CENTRE**

IS Formal Comments

The Office of Financial Control has brought the financial transactions related to the Staff Centre into the ERP as from 1 January 2018. This will introduce a higher level of internal controls including the area of segregation of duties. The new governance model for the commercial activities and morale, welfare and recreation is significantly different and some of the risks mentioned in the IBAN report will no longer exist. Proper contract management procedures for outsourced activities are in place for the new NATO HQ Staff Centre.

**OBSERVATION 2:
INACCURACIES AND MATERIAL ERRORS IDENTIFIED IN THE FINANCIAL
STATEMENTS**

IS Formal Comments

The recommendation is agreed. The fact that all transactions related to the new and previous staff Centres are now centralised in the OFC and managed in the ERP should contribute to a reduction of the risks of errors and inaccuracies in the financial statements.

**NATO STAFF CENTRE
FINANCIAL STATEMENTS AS AT 31/12/2017
FINANCIAL YEAR 2017**

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



Jens STOLTENBERG
Secretary General



Stephane CHAGNOT
Financial Controller

on
behalf of:

Nato Staff Center
Statement of Financial Position
For the year ended 31 December 2017

| | Notes | EUR Current year 31-Dec-17 | EUR Prior year Restated 31-Dec-16 | EUR Prior year Initial 31-Dec-16 | EUR Variance CY-PY |
|---|-----------|----------------------------------|--|---|--------------------------|
| ASSETS | | | | | |
| CURRENT ASSETS | | | | | |
| Cash and Cash equivalents | 4 | | | | |
| Cash | | 1,120.00 | 4,120.00 | 4,120.00 | -3,000.00 |
| Current bank accounts | | 70,620.33 | 203,368.94 | 203,368.94 | -132,748.61 |
| Cash equivalents | | 0.00 | 3,238.20 | 3,238.20 | -3,238.20 |
| Total Cash and Cash Equivalents | | 71,740.33 | 210,727.14 | 210,727.14 | -138,986.81 |
| Receivables | 5 | | | | |
| Accounts receivable | | 335,351.90 | 314,549.10 | 376,661.68 | 20,802.80 |
| Other Receivables | | 0.00 | 3,203.60 | 3,203.60 | -3,203.60 |
| Total Receivables | | 335,351.90 | 317,752.70 | 379,865.28 | 17,599.20 |
| Inventories | 6 | | | | |
| Inventory sports | | 1,140.95 | 1,614.40 | 23,565.09 | -473.45 |
| Inventory restaurant | | 0.00 | 21,950.69 | 0.00 | -21,950.69 |
| Inventory commercial area | | 0.00 | 0.00 | 0.00 | 0.00 |
| Total Inventories | | 1,140.95 | 23,565.09 | 23,565.09 | -22,424.14 |
| TOTAL CURRENT ASSETS | | 408,233.18 | 552,044.93 | 614,157.51 | -143,811.75 |
| NON CURRENT ASSETS | | | | | |
| Receivables | 7 | 0.00 | 0.00 | 0 | .00 |
| Infrastructure, Plant and Equipment | | 0.00 | 0.00 | 0.00 | 0.00 |
| Land and buildings | | 0.00 | 0.00 | 0.00 | 0.00 |
| Other | | 0.00 | 0.00 | 0.00 | 0.00 |
| TOTAL NON CURRENT ASSETS | | 0.00 | 0.00 | 0.00 | 0.00 |
| TOTAL ASSETS | | 408,233.18 | 552,044.93 | 614,157.51 | -143,811.75 |
| LIABILITIES | | | | | |
| CURRENT LIABILITIES | | | | | |
| Payables | 8 | | | | |
| Payable to Third Parties | | 1,029,417.27 | 1,081,968.13 | 1,144,080.71 | -52,550.86 |
| Current portion of debts payable after one year | | 0.00 | 0.00 | 0.00 | 0.00 |
| Other Liabilities | | 96,000.00 | 0.00 | 0.00 | 96,000.00 |
| Total Payables | | 1,125,417.27 | 1,081,968.13 | 1,144,080.71 | 43,449.14 |
| TOTAL CURRENT LIABILITIES | | 1,125,417.27 | 1,081,968.13 | 1,144,080.71 | 43,449.14 |
| NON CURRENT LIABILITIES | | | | | |
| Long-term Pension debt and charges | 9 | 729,578.58 | 686,042.10 | 686,042.10 | 43,536.48 |
| Long-term loan | | 261,898.75 | 261,898.75 | 261,898.75 | 0.00 |
| TOTAL NON CURRENT LIABILITIES | | 991,477.33 | 947,940.85 | 947,940.85 | 43,536.48 |
| TOTAL LIABILITIES | | 2,116,894.60 | 2,029,908.98 | 2,092,021.56 | 86,985.62 |
| NET ASSETS | | | | | |
| Previous results | 10 | -1,477,864.05 | -1,221,593.35 | -1,221,593.35 | -256,270.70 |
| Current result | | -230,797.37 | -256,270.70 | -256,270.70 | 25,473.33 |
| Capital subsidies | | 0.00 | 0.00 | 0.00 | 0.00 |
| Total Net Assets | | -1,708,661.42 | -1,477,864.05 | -1,477,864.05 | -230,797.37 |
| TOTAL NET ASSETS | | -1,708,661.42 | -1,477,864.05 | -1,477,864.05 | -230,797.37 |
| TOTAL BALANCE | | 408,233.18 | 552,044.93 | 614,157.51 | -143,811.75 |

Nato Staff Center
Statement of Financial Performance
For the year ended 31 December 2017

| | Notes | EUR Current year 31-Dec-17 | EUR Prior year restated 31-Dec-16 | EUR Variance CY-PY |
|--|-----------|----------------------------------|---|--------------------------|
| REVENUE | 11 | | | |
| Sales | | 1,507,874.61 | 2,431,367.25 | -923,492.64 |
| Concessions | | 344,978.84 | 444,454.33 | -99,475.49 |
| Financial Revenue | | 2,028.84 | 1,280.86 | 747.98 |
| Other Revenue | | 157,888.11 | 16,617.58 | 141,270.53 |
| TOTAL REVENUE | | 2,012,770.40 | 2,893,720.02 | -880,949.62 |
| Expenses | 12 | | | |
| Wages, salaries and employee benefits | | 606,948.09 | 886,424.64 | -279,476.55 |
| Outsourced Services | | 852,170.52 | 1,326,802.07 | -474,631.55 |
| Operating Costs | | 54,490.12 | 73,146.49 | -18,656.37 |
| Cost of Goods Sold | | 605,652.73 | 888,218.16 | -282,565.43 |
| Other costs | | 32,379.21 | -33,620.30 | 65,999.51 |
| Provision, depreciation and amortization | | 91,927.10 | 9,019.66 | 82,907.44 |
| TOTAL EXPENSES | | 2,243,567.77 | 3,149,990.72 | -906,422.95 |
| SURPLUS (DEFICIT) FOR THE PERIOD | 10 | -230,797.37 | -256,270.70 | 25,473.33 |

Nato Staff Center
Cash Flow Statement
For the year ended 31 December 2017

| | Notes | EUR Current year 31-Dec-17 | EUR Prior year 2016 Restated |
|---|-------|----------------------------------|------------------------------------|
| Cash flows from operating activities | | | |
| Surplus (deficit) of the period | 11&12 | -230,797.37 | -256,270.70 |
| Depreciation | 12 | 0.00 | 9,019.66 |
| Loss on sale of PPE | | | |
| Cash from operations before working capital changes | | -230,797.37 | -247,251.04 |
| Decrease (Increase) in receivables | 5 | -17,599.20 | 118,020.50 |
| Decrease (increase) in inventories | 6 | 22,424.14 | 163,083.26 |
| Increase (decrease) in payables | 8 | 43,449.14 | 128,571.41 |
| Net cash flows from operating activities | | -182,523.29 | 162,424.13 |
| interest paid | | 0.00 | 0.00 |
| Net cash flows from operating activities | | -182,523.29 | 162,424.13 |
| Cash flows from investing activities | | | |
| Purchase of PPE | 7 | 0.00 | 0.00 |
| Proceeds from sale of PPE | | | |
| Net cash flows from investing activities | | 0.00 | 0.00 |
| Cash flows from financing activities | | | |
| Increase (Decrease) in long term pensions' liability | 9 | 43,536.48 | -231,568.24 |
| Advances received | 9 | 0.00 | 0.00 |
| Proceeds from finance lease liabilities | 7&14 | 0.00 | -8,000.00 |
| Net cash flows from financing activities | | 43,536.48 | -239,568.24 |
| Net increase (decrease) in cash and cash equivalents | | -138,986.81 | -77,144.11 |
| Cash and cash equivalents at beginning of period | 4 | 210,727.14 | 287,871.25 |
| Cash and cash equivalents at end of period | 4 | 71,740.33 | 210,727.14 |

Nato Staff Center
Statement of changes in net assets
For the year ended 31 December 2017

| | |
|--------------------------------------|----------------------|
| Balance at 31/12/2015 | -1,221,593.35 |
| Revaluation of investments | 0.00 |
| Net surplus (deficit) for the period | -256,270.70 |
| Balance at 31/12/2016 | -1,477,864.05 |
| Revaluation of investments | 0.00 |
| Net surplus (deficit) for the period | -230,797.37 |
| Balance at 31/12/2017 | -1,708,661.42 |

**EXPLANATORY NOTES TO THE NATO STAFF CENTRE
2017 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 2,600. 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, has decreased to 3 by end 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). In addition, the NATO Civil Budget for 2018 has set aside resources from lapsable appropriations in the amount of EUR 1.8 million to settle the net outstanding liabilities related to the closure of the Staff Centre, at a date currently planned to be September 2018.

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 and revised under C-M(2016)0023 on 21 April 2016 (which adapts a small number of IPSAS standards to better suit the specific requirements of the Alliance), the Staff Centre Governance and Mandate, together with the NATO Financial Regulations (NFR) and the Financial Rules and Procedures (FRP).

IPSAS 6: Consolidated and Separate Financial:

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

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

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

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

This situation was further clarified by Nations in 2016 with the revised version of the NATO Accounting Framework. 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.

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 2017 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 1.1 million which is about 53% of its turnover (40% for 2016). 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 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 near 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. In the current state of planning, the Staff Centre should close in September 2018. The main cost items related to this closure consist in Loss of Job Indemnities and in the settlement of any net outstanding liabilities. The funding of these expenses will be provided by the NATO Civil Budget and not the Staff Centre accounts.

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.

Restatement and Reclassification of previous years' financial statements

Errors concerning the 2016 statement of financial position have been corrected. These errors related to manual adjustments incorrectly booked or not reversed and had resulted in an overstatement of receivables and payables by the same total amount of EUR 62,112.58. The face of the financial statements disclose both the initial amounts and the corrected amounts on the statement of financial position.

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 year-end.

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 22 February 2018 | | |
|--------------|--|-----------|-----------|
| | Fitch | S&P | Moody's |
| ING Bank | F1 | A2 | not rated |
| Monte Paschi | B | not rated | not rated |

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 2018, 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 2018, 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.

Non-current liabilities

These are amounts due by the Staff Centre but not to be paid in the following year and are essentially in relation to cash advances made by the NATO International Staff and to employer contributions to the Coordinated Pension Scheme.

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 2018, 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 870,971 in 2017 (EUR 941,323 in 2016). 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, Nations agreed that these amounts should no longer be claimed including their 2017 (EUR 129.9K) and 2018 portions (C-M(2017)0064).

Administrative Support:

In addition, NATO-IS provided administrative support to the Staff Centre at an estimated cost of EUR 188,355.41 (EUR 229,103 in 2016).

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 minor sport items for sale. In the course of the years catering related items held in inventory were sold to the concessionaire (EUR 30,168.28).

NOTE 7: NON-CURRENT ASSETS

Reconciliation of the carrying amount of non-current assets as at 31 December 2017 is presented below:

| (amounts in EUR) | Carrying Amount end 2015 | Additions | Disposals | Annual Depreciation | Impairment | Carrying Amount end 2016 |
|---------------------|--------------------------|-------------|-------------|---------------------|-------------|--------------------------|
| Land and buildings | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Installed Equipment | 1,019.66 | 0.00 | 0.00 | 1,019.66 | 0.00 | 0.00 |
| Office Equipment | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Financial Leases | 8,000.00 | 0.00 | 0.00 | 8,000.00 | 0.00 | 0.00 |
| TOTAL | 9,019.66 | 0.00 | 0.00 | 9,019.66 | 0.00 | 0.00 |

| (amounts in EUR) | Carrying Amount end 2016 | Additions | Disposals | Annual Depreciation | Impairment | Carrying Amount end 2017 |
|---------------------|--------------------------|-------------|-------------|---------------------|-------------|--------------------------|
| Land and buildings | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Installed Equipment | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Office Equipment | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Financial Leases | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| TOTAL | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |

There has been no impairment or revaluation during 2017 and 2016.

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 was related to specific software for the restaurant and the management of memberships for the sports area. It was recognised in 2014 at its net value. By end 2016, the value was zero.

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 2018. 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 271,041.06 end 2017 and EUR 246,123 end 2016).

| Payables | 2017 | 2016 |
|---------------|---------------------|---------------------|
| Suppliers | 397,658.47 | 511,583.62 |
| Employees | 22,825.66 | - 45,495.58 |
| Pension | 600,000.00 | 600,000.00 |
| Miscellaneous | 8,933.14 | 15,880.09 |
| TOTAL | 1,029,417.27 | 1,081,968.13 |

There is a provision of EUR 96,000 corresponding to amounts due to the concessionaire of the restaurant in accordance with the contract clauses that prescribe the payment of a capped compensation when the restaurant is run at a loss.

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 would, therefore, accelerate the settlement of arrears and it was originally planned that the liability could be totally repaid by 2021. This plan has not been respected since 2015 due to the overall situation of the Staff Centre.

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 applied 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 have been made by the Staff Centre since then, which further increased the liability, due to its overall situation.

Further to the payments made in the course of the year, the net liability of the Staff Centre on 31 December 2017 amounted to EUR 1,329,578.58 (EUR 1,286,042.10 on 31 December 2016, EUR 1,225,267.42 on 31 December 2015, 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. The seizure 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.

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 (until 2016 only) 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. It was decided that the Staff Centre would no longer directly manage the restaurant as from 2016 and the sales of perfume and other miscellaneous items from 2015. These activities are now managed as concessions, and therefore there are no sales related to these activities.

Concession Revenue

The other main source of revenue corresponds to concession fees and reimbursements of costs from concessionaires located on the Staff Centre premises. There is also 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 83,442.98 in 2017 and EUR 88,425.03 in 2016).

Financial Revenue

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

Other Revenue

This item corresponds to services provided by the Staff Centre to the NATO International Staff for petrol sales and car plates.

NOTE 12: EXPENSES**Wages, salaries and employee benefits:**

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

During 2016, in the context of the NATO HQ Commercial Operations Business Plan 2015-2019, a number of posts were deleted. The financial impact for the Staff Centre depends on the date on which the posts were deleted and whether or not they 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. The change, during 2017, from an outsourced management model to a concession for the restaurant resulted in a reduction of related service expenses, which explains the evolution between 2016 and 2017.

Operating costs:

The operating costs relate primarily to costs necessary to the day to day operation of the Staff Centre, including sponsorship. The NATO Staff Centre management reduced expenses (in light of its reduced activity and of its financial situation).

Costs of goods sold:

These consist mainly in food and beverage (partially in 2017), perfume (partially in 2016, none in 2017) and petrol coupons. The evolution is linked to the decrease of the restaurant's activity and to the change from direct management to a concession of the perfume shop (in 2016) and of the restaurant (in 2017).

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.

Provision

The provision of EUR 96,000 corresponds to amounts due to the concessionaire of the restaurant, for the period May to December, in accordance with the contract clauses that prescribe the payment of a capped compensation when the restaurant is run at a loss.

Financial costs

Financial costs include bank charges and credit card fees.

NOTE 13: SEGMENT INFORMATION

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

The tables below provide segment information for financial position and financial performance for 2017.

| | Sports | Restaurant | Commercial Area | Overhead | Eliminations | Total |
|--------------------------|-----------------------|---------------------|---------------------|--------------------|-----------------|-----------------------|
| Cash | 25,437.85 | 1,000.00 | 45,302.48 | | | 71,740.33 |
| Receivables | 7,336.67 | 103.90 | 318,962.13 | | 8,949.20 | 335,351.90 |
| Inventory | 1,140.95 | - | - | | | 1,140.95 |
| PPE and financial lease | - | - | - | | | - |
| TOTAL ASSETS | 33,915.47 | 1,103.90 | 364,264.61 | - | 8,949.20 | 408,233.18 |
| Payables | 701,866.32 | - | 308,008.82 | 10,608.99 | 8,933.14 | 1,029,417.27 |
| Pensions liability | 446,350.09 | 267,465.53 | - | 15,762.96 | | 729,578.58 |
| Provisions | | 96,000.00 | | | | 96,000.00 |
| Advances | - | | 261,898.75 | | | 261,898.75 |
| TOTAL LIABILITIES | 1,148,216.41 | 363,465.53 | 569,907.57 | 26,371.95 | 8,933.14 | 2,116,894.60 |
| NET ASSETS | - 1,114,300.94 | - 362,361.63 | - 205,642.96 | - 26,371.95 | 16.06 | - 1,708,661.42 |

| | Sports | Restaurant | Commercial Area | Overhead | Eliminations | Total |
|--|--------------------|---------------------|-------------------|---------------------|--------------|---------------------|
| Revenue | | | | | | |
| Sales | 681,873.43 | 219,904.76 | 606,096.42 | - | - | 1,507,874.61 |
| Concessions | 83,442.88 | | 261,535.96 | - | - | 344,978.84 |
| Financial revenue | 1,039.33 | 989.51 | - | | - | 2,028.84 |
| Other revenue | 32,967.07 | 30,186.28 | 64,131.35 | 30,603.41 | - | 157,888.11 |
| TOTAL REVENUE | 799,322.71 | 251,080.55 | 931,763.73 | 30,603.41 | - | 2,012,770.40 |
| Expenses | | | | | | |
| Wages, salaries and employee benefits | 318,234.20 | 68,441.26 | 99,211.83 | 121,060.80 | - | 606,948.09 |
| Outsourced services | 523,108.98 | 212,955.50 | 116,106.04 | - | - | 852,170.52 |
| Operating costs | 20,502.19 | 944.00 | 33,043.93 | - | - | 54,490.12 |
| Cost of goods sold | 3,602.13 | 83,687.29 | 518,363.31 | - | - | 605,652.73 |
| Other costs | 1,353.59 | 31,007.94 | 17.68 | - | - | 32,379.21 |
| Provision, depreciation and amortization | | | | 91,927.10 | - | 91,927.10 |
| TOTAL EXPENSES | 866,801.09 | 397,035.99 | 766,742.79 | 212,987.90 | - | 2,243,567.77 |
| SURPLUS (DEFICIT) FOR THE PERIOD | - 67,478.38 | - 145,955.44 | 165,020.94 | - 182,384.49 | - | - 230,797.37 |

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The tables below provide segment information for financial position and financial performance for 2016.

| | Sports | Restaurant | Commercial Area | Overhead | Eliminations | Total |
|--------------------------|---------------------|---------------------|---------------------|----------|-------------------|-----------------------|
| Cash | 43,440.36 | 66,841.46 | 100,445.32 | | | 210,727.14 |
| Receivables | 43,116.20 | 27,345.29 | 256,240.41 | | - 8,949.20 | 317,752.70 |
| Inventory | 1,614.40 | 21,950.69 | - | | | 23,565.09 |
| PPE and financial lease | - | - | - | | | - |
| TOTAL ASSETS | 88,170.96 | 116,137.44 | 356,685.73 | - | - 8,949.20 | 552,044.93 |
| Payables | 367,692.13 | 456,615.32 | 266,609.87 | - | - 8,949.20 | 1,081,968.13 |
| Pensions liability | 406,576.57 | 279,465.53 | - | - | | 686,042.10 |
| Advances | - | | 261,898.75 | | | 261,898.75 |
| TOTAL LIABILITIES | 774,268.71 | 736,080.85 | 528,508.62 | - | - 8,949.20 | 2,029,908.98 |
| NET ASSETS | - 686,097.75 | - 619,943.41 | - 171,822.89 | - | - | - 1,477,864.05 |

| | Sports | Restaurant | Commercial Area | Overhead | Eliminations | Total |
|---|-------------------|---------------------|---------------------|---------------------|--------------|---------------------|
| Revenue | | | | | | |
| Sales | 815,318.42 | 951,464.99 | 710,079.07 | - 45,495.23 | | 2,431,367.25 |
| Concessions | 88,425.03 | | 356,029.30 | | | 444,454.33 |
| Financial revenue | 44.00 | 687.25 | 549.61 | | | 1,280.86 |
| Other revenue | 8,900.00 | | 7,717.58 | | | 16,617.58 |
| TOTAL REVENUE | 912,687.45 | 952,152.24 | 1,074,375.56 | - 45,495.23 | 0.00 | 2,893,720.02 |
| Expenses | | | | | | |
| Wages, salaries and employee benefits | 351,810.95 | 150,889.19 | 196,609.82 | 187,114.68 | | 886,424.64 |
| Outsourced services | 495,667.79 | 767,796.84 | 63,337.44 | | | 1,326,802.07 |
| Operating costs | 23,227.14 | 4,437.68 | 45,481.67 | | | 73,146.49 |
| Cost of goods sold | 4,447.18 | 322,756.85 | 561,014.13 | | | 888,218.16 |
| Other costs | 1,708.05 | 1,691.03 | 8,475.85 | - 45,495.23 | - | 33,620.30 |
| Depreciation and amortization | - | | | 9,019.66 | | 9,019.66 |
| TOTAL EXPENSES | 876,861.11 | 1,247,571.59 | 874,918.91 | 150,639.11 | - | 3,149,990.72 |
| SURPLUS (DEFICIT) FOR THE PERIOD | 35,826.34 | - 295,419.35 | 199,456.65 | - 196,134.34 | - | - 256,270.70 |

Transactions in the Overhead segment correspond to the salaries of the Staff Centre management team.

NOTE 14: LEASES

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, was classified as a finance lease (in the IPSAS 13 sense). It was fully amortized at year end 2016.

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

| Asset Balances at end of year | | |
|--------------------------------|------|----------|
| EUR | 2017 | 2016 |
| Software and Server | - | 8,000.00 |
| Less: Accumulated Depreciation | - | 8,000.00 |
| Net Amount | - | - |

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| Finance 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 | - |
| 2017 | - | - | - |

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.

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 have been no write-off of Staff Centre property during 2016 and 2017.

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.

Establishment

In 2015, 10 posts were deleted and 1 creation was approved, resulting in an establishment of 24 posts at the end of the year. In 2016, 5 deletions took place in accordance with the NATO HQ Commercial Operations Business Plan 2015-2019 approved by the North Atlantic Council, resulting in an establishment of 19 posts end 2016. During 2017, 16 posts were deleted, resulting in an establishment of 3 at the beginning of 2018, which is the number foreseen to operate all commercial activities on the New NATO Headquarters campus.

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). In 2016 another three Loss of Job Indemnities were paid out of the NATO Civil Budget in an amount of EUR 221,307.69. This budget allocation has been carried forward again to 2017, then to 2018, and is considered sufficient to allow for the possible need to pay for Loss of Job Indemnities (estimated in the amount of EUR 527K) to staff who could not be transferred into vacant posts elsewhere in the International Staff establishment.

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. Untaken leave is accounted as a Payable to staff at year end.

As from 1 May 2016, the salary related cost of staff on long term sick leave are borne by the Civil Budget, in accordance with a decision taken by nations (PO(2016)0272).

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.

Five members participate in the Defined Contribution Pension Scheme (DCPS) administered by NATO (6 end 2016). The DCPS provides that the NATO-Staff Centre budget makes a 12% monthly matching contribution to the staff members' contributions for current service.

Four employees participate in NATO's Defined Benefit Pension Scheme (DBPS) (4 end 2016). 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 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 | 2017 | | | 2016 | | |
|-------------------------------------|------------------|------------------|-------------------|------------------|------------------|-------------------|
| | Staff | Employer | Total | Staff | Employer | Total |
| Provident Fund | - | - | - | - | - | - |
| Co-ordinated Pension Scheme | 21,768.24 | 43,536.48 | 65,304.72 | 30,387.34 | 60,774.68 | 91,162.02 |
| Defined Contribution Pension Scheme | 18,709.26 | 28,063.91 | 46,773.17 | 24,334.57 | 36,004.61 | 60,339.18 |
| TOTAL | 40,477.50 | 71,600.39 | 112,077.89 | 54,721.91 | 96,779.29 | 151,501.20 |

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.

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 1,059,327 (EUR 1,170,426 in 2016) 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.

As from 1 May 2016, the salary related cost of staff on long term sick leave are borne by the Civil Budget, in accordance with a decision taken by nations (PO(2016)0272).

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. 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. Nations further agreed to the cancellation of this reimbursement for 2017 (estimated amount of EUR 130 thousand) and for 2018, for the same reasons.

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 271,041 (EUR 246,126 in 2016).

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 79,394.12 in 2017 and EUR 88,425 in 2016).

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 2016 required the payment of an amount of EUR 221,307.69 in Loss of Job Indemnities, which were paid out of the NATO Civil Budget.

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 1,329,578.58 end 2017 (EUR 1,286,042.10 at end 2016).
