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

**NATO UNCLASSIFIED**

6 December 2017

**DOCUMENT**  
C-M(2017)0059-AS1

## **IBAN AUDIT ON THE 2016 FINANCIAL STATEMENTS OF THE NATO STAFF CENTRE**

### **ACTION SHEET**

On 5 December 2017, under the silence procedure, the Council noted the IBAN report on the 2016 financial statements of the NATO Staff Centre and the conclusions of the RPPB attached to C-M(2017)0059 and approved the public disclosure of the financial statements and the associated audit report.

(Signed) Jens Stoltenberg  
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2017)0059.

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27 November 2017

**DOCUMENT**  
C-M(2017)0059  
**Silence Procedure ends:**  
**5 Dec 2017 17:30**

**IBAN AUDIT ON THE 2016 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 2016 financial statements of the NATO Staff Centre.
2. The IBAN report sets out an unqualified opinion on the financial statements and a qualified opinion on compliance for 2016. The IBAN report has been reviewed by the Resource Policy and Planning Board (RPPB) (see Annex).
3. I do not believe that this matter requires discussion in the Council. Consequently, **unless I hear to the contrary by 17:30 hrs on Tuesday, 5 December 2017**, I shall assume that the Council has noted the IBAN report on the 2016 financial statements of the NATO Staff Centre and the conclusions of the RPPB and approved the public disclosure of the financial statements and the associated audit report.

(Signed) Jens Stoltenberg

Annex 1: RPPB Report  
Enclosure 1: IBAN Report  
Enclosure 2: NATO Staff Center Financial Statements 2016

1 Annex  
2 Enclosures

Original: English

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## **IBAN AUDIT ON THE 2016 FINANCIAL STATEMENTS OF THE NATO STAFF CENTRE**

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

#### **References:**

- |    |                |  |
|----|----------------|--|
| A. | IBA-AR(2017)11 | (IBAN audit report)                                |
| B. | C-M(2013)0054  | (Staff Centre Governance and Mandate)              |
| C. | C-M(2015)0069  | (Commercial operations business plan 2015-19)      |
| D. | C-M(2017)0002  | (Audit on Staff Centre 2015 financial statements ) |
| E. | C-M(2016)0023  | (NATO Accounting Framework)                        |

#### **BACKGROUND**

1. This report covers the audit of the 2016 financial statements of the NATO Staff Centre.

#### **DISCUSSION**

2. The IBAN have issued an unqualified opinion on the 2016 financial statements of the NATO Staff Centre but have issued a qualified opinion on compliance. Three of the five observations impacted the audit opinion on compliance. The IBAN also followed up on the status of observations from previous years' audits and found that one had been settled, three had been superseded and three are still outstanding.

#### **Observations that impacted the audit opinion on compliance**

3. Since regular financial audits of the NATO Staff Centre were introduced in 2011, considerable effort has gone in to improve governance and management oversight (reference B) and the delivery of commercial operations (reference C). There have been significant time, effort and resources put into gaining management oversight and corrective action taken in the area of contracting and procurement since 2014 and improvements have been made which have been recognised by the IBAN.
4. Concerns have previously been expressed (reference D) about risks to the effectiveness of internal controls during the close-out phase of the current Staff Centre and the transition to the new management model provided by the commercial operations business plan. The latest IBAN audit shows that these risks have been realised, caused primarily by reductions in the number of staff in the Staff Centre, which has made it very difficult to maintain minimum segregation of duties. The IBAN found weaknesses in a number of areas including the management of inventory in the Staff Centre restaurant; management of cash and cash equivalents; management of personnel; verification of expenditure; and, recovery of receivables.

5. The IBAN were not surprised by the weaknesses they found since the number of staff has decreased during 2016. The IBAN believe that there is a risk that will weaken further as the current Staff Centre's operations close down. The IS acknowledge the problems caused by absence of key staff and the overall shortage of personnel in the Staff Centre but believes that a reasonable set of internal controls was already in place given the available resources and that further risk mitigation would have involved disproportionate allocation of resources given that the Staff Centre is not core business and the wind-down in Staff Centre activities on the current headquarters site.

6. The IBAN also found weaknesses in the management of the service contract put in place for the Staff Centre restaurant. The IBAN believes that since the contract does not contain enough incentives for the contractor to perform and no performance indicators to measure the contractor's performance, the contract is dis-advantageous to the Staff Centre and puts all the risk on the Staff Centre itself. The IBAN recognised the external factors that impacted the number of customers using the restaurant and which thus contributed to the drop in revenues. The Board recommended that the IS and the Staff Centre ensure procedures are in place to monitor contractors.

7. The IS agreed with the IBAN recommendation but noted that options were limited during the wind-down phase and a different outsourcing approach has been taken with the implementation of a sound methodology, templates and processes for the monitoring of contract performance in the New NATO Headquarters (NNHQ) staff centre.

8. The third and final observation which impacted the audit opinion on compliance was the late issuance of the financial statements.

### **Additional Observations**

9. The IBAN found a number of weaknesses in the preparation of the financial statements that were not in compliance with the NATO Accounting Framework (NAF) (reference E) and other errors. The IBAN recommended that the IS should establish robust verification procedures for the content of the financial statements to ensure compliance with the NAF. The IS have accepted this recommendation.

10. The IBAN found that the Staff Centre remains in a financially difficult situation which could potentially worsen in 2017 with an increased risk to Nations as any unfunded liabilities<sup>1</sup> potentially will have to be paid from common funding. The IBAN found that the Staff Centre had liquidity problems and is essentially insolvent since the liabilities exceeds the assets. Weaknesses in the commercial operations of the Staff Centre were a significant factor in the redesign of the business model agreed by Council in 2015 (reference C). The IS acknowledge that barring an unanticipated turn around in the Staff Centre finances it will be unable to replay all its obligations when the Staff Centre closes.

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<sup>1</sup> The pension liability of nearly EUR 1.3M accounts for the majority of the total liabilities.

### **Prior years' observations**

11. The delay in the move to the NNHQ has had a direct impact on the proper closure of the current Staff Centre business. An Action Plan has been prepared by the Staff Centre detailing all tasks that are needed to ensure its proper closure. The IBAN also found that resource constraints and higher priorities have meant that the IS has not yet reviewed the operation of the Medical Centre and the agreements in place. Finally the IBAN found that the Staff Centre had not yet made proper corrections between the general ledgers and the sub-ledgers concerning property, plant and equipment.

### **CONCLUSIONS**

12. The IBAN have issued an unqualified opinion on the 2016 financial statements of the NATO Staff Centre but have issued a qualified opinion on compliance. Risks to the effectiveness of internal controls during the close-out phase of the current Staff Centre and the transition to the new management model provided by the commercial operations business plan have unfortunately been realised, caused primarily by reductions in the number of staff in the Staff Centre, which has made it very difficult to maintain minimum segregation of duties. Further risk mitigation would have involved disproportionate allocation of resources given that the Staff Centre is not core business and the wind-down in Staff Centre activities on the current headquarters site. A new operating model has been approved and is being implemented for the delivery of commercial and morale, welfare and recreation activities for the New NATO headquarters. The IBAN found that the Staff Centre is in a financially difficult situation which could potentially worsen in 2017 with an increased risk to Nations as any unfunded liabilities potentially will have to be paid from common funding.

### **RECOMMENDATIONS**

13. The Resource Policy and Planning Board recommends that Council:
- a) note the IBAN report (reference A);
  - b) note the conclusions at paragraph 12; and,
  - c) approve the public disclosure of this report, the IBAN audit and the associated 2016 financial statements of the NATO Staff Centre.

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**ANNEX 1**

**Summary Note for Council  
by the International Board of Auditors for NATO (Board)  
on the audit of the Financial Statements of the  
NATO Staff Centre  
for the year ended 31 December 2016**

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 2016 was about EUR 2.9 million.

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

The Board issued an unqualified opinion on the Financial Statements for the year ended 31 December 2016.

The Board issued a qualified opinion on compliance for the year ended 31 December 2016 due material weaknesses in the internal controls and segregation of duties in the Staff Centre in key areas such as inventory management, cash management and contract management of a service contract. Further, the financial statements were not submitted within the deadlines required in the NATO Financial Regulations.

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(2017)11**

**31 August 2017**

**INTERNATIONAL BOARD OF AUDITORS FOR NATO  
AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF  
THE NATO STAFF CENTRE  
FOR THE YEAR ENDED 31 DECEMBER 2016**

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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 Financial Statements of the NATO Staff Centre, which comprised the Statement of Financial Position as at 31 December 2016, 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 Financial Statements*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Staff Centre as of 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with the NATO Accounting Framework.

**Report on Compliance**

*Management's Responsibility for Compliance*

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

*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 NATO Financial Regulations require the financial statements to be submitted for audit to the International Board of Auditors for NATO by the Financial Controller not later than 31 March following the end of the financial year. The financial statements of the Staff Centre for the year ended 31 December 2016, though, were only submitted on 03 May 2017, a delay of one month.

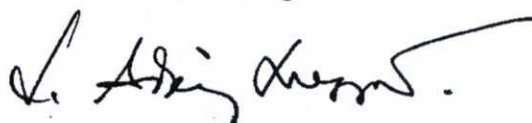
The Board also identified material weaknesses in the internal controls and segregation of duties in the Staff Centre in key areas such as inventory management, cash management and contract management of a service contract.

The details of these weaknesses are reported in Observation 1, 2 and 3 of the Letter of Observations and Recommendations accompanying this report.

*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, 31 August 2017

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

Hervé-Adrien Metzger  
Chairman

31 August 2017

**INTERNATIONAL BOARD OF AUDITORS FOR NATO  
LETTER OF OBSERVATIONS AND RECOMMENDATIONS  
FOR THE NATO STAFF CENTRE  
FOR THE YEAR ENDED 31 DECEMBER 2016**



## **Introduction**

The International Board of Auditors for NATO (Board) audited the NATO Staff Centre's Financial Statements for the year ended 31 December 2016, and issued an unqualified opinion on the financial statements and a qualified opinion on compliance.

## **Observations and Recommendations**

During the audit, the Board identified five observations with recommendations. Material weaknesses in internal control were found that need to be rectified and closely monitored to properly mitigate the risks of errors and fraud.

Three observations impact the audit opinion on compliance:

1. Weaknesses in the internal controls in the Staff Centre.
2. Weaknesses in the contract management of the service contract for the restaurant.
3. Late issuance of the financial statements.

The remaining two observations do not impact the audit opinion:

4. Weaknesses in the preparation of the financial statements resulted in non-compliance with the NATO Accounting Framework and other errors.
5. Liquidity problems in the Staff Centre increase the risks for the need for common funds.

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

The Board also issued a Management Letter (reference IBA-AML(2017)05) to the Financial Controller, International Staff, with observations for management's attention.

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

**OBSERVATIONS AND RECOMMENDATIONS****1. WEAKNESSES IN THE INTERNAL CONTROLS IN THE STAFF CENTRE****Reasoning**

1.1 According to the NATO Financial Regulations (NFRs) Article 12, the Secretary General, the Supreme Commanders, subordinate commanders by delegation and the other 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 The Financial Controller shall be responsible to the Head of the NATO body and shall be accountable to the relevant finance committee on the management of appropriated and non-appropriated funds. Among other things, the Financial Controller shall ensure that all accounts are reconciled and verified on a regular basis, and all activities with financial implications, including multinational and non-appropriated fund activities, controlled by periodic inspection.

**Observations**

1.3 In prior year audits of the Staff Centre (since the audit of 2011 Financial Statements), the Board found material weaknesses in the internal controls. The Board recommended the International Staff (IS) Office of Financial Controller to increase their involvement in order to increase the level of internal controls and segregation of duties.

1.4 The weaknesses in the internal controls still exist and to some extent have worsened during 2016 since the number of staff in the Staff Centre has dropped. Therefore, it becomes very difficult to maintain minimum segregation of duties. Weaknesses in the internal controls and segregation of duties were found in the following areas:

- Management of Inventory in the restaurant: Segregation of duties are not ensured. The functions of ordering, inputting and updating the inventory records, controlling the inventory and performing the stock takes were also not adequately segregated. The stock keeper position was deleted at the end of 2015. Since then, various staff have been responsible for inventory management which also have led to higher monthly stock differences. During part of 2016, monthly stock takes were performed by the accountant. Although the stock significantly decreased in 2016 after the outsourcing of the perfume shop, management of inventory in the restaurant is important and if not well managed, it increases the risk of fraud.



- Management of cash and cash equivalents:
  - The Board found that whilst bank reconciliations of the Staff Centre bank accounts were done on a regular basis, the reconciliations were not fully documented and there was no evidence of a reviewer approving them.
  - Complete segregation of duties is not in place in the area of bank transactions. On a day-to-day basis, bank transactions are authorized and executed by two staff in conjunction (typically the accountant and the Office of Financial Control). Although bank transfers are authorized by two staff in conjunction, and thus one staff cannot both initiate and approve bank transfers, the Board believes that the accountant should not be involved in initiating bank payments.
  - No periodic and independent petty cash counts are conducted. Whilst cash is daily collected from the restaurant and reception and properly counted and recorded before being deposited in the bank, no independent count of the petty cash advanced to the restaurant and the reception is done throughout the year. According to the Staff Centre, the petty cash was counted at year end, although the documentation for the count mentions 2015 and there is no signature of the person(s) conducting the count.
- Management of personnel: Timesheets for personnel hired via the contractor were not signed and approved by a supervisor representing the Staff Centre nor were they signed by the staff member itself. During the Board's audit, the procedures were changed and timesheets started to be properly approved, although in the case of temporary staff from a manpower agency, the timesheets were not approved. The review and approval of timesheets by the employee's supervisors is a key internal control of work done, especially considering that the Staff Centre is paying the contractor based on hours worked.
- Expenditure verification: The Board found that a supplier charged management fees not contractually agreed in the period January to September of EUR 21,184. The invoices were certified and approved by the Staff Centre and the Office of Financial Controller and paid to the supplier without verification that the charges were against contract terms. A credit note was received from the contractor in October 2016.
- Recovery of receivables: The Board found that the balance of receivables in the Sports segment had increased by EUR 27,346 in 2016 compared to 2015. The collection of outstanding balances due and the issuance of reminders to bad debtors had not in all cases been done on a regular basis due to long term sickness of responsible staff members. This negatively impacts the cash flow of the Staff Centre.



1.5 The above weaknesses in the internal controls increase the risk of error or fraud and, thus, require compensatory controls to be put in place and close management attention. For example, the Board found one instance where sales in the restaurant were not recorded by the waiter leading to loss on the stock and loss of revenue (after the audit, it was corrected and sales invoiced to the customer). This example shows that risks of mistakes have increased and may have led to losses for the Staff Centre in 2016.

1.6 These weaknesses are not surprising since the number of staff has decreased during 2016. However, as pointed out by the Board in prior audit reports, segregation of duties in key areas cannot be ensured without compensatory controls put in place by the International Staff. To the Board's knowledge, no additional compensatory controls were put in place by the IS in 2016. Since 2011, some effort and resources were put into gaining management oversight and taking corrective actions in the area of contracting and procurement by the IS. However, in other areas, the internal controls are weak and considering that 2017 is the last year of the current Staff Centre operations, and as more personnel will depart, there is a risk that internal controls will weaken further.

### **Recommendation**

1.7 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.

## **2. WEAKNESSES IN THE CONTRACT MANAGEMENT OF THE SERVICE CONTRACT FOR THE RESTAURANT**

### **Reasoning**

2.1 According to the NFRs Article 3, the Secretary General, the Supreme Commanders and the other Heads of NATO bodies are responsible and accountable for sound financial management and shall put in place the necessary governance arrangements to ensure and maintain this.

2.2 Further, according to the NATO IS Procurement Manual, once a contract has been awarded, the responsible procurement officer, or the requisitioner, monitors performance, collects information and measures actual contract achievement. This is essential for effective control. The resources devoted to these tasks, and the techniques used to perform them, will depend on the nature of the contract work, the size and complexity of the contract, and the resources available.



**Observations**

2.3 A supplemental contract on Management Advisory Services for the NATO Staff Centre was signed with the NATO HQ catering company and implemented as from October 2015. The supplemental contract is an extension of the already existing Technical Assistance contract with the catering company. The purpose of the contract was to have the catering company support the Staff Centre in the organisation and management of the Staff Centre catering activities (a service contract for the exclusive provision of Management Advisory Services). The support consists, among other things, of recommendations to the Staff Centre to reduce financial losses and achieve profit in the restaurant, the hiring of a full time manager to manage all catering operations and the purchase of food and non-food products from the catering company.

2.4 The objective, according to the above contract, was to achieve profitability through the reduction of operating costs and the increase of revenue.

2.5 The contract includes compensation arrangements whereby profit are shared on a 50/50 basis (after deduction of all costs) and an additional 10% incentive fee if yearly profit exceeds EUR 50,000. Only under very specific conditions, which appears to be difficult to achieve, would losses be shared on a 50/50 basis<sup>1</sup>.

2.6 The contract with the catering company is a service contract whereby the contractor provides advice and support (provision of Management Advisory Services) but the overall responsibility for the management of the catering operations lies with the Staff Centre. This is clearly indicated in the contract, for example by stating that organising, planning and overseeing the work and activities happens in coordination with the NATO Staff Centre's designated Service Manager and that both parties agree on the menus and the required products and supplies.

2.7 The financial situation in the Staff Centre restaurant significantly worsened in 2016 compared to 2015 and the net result for 2016 was a loss of EUR 295,420 in the restaurant, see table below.

	2016	2015	% change
<b>Sales</b>			
Sales	952,152	1,223,190	-22%
<b>Costs</b>			
Costs of goods sold	322,757	315,925	2.2%
Salaries	150,889	644,188	-76.6%
Outsourced salary costs	767,797	463,010	65.8%
Other operating costs	6,129	6,794	-9.8%
<b>Net deficit</b>	<b>-295,420</b>	<b>-206,727</b>	<b>42.9%</b>

Note: Information from Staff Centre Financial Statements 2015 and 2016.

<sup>1</sup> Main conditions for loss sharing is that revenues are equal to or greater than the 2014 revenues of EUR 1,665,182 and all recommendations provided by the contractor have been followed.



2.8 The Board found several indications that the Staff Centre did not properly oversee and monitor the performance of the contractor in 2016.

2.9 The Board found the following issues:

- The gross margin<sup>2</sup> dropped by 31% in 2016 compared to 2015. This means that the restaurant is not making the same profit on goods sold as in prior years. This is explained by increased costs of goods and thus the objectives of reducing the operating costs was not achieved.
- The costs of goods sold (food, non-food and beverages) increased by 1.90% in 2016 compared to 2015. Since October 2015, food and non-food products are purchased via the contractor. Considering that sales dropped significantly in 2016 (by 22%), the costs of goods should have been reduced too. The reasons for the increased costs of goods are unknown to the Board.
- The stock of food at year end 2016 increased by 115% compared to 2015 (from EUR 4,000 end of 2015 to EUR 8,700 end of 2016). It is unclear to the Board whether management were fully aware of, and accepted, this increase.
- The orders for food and non-food products were prepared by the contractor without the approval of the Staff Centre prior to the submission of the order. Orders were signed by the Deputy Director after being submitted to the supplier. According to the contract, both parties would agree on the required products and supplies. Since the orders were prepared by the contractor and submitted to and supplied by the contractor, this further creates a conflict of interest.
- Timesheets for contractor personnel working in the restaurant were not signed and approved by a supervisor. Since the Staff Centre is paying the contractor based on hours worked, a review and approval of timesheets by a supervisor is a key internal control. The lack of this internal control increases the risks of mistakes and fraud.
- During a stock take done by the Board, we found that some stock differences on beverages were because sales were not recorded and invoiced to the customer. Based on the Board's finding, the sales were recorded. This situation leads to an increased risk of mistakes and fraud which potentially creates further losses to the Staff Centre.
- There are no performance indicators included in the contract. The contract is focussed on profit sharing compensation but does not take into consideration other incentives to make the contractor perform better, for example in

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<sup>2</sup> Total sales reduced by cost of goods sold.

situations where no profit is made. Since the financial situation in the restaurant was so difficult and the losses so significant, there was no incentive for the contractor to improve the performance. Considering also that all costs of running the operations is paid by the Staff Centre, this reduces the incentive for the contractor to improve the situation and puts all risk on the Staff Centre.

2.10 The Board believes that the above issues indicate that the Staff Centre did not properly oversee and monitor the performance of the contractor in 2016. For example, the lack of approval of goods ordered and the lack of approval of hours worked by the staff, show that the contractor was in fact managing the restaurant without proper controls in place. Further, the above indicates that the objectives of the contract with the catering company was not achieved. Operating costs were not reduced as expected and revenue not increased. The Board believes that since the contract does not contain enough incentives for the contractor to perform and no performance indicators to measure the contractor's performance, the contract is dis-advantageous to the Staff Centre and puts all the risk on the Staff Centre.

2.11 Although the Board is aware that a number of external factors in 2016 impacted the number of customers in the Staff Centre and thus contributes to the drop in revenue in the restaurant, in such a situation it is even more important to closely monitor and manage costs. The Board is aware that 2016 was a difficult year for the Staff Centre with significant reductions in the number of staff, a number of staff on long term sick leave etc., which made it difficult to manage the day-to-day business and relationship with contractors.

2.12 The Board understands that as from 02 May 2017, the restaurant was completely outsourced to the above mentioned 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.

### **Recommendation**

2.13 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.



### 3. LATE ISSUANCE OF THE FINANCIAL STATEMENTS

#### Reasoning

3.1 Article 35 of the NATO Financial Regulations (NFRs) states that *“An annual financial statement for each NATO body, consolidated where applicable and appropriate, shall be submitted for audit to the International Board of Auditors for NATO by the Financial Controller not later than 31st March following the end of the financial year.”*

#### Observation

3.2 On 03 May 2017, the Board received the Staff Centre 2016 Financial Statements, although these were not signed by the Secretary General. On 19 May 2017, the Board received the final approved and signed financial statements for the Staff Centre. This does not respect the requirements of the NFRs.

#### Recommendation

3.3 The Board recommends that future financial statements be submitted by 31 March, in accordance with the deadline in the NFRs.

### 4. WEAKNESSES IN THE PREPARATION OF THE FINANCIAL STATEMENTS RESULTED IN NON COMPLIANCE WITH THE NATO ACCOUNTING FRAMEWORK AND OTHER ERRORS

#### Reasoning

4.1 According to paragraph 127 of IPSAS 1, *Presentation of Financial Statements*, notes shall among other things provide additional information that is not presented on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity, or cash flow statement, but that is relevant to an understanding of any of them.

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

4.3 Further, according to best practices, all the accounting records should be recorded in the accounting software in order to ensure the transparency, accountability and proper approval of transactions.

**Observations**

4.4 The Board found that the note disclosure did not in all cases comply with requirements in the NATO Accounting Framework. The Board found the following:

- for Property, Plant and Equipment, IPSAS 17 requires the disclosure of the gross carrying amount and the accumulated depreciation at the beginning and end of the period. Also, the useful lives or depreciation rates used should be disclosed. This was not disclosed in the note to the Staff Centre Financial Statements.
- there was no clear disclosure of the amounts restated as the original 2015 balances, as presented in the 2015 Financial Statements, were not disclosed in the face of the statements. This is not fully in compliance with IPSAS 3, paragraph 54 which requires the amount of correction for each financial statement line item disclosed.

4.5 The Board also found several errors and/or omitted information in the financial statements of the Staff Centre for 2016. The following errors were identified:

- manual adjustment of EUR 16,617, relating to liabilities where no current obligation existed anymore, was incorrectly added to the balance of receivables instead of being deducted from payables. Therefore, receivables and payables are overstated by EUR 16,617.
- manual adjustment of EUR 45,495 in receivables and payables in 2015 was not correctly reversed in 2016. Therefore, receivables and payables are overstated by EUR 45,495.
- financial revenue was understated by EUR 1,447 due to incorrect adjustment of accrued concession revenue.
- inter-entity balances of EUR 24,829 in 2015 were not eliminated in the restated 2015 figures.
- restatement and reclassification of 2015 segment reporting was not in all cases correctly done leading to mistakes in the segment reporting for 2015.
- additional information provided in the notes were in many cases similar to 2015 note disclosure and lacked an update to properly reflect events in 2016.



4.6 Finally, the Board found that the Office of Financial Controller performs manual journal entries outside of the new accounting system in order to generate the final financial statements. By not recording all transactions in the accounting system, it increases the risks of mistakes and reduces the transparency and audit trail for proper approval of the transactions.

### **Recommendations**

4.7 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.

4.8 Also, the Board recommends keeping all accounting transactions and records in the main accounting software.

## **5. LIQUIDITY PROBLEMS IN THE STAFF CENTRE INCREASE THE RISKS FOR THE NEED FOR COMMON FUNDS**

### **Reasoning**

5.1 According to the NFRs, the Financial Controller is the principal responsible for the management of appropriated and non-appropriated funds, and is responsible for prescribing and requiring the implementation of budgetary and financial accounting and control procedures that are best suited to reducing financial risks and the need of common funds.

5.2 The management of Morale and Welfare Activities should be based on principles intended to minimise the risk of financial liabilities to NATO including an unforeseen additional use of international funds.

### **Observations**

5.3 The Board analysed the 2016 Financial Statements of the Staff Centre. The Staff Centre is in a financially difficult situation which potentially could worsen in 2017. This increases the risk for nations, as any unfunded liabilities potentially will have to be paid by common funds.

5.4 The table below provides an overview of the assets and liabilities in the Staff Centre:

	2016	2015
<b>Assets</b>		
Current assets		
<i>Cash</i>	210,727	287,871
<i>Receivables</i>	379,865	410,944
<i>Inventories</i>	23,565 <sup>3</sup>	186,648
Non-current assets		
<i>PP&amp;E</i>	0	9,020
<b>Total Assets</b>	<b>614,158</b>	<b>885,464</b>
<b>Liabilities</b>		
Current liabilities		
<i>Payables</i>	544,081	636,568
<i>Pension debt (current portion)</i>	600,000	300,000
Non-current liabilities		
<i>Pension debt</i>	686,042	917,610
<i>Long-term loan</i>	261,899	261,899
<b>Total liabilities</b>	<b>2,092,022</b>	<b>2,039,673</b>
Current ratio <sup>4</sup>	0.5	1.0
Quick ratio <sup>5</sup>	2.0	2.0

5.5 The above shows that the Staff Centre has liquidity problems and essentially is insolvent since the liabilities exceeds the assets. As at 31 December 2016, the Staff Centre had sufficient cash to cover expected cash flow for 2 months. This means that in 2017, the Staff Centre may be unable to pay normal operating costs such as salaries, suppliers etc.

5.6 Because of the liquidity problems, the Staff Centre did not pay the employer's part of the pension contribution in 2016 for the Coordinated Pension Scheme. Also, no re-payment of the pension liability for this scheme was made in 2016 as otherwise agreed by the Financial Controller and noted by the Resource, Policy and Planning Board (FC(2012)092). A payment plan was agreed in 2012 and EUR 300,000 were to be reimbursed annually to reduce the pension liability. Since the Staff Centre did not have sufficient cash in 2016, no payment of pension was done. This means that the pension liability increased by EUR 68,432 to in total EUR 1,286,043 by the end of 2016.

5.7 The Staff Centre is at the same time impacted by a legal dispute relating to a contractual matter between another NATO body and a private firm. The litigation does not involve the Staff Centre directly, but because of the dispute, income from occupancy fees from some concessions is being blocked. This means that the Staff Centre is currently not receiving the cash amounts due, which impacts their cash flow needed for

<sup>3</sup> The decrease in inventory is due to the outsourcing of the perfume shop to a concessionaire since May 2016.

<sup>4</sup> The current ratio measures the entity's ability to pay off its short-term liabilities with its current assets.

<sup>5</sup> The quick ratio indicates the number of months, the entity can operate without additional funds.



daily operations. The Budget Committee was informed about the legal dispute on several occasions.

5.8 Further, common operating costs for the period 2008 to 2016 of in total EUR 246,123, has not yet been paid by the Staff Centre to the IS. Also, because of the above mentioned legal dispute, the IS provided a cash advance to the Staff Centre in 2014 and 2015 of EUR 261,899 to help the Staff Centre with its liquidity problems. Thus in total, the Staff Centre owes the IS EUR 508,022 which currently it is not in a situation to re-pay.

5.9 The current situation requires close monitoring of the future cash needs by management and it increases the risks of the need for common funds to cover the Staff Centre's obligations.

### **Recommendation**

5.10 The Board recommends that a plan should be developed to ensure the re-payment of all Staff Centre's obligations.

5.11 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.

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

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

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p><b>1. IBA-AR(2016)16 (FY 2015) paragraph 1 NON-COMPLIANCE WITH THE NATO FINANCIAL REGULATIONS AND THE NATO STAFF CENTRE MANDATE</b></p> <p>The Board recognises the significant effort and resources put into gaining management oversight and taking corrective actions in the area of contracting and procurement by the IS Office of Financial Control. However, the Board found that for the financial year 2015, full compliance with the NFRs was not yet in place. In the area of goods and services acquired for the restaurant, compliance with the procurement regulations was not fully in place for nine months of the year as goods were acquired without proper contracts and purchase orders in place.</p> <p><b>Board's recommendation</b> The Board recommends the IS to continue to work on ensuring full compliance with the NFRs in the Staff Centre.</p>	<p>As from 1 October 2015, a contract was signed with the NATO HQ catering company who supplied the Staff Centre with food and non-food products in 2016. Therefore, as from October 2015, the Staff Centre is complying with the NFRs in relation to contracting and procurement.</p>	<p>Observation <b>Settled.</b></p>
<p><b>2. IBA-AR(2016)16 (FY 2015) paragraph 2 WEAKNESSES IN THE PREPARATION OF THE FINANCIAL STATEMENTS RESULTED IN NON- MATERIAL ERRORS</b></p> <p>The Board found several errors and/or omitted information in the financial statements of the Staff Centre as published on 1 April 2016 (FC(2016)0038). Some of the errors were immaterial, but some led to material misstatements of certain parts of the financial statements, including the segment reporting.</p> <p><b>Board's recommendation</b> The Board recommends the IS to establish robust verification procedures of the figures and other information in the financial statements before its final issuance.</p>	<p>Superseded by current year observation.</p>	<p>Observation <b>Superseded by current year observation 4.</b></p>
<p><b>3. IBA-AR(2016)16 (FY 2015) paragraph 3 PROPER CLOSURE OF CURRENT STAFF CENTRE BUSINESS NEEDS TO BE ENSURED</b></p> <p><b>Board's recommendation</b> 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</p>	<p>The move to the New HQ has been delayed.</p>	<p>Observation <b>Outstanding.</b></p>



OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
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.	The Board is aware that a physical count of all fixed assets is on-going to prepare for the move. Further, an action plan for the closure of the current staff centre has been prepared by the Staff Centre with milestones for all tasks, including termination of supplier contracts and staff contracts, hand-over of equipment etc.	
<p><b>4. IBA-AR(2015)32 (FY 2014) paragraph 2 CONCESSION AGREEMENTS SIGNED IN THE MEDICAL CENTRE NEEDS TO BE REVIEWED AND RE-NEGOTIATED</b></p> <p>The Board found that no progress had been made in 2014 in this area and thus concession agreements signed in the Medical Centre needs to be reviewed and re-negotiated.</p> <p><b>Board's recommendation</b> Before the move to the new NATO Headquarter, the Board recommends the IS to review the operation of the Medical Centre and the agreements in place in the Medical Centre. The Board recommends the IS to ensure that rental fees charged to the concessionaires in the Medical Centre are fixed based on clear principles ensuring all costs of the facilities are covered including utilities and management administration.</p> <p>These concession agreements should be reviewed and re-negotiated by IS Procurement Service and properly approved by the IS Financial Controller.</p>	<p>The operation of the Medical Centre and the agreements in place in the Medical Centre has not yet been reviewed by the IS.</p> <p>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 the Staff Centre and the new operating model for the New HQ.</p> <p>In the New HQ, the Board understands that the Medical Centre (as part of retail services) will be fully outsourced and new contracts will be put in place.</p>	Observation <b>Outstanding.</b>
<p><b>5. IBA-AR(2015)32 (FY 2013) paragraph 4 NO RESTATEMENT OF COMPARATIVE 2013 FIGURES</b></p> <p>The Board found that the 2013 comparative balances were materially misstated as proper restatement of comparative balances did not take place. For example, the Board found that 2013 inter-entity balances were not eliminated and 2013 revenue was overstated due to improper correction of prior year mistakes. Further, the Board found that adjustments to PP&amp;E and Intangible assets were made in 2014 without proper adjustment of comparative balances. Also, no comparative segment information for 2013 was disclosed in the notes of the 2014 Financial Statements.</p> <p><b>Board's recommendation</b> The Board recommends the IS to continue to</p>	Superseded by current year observation.	Observation <b>Superseded by current year observation 4.</b>

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
improve the presentation of financial statements and to comply with the requirements in the NATO Accounting Framework (IPSAS 3) and properly present and adjust comparative balances when required.		
<p><b>6. IBA-AR(2013)05 (FY 2011) paragraph 5.2.6 DIFFERENCES BETWEEN FINANCIAL STATEMENTS AND DETAILED DATA - UNDERSTATEMENT OF PROPERTY, PLANT &amp; EQUIPMENT (PP&amp;E) AND REVENUE IN PRIOR YEARS</b></p> <p>The Board found that revenue in prior years were understated by EUR 293,242 and the gross values of PP&amp;E were understated by the same amount. This was due to misstatements of revenue by decreasing values of PP&amp;E instead of recognizing income as revenue. Also, the Board noted unexplained differences in the values of PP&amp;E.</p> <p><b>Board's recommendation</b> The Board recommends the Staff Centre to make proper corrections ensuring that the values of PP&amp;E are correct. Also, the Board recommends the Staff Centre to regularly (at least annually) ensure the reconciliation of sub-ledgers and general ledgers to identify errors in PP&amp;E.</p>	<p>The Board noted that there were still differences between sub-ledgers and general ledgers related to PP&amp;E that had not yet been corrected. The differences are in the CP segment.</p> <p>The Board recommends the Staff Centre to make proper corrections ensuring that the PP&amp;E values are correct.</p>	Observation <b>Outstanding.</b>
<p><b>7. IBA-AR(2013)05 (FY 2011) paragraph 5.5 WEAKNESSES IN THE INTERNAL CONTROLS AND ACCOUNTING POLICIES</b></p> <p>The Board found that the current internal written accounting policies of the Staff Centre did not cover all accounting areas and processes. Also, the Board found weaknesses in the internal controls and inadequate segregation of duties, including in the area of inventory management, leading to the increased risk of error and fraud.</p> <p><b>Board's recommendation</b> Based on a decision by Council on a revised governance structure and mandate of the Staff Centre, the Board recommends the Staff Centre to develop adequate accounting policies covering the main accounting areas and processes to ensure an effective financial administration. Also, the Board recommends the Staff Centre to improve the current internal controls, ensuring the proper segregation of duties in key areas, such as inventory, and strengthening the review and monitoring of controls by involving the International Staff Financial Controller.</p>	Superseded by current year observation.	<b>Superseded by current year observation 1.</b>



**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***

*In 2016, the Staff Centre, under the supervision of the Executive Board, took compensatory measures to maintain the segregation of duties and internal controls. The following example illustrates some of the measures taken and the difficulties encountered:*

- When the stock keeper position was deleted at the end of 2015, the Staff Centre reorganized and tasked the Personal Assistant of the Staff Centre Director to serve as stock keeper for beverages, as the contractor had taken over other stock keeping as part of their management advisory service contract at the beginning of October 2015. When the Personal Assistant moved into an IMS position in April 2016, the Staff Centre again reprioritized and designated the remaining Kitchen Helper to take over these responsibilities. The Kitchen Helper went on long-term sick leave from 6 July to 17 November 2016. It was during this time that the segregation of duties was not possible as there was only one IS person remaining available. When the Kitchen Helper returned in November, she resumed her stock keeping duties until the entire restaurant was outsourced in May 2017.*
- Concerning financial segregation, the Staff Centre asked, and OFC agreed, to allow an experienced IS staff member who had been hired into a position in OFC to remain in the Staff Centre to provide additional segregation of duties and checks as a compensatory control. This staff member remained in place part time from 1 March to 1 September 2016, at which point the staff member began to work full time for OFC. Anticipating her departure, the Staff Centre hired a temporary employee who trained with the IS staff member for three weeks and then assisted the remaining IS staff from 10 August 2016 to 1 February 2017.*
- With respect to the findings regarding expenditure verification: The IS believes that a reasonable set of internal controls was already in place given the available tools and resources and the assessment of the potential risks stemming from the financial activities of the Staff Centre. Existing controls already included generally accepted rules of segregation of duties and verification procedures. However, there is always a residual risk in any internal control system which is inherent to the human intervention in the establishment or operation of the relevant controls. The recommendation from IBAN infers that no internal control was in place and the IS finds that this doesn't reflect the actual situation.*



*The recommendation and the grounds for it are understood. However, as IBAN itself acknowledges, the segregation of duties reaches limitations when the number of available staff is low and decreasing. In this context, the postponement of the move to the New HQ has made the situation even more difficult. The number of personnel working in the Staff Centre was systematically reduced based on a planned move date to the new Headquarters of 9 January 2016 and to reduce the personnel overhead in the Staff Centre to a minimum. The move date has shifted to 27 November 2017, but the personnel were already gone, rendering strict segregation of duties very difficult. The long-term sick leave of the MWR Manager, with no true deputy available, compounded the segregation and decreased the oversight that would normally have been in place to check time sheets, verify expenditures and pursue recovery of receivables.*

*To date, the focus has been on compliance with procurement rules, an area where risks were assessed to be higher. The IS (Office of Financial Control and Executive Management) will look into the matter. In order to implement "additional compensatory controls" (re. §1.6), additional resources would be required, in a context where the IS has already dedicated a very large amount of time to the Staff Centre, in particular in considering the amounts involved.*

#### **Board's position**

The Board reviewed the formal comments of the IS, and maintains its position.

#### **OBSERVATION 2: WEAKNESSES IN THE CONTRACT MANAGEMENT OF THE SERVICE CONTRACT FOR THE RESTAURANT**

##### **IS Formal Comments**

*The recommendation is agreed.*

*It should be noted however that the number of personnel working in the Staff Centre was systematically reduced based on a planned move date to the new Headquarters of 9 January 2016 and to reduce the personnel overhead in the Staff Centre to a minimum, resulting in only two Staff Centre staff members to ensure administration, control, HR, payroll, finances, etc. The long-term sick leave of the MWR Manager with no true second decreased the oversight that would normally have been in place to properly manage the service contract.*

*The IS is aware of the importance of proper contract management and has already implemented a sound methodology, templates and processes for the monitoring of contract performance. For example, all the new concessionaire and service contracts that have been established for the NNHQ Staff Centre include provisions that oblige service providers to meet specified service levels and that provide remedies in case established targets are not achieved. In addition to this,*

*the Procurement Service has implemented a training programme specifically designed for the personnel working on the day-to-day management of service contracts where they learn how to develop and implement a contractor performance assessment plan.*

**OBSERVATION 3:  
LATE ISSUANCE OF THE FINANCIAL STATEMENTS**

***IS Formal Comments***

*The recommendation is agreed.*

**OBSERVATION 4:  
WEAKNESSES IN THE PREPARATION OF THE FINANCIAL STATEMENTS  
RESULTED IN NON COMPLIANCE WITH THE NATO ACCOUNTING FRAMEWORK  
AND OTHER ERRORS**

***IS Formal Comments***

*The recommendations are agreed.*

**OBSERVATION 5:  
LIQUIDITY PROBLEMS IN THE STAFF CENTRE INCREASE THE RISKS FOR THE  
NEED FOR COMMON FUNDS**

***IS Formal Comments***

*The IS Office of Financial Control has taken into account the cash situation of the Staff Centre so that it can meet its obligations towards staff and external suppliers first. As a consequence, repayment of amounts due to the IS and to the Coordinated Pension Scheme were postponed. When the repayment plan was put in place in 2010, the amount originally due by the Staff Centre was EUR 1.770 million with an estimated end in 2021. Since then EUR 0.484 million were repaid.*

*Barring an unanticipated turn around in Staff Centre finances, it will be unable to repay all its obligations when the Staff Centre closes. The ability to repay the Staff Centre's obligation to the IS and the Coordinated Pension Scheme will depend on the level of net concession fees from the commercial areas in the New HQ.*

**NATO STAFF CENTRE  
FINANCIAL STATEMENTS AS AT 31/12/2016  
FINANCIAL YEAR 2016**

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

**Nato Staff Center Statement of Financial Position  
For the year ended 31 December 2016**

	Notes	EUR Current year 31-Dec-16	EUR Prior year 31-Dec-15	EUR Variance CY-PC
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
<b>Cash and Cash equivalents</b>	<b>4</b>			
Cash		4,120.00	4,120.00	0.00
Current bank accounts		203,368.94	280,074.55	-76,705.61
Cash equivalents		3,238.20	3,676.70	-438.50
<b>Total Cash and Cash Equivalents</b>		<b>210,727.14</b>	<b>287,871.25</b>	<b>-77,144.11</b>
<b>Receivables</b>	<b>5</b>			
Accounts receivable		376,661.68	361,110.17	15,551.51
Other Receivables		3,203.60	49,834.03	-46,630.43
<b>Total Receivables</b>		<b>379,865.28</b>	<b>410,944.20</b>	<b>-31,078.92</b>
<b>Inventories</b>	<b>6</b>			
Inventory sports		23,565.09	3,200.48	20,364.61
Inventory restaurant		0.00	26,236.09	-26,236.09
Inventory commercial area		0.00	157,211.78	-157,211.78
<b>Total Inventories</b>		<b>23,565.09</b>	<b>186,648.35</b>	<b>-163,083.26</b>
<b>TOTAL CURRENT ASSETS</b>		<b>614,157.51</b>	<b>885,463.80</b>	<b>-271,306.29</b>
<b>NON CURRENT ASSETS</b>				
<b>Receivables</b>	<b>7</b>			
		0.00	0	0
<b>Infrastructure, Plant and Equipment</b>		0.00	1,019.66	-1,019.66
<b>Land and buildings</b>		0.00	0.00	0.00
<b>Other</b>		0.00	8,000.00	-8,000.00
<b>TOTAL NON CURRENT ASSETS</b>		<b>0.00</b>	<b>9,019.66</b>	<b>-9,019.66</b>
<b>TOTAL ASSETS</b>		<b>614,157.51</b>	<b>894,483.46</b>	<b>-280,325.95</b>

**Nato Staff Center Statement of Financial Position**  
**For the year ended 31 December 2016**

	Notes	EUR Current year 31-Dec-16	EUR Prior year 31-Dec-15	EUR Variance CY-PC
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
<b>Payables</b>	<b>8</b>			
Payable to Third Parties		1,144,080.71	928,567.72	215,512.99
Current portion of debts payable after one year		0.00	8,000.00	-8,000.00
<b>Total Payables</b>		<b>1,144,080.71</b>	<b>936,567.72</b>	<b>207,512.99</b>
<b>TOTAL CURRENT LIABILITIES</b>		<b>1,144,080.71</b>	<b>936,567.72</b>	<b>207,512.99</b>
<b>NON CURRENT LIABILITIES</b>				
	<b>9</b>			
Long-term Pension debt and charges		686,042.10	917,610.34	-231,568.24
Long-term loan		261,898.75	261,898.75	0.00
<b>TOTAL NON CURRENT LIABILITIES</b>		<b>947,940.85</b>	<b>1,179,509.09</b>	<b>-231,568.24</b>
<b>TOTAL LIABILITIES</b>		<b>2,092,021.56</b>	<b>2,116,076.81</b>	<b>-24,055.25</b>
<b>NET ASSETS</b>				
	<b>10</b>			
Previous results		-1,221,593.35	-1,327,445.28	105,851.93
Current result		-256,270.70	105,851.93	-362,122.63
Capital subsidies		0.00	0.00	0.00
<b>Total Net Assets</b>		<b>-1,477,864.05</b>	<b>-1,221,593.35</b>	<b>-256,270.70</b>
<b>TOTAL NET ASSETS</b>		<b>-1,477,864.05</b>	<b>-1,221,593.35</b>	<b>-256,270.70</b>
<b>TOTAL BALANCE</b>		<b>614,157.51</b>	<b>894,483.46</b>	<b>-280,325.95</b>



**Nato Staff Center Statement of Financial Performance**  
**For the year ended 31 December 2016**

	<b>Notes</b>	<b>EUR Current year 31-Dec-16</b>	<b>EUR Prior year 31-Dec-15</b>	<b>EUR Variance CY-PC</b>
<b>REVENUE</b>	<b>11</b>			
Sales		2,431,367.25	3,366,868.03	-935,500.78
Concessions		444,454.33	618,501.28	-174,046.95
Financial Revenue		1,280.86	2,543.95	-1,263.09
Other Revenue		16,617.58	324,000.00	-307,382.42
<b>TOTAL REVENUE</b>		<b>2,893,720.02</b>	<b>4,311,913.26</b>	<b>-1,418,193.24</b>
<b>Expenses</b>	<b>12</b>			
Wages, salaries and employee benefits		886,424.64	1,837,590.73	-951,166.09
Outsourced Services		1,326,802.07	951,478.99	375,323.08
Operating Costs		73,146.49	53,215.02	19,931.47
Cost of Goods Sold		888,218.16	1,299,466.12	-411,247.96
Other costs		-33,620.30	52,847.58	-86,467.88
Depreciation and amortization		9,019.66	11,462.89	-2,443.23
<b>TOTAL REVENUE</b>		<b>3,149,990.72</b>	<b>4,206,061.33</b>	<b>-1,056,070.61</b>
<b>SURPLUS (DEFICIT) FOR THE PERIOD</b>	<b>10</b>	<b>-256,270.70</b>	<b>105,851.93</b>	<b>-362,122.63</b>

**Nato Staff Center Cash Flow Statement**  
**For the year ended 31 December 2016**

	Notes	EUR Current year 31-Dec-16	EUR Prior year 31-Dec-15
<b>Cash flows from operating activities</b>			
Surplus (deficit) of the period	<b>11&amp;12</b>	-256,270.70	105,851.93
Depreciation	<b>12</b>	9,019.66	11,462.89
Loss on sale of PPE			
<b>Cash from operations before working capital changes</b>		<b>-247,251.04</b>	<b>117,314.82</b>
Decrease (Increase) in receivables	<b>5</b>	31,078.92	-120,652.23
Decrease (increase) in inventories	<b>6</b>	163,083.26	184,669.55
Increase (decrease) in payables	<b>8</b>	215,512.99	387,285.06
<b>Net cash flows from operating activities</b>		<b>162,424.13</b>	<b>568,617.20</b>
interest paid		0.00	0.00
<b>Net cash flows from operating activities</b>		<b>162,424.13</b>	<b>568,617.20</b>
<b>Cash flows from investing activities</b>			
Purchase of PPE	<b>7</b>	0.00	0.00
Proceeds from sale of PPE			
<b>Net cash flows from investing activities</b>		<b>0.00</b>	<b>0.00</b>
<b>Cash flows from financing activities</b>			
Reimbursement of pensions' liability	<b>9</b>	-231,568.24	-484,061.30
Advances received	<b>9</b>	0.00	35,538.72
Proceeds from finance lease liabilities	<b>7&amp;14</b>	-8,000.00	-9,600.00
<b>Net cash flows from financing activities</b>		<b>-239,568.24</b>	<b>-458,122.58</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>-77,144.11</b>	<b>110,494.62</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>4</b>	<b>287,871.25</b>	<b>177,380.30</b>
<b>Cash and cash equivalents at end of period</b>	<b>4</b>	<b>210,727.14</b>	<b>287,871.25</b>

**Nato Staff Center**  
**Statement of changes in net assets**  
**For the year ended 31 December 2016**

Net surplus (deficit) for the period	-342,159.72
<b>Balance at 31/12/2014</b>	<b>-1,327,445.28</b>
Revaluation of investments	0.00
Net surplus (deficit) for the period	105,851.93
<b>Balance at 31/12/2015</b>	<b>-1,221,593.35</b>
Revaluation of investments	0.00
Net surplus (deficit) for the period	-256,270.70
<b>Balance at 31/12/2016</b>	<b>-1,477,864.05</b>



**EXPLANATORY NOTES TO THE NATO STAFF CENTRE  
2016 FINANCIAL STATEMENTS****NOTE 1: GENERAL INFORMATION**

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

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

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

The NATO Staff Centre shares the legal status of NATO.

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

**Governance:**

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

Governance can be summarised as follows:

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

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

**Funding:**

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

Activities which support the mission of the Organisation, staff members and families and foster community environment (Category A activities) may be eligible for budgetary contributions from NATO (Civil Budget funding). Activities which provide indirect support to the mission of the Organisation, provide convenience to staff members and families, or generate revenue (Category B activities), are to

be funded by membership and user fees, income from commercial concessions, and not through budgetary contributions from NATO (Civil Budget funding).

#### **Activity:**

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

#### **Restructuring**

On 2 October 2015, the North Atlantic Council approved a NATO HQ Commercial Operations Business Plan 2015-2019 (C-M(2015)0069) which foresees a substantial change in the management of a series of services and/or concessions presently handled by the Staff Centre. In particular, the number of established posts, which was 33 at the beginning of 2015, should decrease to 3 by 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).

#### **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) as existed in 2015.

IPSAS 6: Consolidated and Separate Financial:

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

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

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

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

This 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 2016 financial statements of the NATO Staff Centre:

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

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

#### **Going concern basis:**

The Staff Centre benefits from a series of in-kind contributions from the NATO International Staff which are essential to its capacity to operate, such as electricity, water, administrative services, etc., and are estimated to amount to about EUR 1.2 million which is about 40% of its turnover (28% for 2015). Some expenses linked to the restructuring of the Staff Centre, in particular Loss of Job Indemnities, are paid by the NATO Civil Budget. The Staff Centre would not be financially viable without this support.

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

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

There are however a number of indicators that the NATO Staff Centre could continue to operate for the foreseeable future, in particular because of the support it could obtain from NATO in accordance with



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NAC agreed principles concerning the regulation of morale and welfare activities in international military headquarters and agencies (see PO(97)98). The Staff Centre is part of the NATO International Staff which is common funded by NATO member nations and is a going-concern. The Staff Centre's situation is not likely to have a material impact on the ability of the NATO International Staff to continue being a going concern. NATO member Nations agreed in September 2015 to transition the Staff Centre from its current structure towards a new structure summarised in the NATO HQ Commercial Operations Business Plan.

## Segment Reporting

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

## Changes in Accounting Policy

Nothing to report.

## Restatement and Reclassification of previous years' financial statements

Minor reclassifications of 2015 financial performance data were done. They essentially concern the re-allocation of concession income (showroom fees) previously posted under Other Revenue (Overhead segment) and now as Concession (Commercial Area), and, at the segment level, the attribution of the concession income collected by the International Staff to the Sports segment rather than to the Commercial Area segment, since this source of income pre-dates the date as from which it entered into commercial activities.

The tables below compare the data disclosed in the 2015 financial statements with the reclassified values.

As per 2015 Financial Statements

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

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## 2015 Reclassified

	Sports	Restaurant	Commercial Area	Overhead	Eliminations	Total
<b>Revenue</b>						
Sales	872,904.66	1,223,189.77	1,225,278.82	45,494.78	-	3,366,868.03
Concessions	80,036.38		538,464.90	-	-	618,501.28
Financial revenue				2,543.95	-	2,543.95
Other revenue			-	324,000.00	-	324,000.00
<b>TOTAL REVENUE</b>	<b>952,941.04</b>	<b>1,223,189.77</b>	<b>1,763,743.72</b>	<b>372,038.73</b>	<b>0.00</b>	<b>4,311,913.26</b>

<b>Expenses</b>						
Wages, salaries and employee benefits	470,682.65	644,188.18	356,931.41	365,788.49	-	1,837,590.73
Outsourced services	435,657.21	463,010.17	52,811.61	-	-	951,478.99
Operating costs	21,805.35	4,653.70	75,730.21	48,974.24	-	53,215.02
Cost of goods sold	12,751.63	315,924.73	970,789.76	-	-	1,299,466.12
Other costs	1,910.14	2,140.04	3,302.17	45,495.23	-	52,847.58
Depreciation and amortization				11,462.89	-	11,462.89
<b>TOTAL EXPENSES</b>	<b>942,806.98</b>	<b>1,429,916.82</b>	<b>1,459,565.16</b>	<b>373,772.37</b>	<b>-</b>	<b>4,206,061.33</b>

<b>SURPLUS (DEFICIT) FOR THE PERIOD</b>	<b>10,134.06</b>	<b>- 206,727.05</b>	<b>304,178.56</b>	<b>- 1,733.64</b>	<b>-</b>	<b>105,851.93</b>
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Also, in the statement of financial situation, the short term part of the pension liability has been moved to the payables rather than non current liability. An amount erroneously paid by the IS and to be reimbursed by the Staff Centre has been introduced at balance sheet level.

## As per 2015 Financial Statements

	Sports	Restaurant	Commercial Area	Overhead	Eliminations	Total
Cash	79,815	49,283	158,773		-	287,871
Receivables	21,411	57,910	286,171	45,495	- 76,446	334,540
Inventory	3,200	26,236	157,212		-	186,648
PPE and financial lease	9,020	-	-		-	9,020
<b>TOTAL ASSETS</b>	<b>113,446</b>	<b>133,429</b>	<b>602,155</b>	<b>45,495</b>	<b>- 76,446</b>	<b>818,079</b>

Payables	151,388	155,729	283,998	-	- 76,446	514,668
Pensions liability	635,381	582,229	-	45,495	-	1,263,106
Advances		-	261,899		-	261,899
<b>TOTAL LIABILITIES</b>	<b>786,769</b>	<b>737,958</b>	<b>545,897</b>	<b>45,495</b>	<b>- 76,446</b>	<b>2,039,673</b>

<b>NET ASSETS</b>	<b>- 673,323</b>	<b>- 604,528</b>	<b>56,258</b>	<b>-</b>	<b>0</b>	<b>- 1,221,593</b>
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## 2015 Reclassified and Restated

	Sports	Restaurant	Commercial Area	Overhead	Eliminations	Total
Cash	79,815	49,283	158,773		-	287,871
Receivables	21,411	57,910	286,171	121,899	- 76,446	410,944
Inventory	3,200	26,236	157,212		-	186,648
PPE and financial lease	9,020	-	-		-	9,020
<b>TOTAL ASSETS</b>	<b>113,446</b>	<b>133,429</b>	<b>602,155</b>	<b>121,899</b>	<b>- 76,446</b>	<b>894,483</b>

Payables	307,936	299,181	283,998	121,899	- 76,446	936,568
Pensions liability	478,833	438,777	-	-	-	917,610
Advances		-	261,899		-	261,899
<b>TOTAL LIABILITIES</b>	<b>786,769</b>	<b>737,958</b>	<b>545,897</b>	<b>121,899</b>	<b>- 76,446</b>	<b>2,116,077</b>

<b>NET ASSETS</b>	<b>- 673,323</b>	<b>- 604,528</b>	<b>56,258</b>	<b>-</b>	<b>0</b>	<b>- 1,221,593</b>
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**Use of estimates**

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

**Foreign currency transactions**

Foreign currency transactions, as required, are accounted for at the exchange rates prevailing on the date of the transaction. Monetary assets and liabilities at year-end denominated in foreign currencies are converted into EUR using the NATO exchange rates applicable at 31 December 2016.

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 21 April 2017		
	Fitch	S&P	Moody's
ING Bank	A	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 2017, it has been decided, in general, that core PPE relating to the current HQ premises, including the Staff Centre, will be fully expensed as will any fixed equipment and furniture that is not to be transferred to the New HQ. Only movable items purchased with a view to being used again in the New HQ environment will be capitalized.

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

When NATO moves to the new HQ in 2017, the foregoing items, along with the rest of the former HQ premises, will be returned to Host Nation Belgium at no cost.

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

b. Intangible Assets

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

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

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

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

- Copyrights
- Intellectual Property Rights
- Software development

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

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

### Current liabilities

a. Payables

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

b. Advances

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

c. Provisions

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

**Loans**

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

**Leases**

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

**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 2017, these items will form part of the overall premises returned to Host Nation Belgium at no cost.



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

**Operating costs and minor investments:**

Miscellaneous Operating and Maintenance expenses directly attributable to the Staff Centre's activity are charged to the NATO Civil Budget (such as fuel, water, gardening, communications, etc.) in the overall amount of EUR 941,323 (EUR 782,779 in 2015). Some smaller Staff Centre expenses are commingled with the NATO Civil Budget where the contract does not allow for an accurate allocation of cost.

None of these expenses were charged back to the Staff Centre up to 2013. The Budget Committee decided that as from 2014, an increasing portion should be reimbursed by the Staff Centre (EUR 45,500 in 2014 and planned EUR 129,900 for 2015). However, in light of the financial situation of the Staff Centre, the Budget Committee agreed that these amounts should not be claimed for 2014 to 2016. As a consequence, amounts already paid (for 2014) by the Staff Centre to the NATO International Staff were reimbursed in 2015.

**Administrative Support:**

In addition, NATO-IS provided administrative support to the Staff Centre at an estimated cost of EUR 229,103 (EUR 254,196 in 2015).

**NOTE 4: CASH AND CASH EQUIVALENTS**

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

**NOTE 5: ACCOUNTS RECEIVABLE****Receivable from Nations**

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

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

**Receivable from Clients**

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

**Prepayments**

None.

**NOTE 6: INVENTORIES**

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

**NOTE 7: NON-CURRENT ASSETS**

Reconciliation of the carrying amount of non-current assets as at 31 December 2015 is presented below:

(amounts in EUR)	Carrying Amount end 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
<b>TOTAL</b>	<b>9,019.66</b>	<b>0.00</b>	<b>0.00</b>	<b>9,019.66</b>	<b>0.00</b>	<b>0.00</b>

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

There has been no impairment or revaluation during 2016 and 2015.

### Land and buildings

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

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

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

### Financial Leases

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

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

The original buildings of the current NATO Staff Centre facilities are estimated as having a zero value in consideration of their age, the terms of the concession agreement, and the limited value for money of an evaluation study, and the planned move to new premises in 2017. There is also an extension to the restaurant dining room which was funded several years ago through a contribution by a major supplier.

### Depreciation

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

**Impairment of fixed assets**

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

**NOTE 8: ACCOUNTS PAYABLE****Payable to Nations**

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

**Payable to Suppliers**

In addition to amounts due to the suppliers directly linked to the Staff Centre's activity, this item includes amounts due to the NATO International Staff for miscellaneous operating costs (EUR 246,123 end 2016 and EUR 219,825.79 end 2015).

EUR 8,000 is the short term portion of amounts due in relation to financial leases end 2015.

**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 was not respected in 2015, neither in 2016, 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 used by the NATO International Staff to offset NATO Staff Centre pension contributions. The payment was done by NATO International Staff directly into the NATO Defined Benefit Pension Scheme's account. No other contributions were made by the Staff Centre in 2015 nor in 2016, 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 2016 amounted to EUR 1,286,042.10 (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. From a financial perspective this resulted in the Staff Centre's inability to collect related cash amounts. This situation has been reported to the Budget Committee. Given the likely long term nature of the underlying issue, this advance is considered as a



loan. Considering that the litigation originates from a contract signed by another NATO body, the NATO International Staff will seek reimbursement of the advance from the latter.

**NOTE 10: NET ASSETS**

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

**NOTE 11: REVENUE**

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

**Sales**

Revenue is essentially derived from sales in the restaurant and the commercial area, and membership and usage fees from the sports area. The decline of sales is linked to the reduction in the Staff Centre's activity, in part because of the limitation, at times, of external clients' physical access to NATO HQ premises for security reasons. It was also decided that the Staff Centre would no longer be involved in the sales of perfume and other miscellaneous items, now handled via a concession.

**Concession Revenue**

The other main source of revenue corresponds to concession fees and reimbursements of costs from concessionaires located on the Staff Centre premises. It also includes revenue from some concessions at NATO Headquarters. NATO member nations agreed that such income would be collected by the NATO International Staff and thereafter transferred to the NATO Staff Centre (EUR 88,425.03 in 2016 and EUR 80,036 in 2015).

**Financial Revenue**

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

**Other Revenue**

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

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

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

There was a decrease in the staff expenses between 2013 and 2014 due to the decision to outsource certain activities conducted by staff previously employed under the temporary staff provisions of NATO's Civilian Personnel Regulations (see Note 19). During 2016, in the context of the NATO HQ Commercial Operations Business Plan 2015-2019, 5 posts were deleted (10 in 2015). 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 (See Note 19), which explains the evolution of expenses. Expenses are adjusted in function of the level of activity.

**Operating costs:**

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

**Costs of goods sold:**

These consist mainly in food, beverage, perfume (partially in 2016) 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.

**Depreciation**

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

**Financial costs**

Financial costs include bank charges and credit card fees.

**NOTE 13: SEGMENT INFORMATION**

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

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

	<b>Sports</b>	<b>Restaurant</b>	<b>Commercial Area</b>	<b>Overhead</b>	<b>Eliminations</b>	<b>Total</b>
Cash	43,440.36	66,841.46	100,445.32			210,727.14
Receivables	43,116.20	27,345.29	318,352.99		- 8,949.20	379,865.28
Inventory	1,614.40	21,950.69	-			23,565.09
PPE and financial lease	-	-	-			-
<b>TOTAL ASSETS</b>	<b>88,170.96</b>	<b>116,137.44</b>	<b>418,798.31</b>	<b>-</b>	<b>- 8,949.20</b>	<b>614,157.51</b>
Payables	367,692.13	456,615.32	328,722.45	-	- 8,949.20	1,144,080.71
Pensions liability	406,576.57	279,465.53	-	-		686,042.10
Advances	-		261,898.75			261,898.75
<b>TOTAL LIABILITIES</b>	<b>774,268.71</b>	<b>736,080.85</b>	<b>590,621.20</b>	<b>-</b>	<b>- 8,949.20</b>	<b>2,092,021.56</b>
<b>NET ASSETS</b>	<b>- 686,097.75</b>	<b>- 619,943.41</b>	<b>- 171,822.89</b>	<b>-</b>	<b>-</b>	<b>- 1,477,864.05</b>

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	Sports	Restaurant	Commercial Area	Overhead	Eliminations	Total
<b>Revenue</b>						
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
<b>TOTAL REVENUE</b>	<b>912,687.45</b>	<b>952,152.24</b>	<b>1,074,375.56</b>	<b>-45,495.23</b>	<b>0.00</b>	<b>2,893,720.02</b>
<b>Expenses</b>						
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
<b>TOTAL EXPENSES</b>	<b>876,861.11</b>	<b>1,247,571.59</b>	<b>874,918.91</b>	<b>150,639.11</b>	<b>-</b>	<b>3,149,990.72</b>
<b>SURPLUS (DEFICIT) FOR THE PERIOD</b>	<b>35,826.34</b>	<b>- 295,419.35</b>	<b>199,456.65</b>	<b>- 196,134.34</b>	<b>-</b>	<b>- 256,270.70</b>

Transactions in the Overhead segment correspond to the salaries of the Staff Centre management team and to the reversal of a provision and a related receivable booked in 2015 which are no longer required.

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

	Sports	Restaurant	Commercial Area	Overhead	Eliminations	Total
Cash	79,815	49,283	158,773		-	287,871
Receivables	21,411	57,910	286,171	121,899	76,446	410,944
Inventory	3,200	26,236	157,212		-	186,648
PPE and financial lease	9,020	-	-		-	9,020
<b>TOTAL ASSETS</b>	<b>113,446</b>	<b>133,429</b>	<b>602,155</b>	<b>121,899</b>	<b>- 76,446</b>	<b>894,483</b>
Payables	307,936	299,181	283,998	121,899	76,446	936,568
Pensions liability	478,833	438,777	-	-	-	917,610
Advances		-	261,899		-	261,899
<b>TOTAL LIABILITIES</b>	<b>786,769</b>	<b>737,958</b>	<b>545,897</b>	<b>121,899</b>	<b>- 76,446</b>	<b>2,116,077</b>
<b>NET ASSETS</b>	<b>- 673,323</b>	<b>- 604,528</b>	<b>56,258</b>	<b>-</b>	<b>0</b>	<b>- 1,221,593</b>

	Sports	Restaurant	Commercial Area	Overhead	Eliminations	Total
<b>Revenue</b>						
Sales	872,904.66	1,223,189.77	1,225,278.82	45,494.78	-	3,366,868.03
Concessions	80,036.38		538,464.90	-	-	618,501.28
Financial revenue				2,543.95	-	2,543.95
Other revenue			-	324,000.00	-	324,000.00
<b>TOTAL REVENUE</b>	<b>952,941.04</b>	<b>1,223,189.77</b>	<b>1,763,743.72</b>	<b>372,038.73</b>	<b>0.00</b>	<b>4,311,913.26</b>
<b>Expenses</b>						
Wages, salaries and employee benefits	470,682.65	644,188.18	356,931.41	365,788.49	-	1,837,590.73
Outsourced services	435,657.21	463,010.17	52,811.61	-	-	951,478.99
Operating costs	21,805.35	4,653.70	75,730.21	48,974.24	-	53,215.02
Cost of goods sold	12,751.63	315,924.73	970,789.76		-	1,299,466.12
Other costs	1,910.14	2,140.04	3,302.17	45,495.23	-	52,847.58
Depreciation and amortization				11,462.89	-	11,462.89
<b>TOTAL EXPENSES</b>	<b>942,806.98</b>	<b>1,429,916.82</b>	<b>1,459,565.16</b>	<b>373,772.37</b>	<b>-</b>	<b>4,206,061.33</b>
<b>SURPLUS (DEFICIT) FOR THE PERIOD</b>	<b>10,134.06</b>	<b>- 206,727.05</b>	<b>304,178.56</b>	<b>- 1,733.64</b>	<b>-</b>	<b>105,851.93</b>

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**NOTE 14: LEASES**

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

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

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

Asset Balances at end of year		
EUR	2016	2015
Software and Server	8,000.00	17,600.00
Less: Accumulated Depreciation	8,000.00	9,600.00
Net Amount	-	8,000.00

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	-

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

**NOTE 15: RESTRICTIONS ON FIXED ASSETS**

There are no restrictions on fixed assets.

**NOTE 16: CONTINGENT LIABILITIES**

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

Some staff have lodged complaints with the NATO Administrative Tribunal concerning the conversion of their contracts from the previous temporary staff position to international civilian staff. In 2015, the financial consequence of one of these cases was carried by the NATO International Staff (EUR 45,495.23).

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

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

**NOTE 17: CONTINGENT ASSETS**

Nothing to report.

**NOTE 18: WRITE-OFFS**

There has been no write-off of Staff Centre property during 2016. An amount of EUR 5,877.50 relating to 2015 was written-off further to a discrepancy concerning the reception of goods delivered.

**NOTE 19: EMPLOYEE DISCLOSURE**

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

**Contractual situation**

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

Staff previously employed under the Temporary Staff provisions of the NATO Civilian Personnel Regulations, student jobs, etc. were gradually transferred according to their specific situation to permanent international civilian staff positions, manpower contracts or eventually under a technical assistance agreement with a third party supplier. As a consequence, Personnel Expenses decreased in 2014, whereas Operating Costs (for the part corresponding to the related outsourcing of services), increased. End 2015 there were no longer any staff employed under Temporary Staff provisions.

**Specific benefits**

NATO Staff Centre employees working in the restaurant (about fifteen persons including management) are allowed a lunch per day worked in exchange for a monthly salary reduction of EUR 61.02 to EUR 81.36 (depending on grade). In 2015, these amounts were increased to EUR 110. This benefit is a long established practice and is not available to other NATO staff members but derives from a customary practice in the restaurant economic sector. End 2015, all former beneficiaries had decided to opt out.

**Establishment**

At 31 December 2014, the NATO Staff Centre had an approved Personnel Establishment of 37 positions of which 31 were occupied as of December 2014. In 2015, a series of posts were deleted resulting in an establishment of 23 posts at the end of the year from an initial number of 33. Further deletions took place in 2016 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. Towards the end of 2017 the total establishment is planned to be 3, 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 to 2017 in view of the possible need to pay for Loss of Job Indemnities to staff who could not be transferred into vacant posts elsewhere in the International Staff establishment.

At 31 December 2016, NATO Staff Centre had 115 days of untaken leave (306 end 2015). The NATO regulations allow for the carry forward of untaken leave to the following year. Any untaken days carried forward must be taken by 30 April of the following year unless an exception is granted by the Human Resources Department in which case untaken leave days are forfeited after 30 October. The vast majority of days are taken before 30 April. The related amount is not considered material and is considered stable from one year to the next, therefore the value of this is not recognised in the financial statements.

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.

6 staff members participate in the Defined Contribution Pension Scheme (DCPS) administered by NATO (12 end 2015). The DCPS provides that the NATO-Staff Centre budget makes a 12% monthly matching contribution to the staff members' contributions for current service.

4 employees participate in NATO's Defined Benefit Pension Scheme (DBPS) (11 end 2015). 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	2016			2015		
	Staff	Employer	Total	Staff	Employer	Total
Provident Fund	-	-	-	-	-	-
Co-ordinated Pension Scheme	30,387.34	60,774.68	91,162.02	72,901.01	145,802.02	218,703.03
Defined Contribution Pension Scheme	24,334.57	36,004.61	60,339.18	40,395.44	57,732.96	98,128.40
<b>TOTAL</b>	<b>54,721.91</b>	<b>96,779.29</b>	<b>151,501.20</b>	<b>113,296.45</b>	<b>203,534.98</b>	<b>316,831.43</b>

### NOTE 20: KEY MANAGEMENT PERSONNEL

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

For the purposes of IPSAS 20 implementation, the key management personnel of the NATO Staff Centre are the Assistant Secretary General for Executive Management and the 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 1,170,426 (EUR 1,036,975 in 2015) 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 in 2017. However, in light of the financial situation of the Staff Centre, the Budget Committee agreed that these amounts should not be claimed for 2014 to 2016. As a consequence, amounts already paid (for 2014) by the Staff Centre to the NATO International Staff were reimbursed in 2015.

NATO-IS has made a cash advance (EUR 261,898.75) to the Staff Centre in order to temporarily compensate for funds due to the Staff Centre but seized in a context that NATO considers as a violation of its immunity of jurisdiction and execution (see Note 9).

NATO-IS charges the Staff Centre for operating costs due to the activity of the Staff Centre's concessionaires; to date the amounts still due are EUR 229,103 (EUR 254,196 in 2015).

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 88,425 in 2016 and EUR 80,036 in 2015).

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

In accordance with the NATO HQ Commercial Operations Business Plan 2015-2019 (C-M(2015)0069), three occupied posts which were deleted in 2015 required the payment of an amount of EUR 300,279.24 in Loss of Job Indemnities, funded by the NATO Civil Budget using lapsed credits from 2014 that would otherwise have been returned to member Nations (C-M(2015)0088 and PO(2015)0602). In 2016 another three Loss of Job Indemnities were paid out of the NATO Civil Budget in an amount of EUR 221,307.69.

### **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 1,286,042.10 at end 2016 (EUR 1,225,267.42 on 31 December 2015).

### **Charities**

The Staff Centre has organised and provided, up to 2015, free of charge, support to charitable events in which partners of NATO International Staff Key Management Personnel participated pro bono.

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