



Financial Statements for 2016

CERN/FC/6117 - CERN/3303

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Council - 16 June 2017

Financial Statements 2016 Opinion

- Unqualified audit opinion received from the External Auditors
- Emphasis of matter paragraph: draws attention to the increase in post employment benefit obligations for the Pension Fund
- In 2015 we adopted the principle that the discount rate should never fall below best estimate for future inflation => most of the increase is for the years 2013 and 2014 driven by the discount rate since then



Summary of Financial Statement Components

- Budget surplus in the year of 84.8 MCHF compared to original expected deficit of 8.5 MCHF (mainly attributable to a re-profiling of some expenses)
- Actuarial gains relating to the post-employment benefits were recognized in the year amounting to 434.6 MCHF (following a review of the actuarial parameters resulting in a reduction of the expected inflation rate of costs on long-term care)
- Increase in net assets of 296.7 MCHF, to bring the balance at the end of 2016 to -329.7 MCHF, compared to the restated balance of -626.4 MCHF (reported in the 2015 financial statements as -598.3 MCHF prior to restatement)
- Restatement of prior year financial position and cumulative balances as a result of Property, Plant and Equipment (PPE) adjustments to the opening balances and a change in accounting policy for calculating the radioactive waste provision

Statement of Financial Position (Summary)

	As at 31.12.2016	As at 31.12.2015 (*restated)
	kCHF	
ASSETS		
Property, Plant and Equipment	7 922 295	8 011 536
Intangible Assets	131 148	121 452
CHIS Fund financial assets	217 393	205 027
Inventories	15 188	14 328
Receivables and Prepayments	75 916	123 756
Other financial assets	60 000	
Cash and cash equivalents	154 615	176 200
Total ASSETS	8 576 555	8 652 300
LIABILITIES		
Post-employment benefits	7 858 110	8 155 838
Long-term debts	281 939	307 868
Liabilities - CHIS Fund	217 393	205 027
Provisions - Others	155 273	201 846
Short-term debt	25 929	25 108
Payables	336 354	318 325
Deferred revenue & other liabilities	31 230	64 647
Total LIABILITIES	8 906 228	9 278 659
NET ASSETS	- 329 673	- 626 359

Statement of Financial Performance (Summary)

	kCHF	2016	2015
REVENUE			
Member State contributions for the financial year		1 114 232	1 048 775
Contributions as Candidates for Accessions & Associate MS		13 213	13 428
Special Contributions from MS & Associate MS		602	9 451
EU contributions		17 628	16 440
Financial Revenue & Internal Taxation		32 533	36 416
Other revenues		54 223	64 748
Total REVENUES		1 232 429	1 189 258
EXPENSES			
Goods, Consumables & Supplies		67 161	66 786
Electricity, heating gas and water		59 281	64 604
Industrial services		76 094	75 694
Other overheads		71 056	82 487
Total MATERIAL Expenses		273 591	289 571
Remuneration		285 382	264 834
Social and family benefits		59 298	58 414
Social insurance cover		102 671	98 313
Annual variation - paid leave		- 823	- 758
Post-employment benefits		166 778	183 262
Internal taxation		31 451	30 047
Total PERSONNEL Expenses		644 756	634 111
FINANCIAL EXPENSES		13 857	15 124
DEPRECIATION AND AMORTIZATION EXPENSES		418 730	407 725
CHANGE IN PROVISION FOR RADIOACTIVE WASTE		- 36 344	45 894
WRITE-OFF PROPERTY, PLANT AND EQUIPMENT		16 405	4 897
RECAPITALISATION PENSION FUND		60 000	60 000
Total EXPENSES		1 390 994	1 457 322
NET SURPLUS / DEFICIT (-) FOR THE PERIOD		- 158 565	- 268 064

Material Expenses recorded directly to PPE:
2016 - 212.9 MCHF
2015 - 154.7 MCHF

Statement of Comparison Budget and Actual Amounts

MCHF	Budget	Actual	Variation
Revenues			
Member States' contributions	1 108.8	1 114.2	5.4
Additional contribution from Romania as Candidate for Accession	10.9	4.8	- 6.1
Special contribution from Israel	0.2		- 0.2
Additional contribution from Serbia as Associate Member State	1.3	1.3	0.0
Additional contribution from Turkey as Associate Member State	4.8	4.8	- 0.0
Additional contribution from Pakistan as Associate Member State	1.4	1.3	- 0.1
Contributions anticipated from new Associate Member States	3.5	1.0	- 2.5
EU Contributions	14.4	17.6	3.2
Other revenues	82.2	93.0	10.8
	1 227.5	1 238.0	10.5
Expenses			
Materials	592.9	486.5	- 106.4
Personnel	630.3	647.2	17.0
Interest and Financial Costs	12.9	19.5	6.6
	1 236.0	1 153.2	- 82.8
A. BUDGET SURPLUS/DEFICIT (-) FOR THE PERIOD*	- 8.5	84.8	93.4
B. CAPITAL REPAYMENTS	25.1	25.1	
C. RECAPITALISATION PENSION FUND	60.0	60.0	
ALLOCATION TO BUDGET BALANCE	- 93.6	- 0.3	93.4
CUMULATIVE BUDGET BALANCE	- 260.4	- 118.4	93.4

See also APR 2016

Receivables – Member States and AMS

	kCHF	As at 31.12.2016	As at 31.12.2015
Contributions - Greece		33 926	31 701
Contributions - Portugal		3 783	4 673
Contributions - Spain			34 030
Contributions - Italy			8 761
Receivables from Member States		37 709	79 165
Contributions - Serbia		317	1 000
Contributions - Ukraine		270	-
Receivables from Associate Member States		587	1 000
TOTAL		38 296	80 165

Management Letter Observations

1. Physical control of PPE
2. Remuneration data flow
3. Valuation of inventories
4. Blanket authorisation in the Procurement process
5. Internal control system

Conclusion

We wish to thank NIK (the Supreme Audit Office of Poland) for their report and recommendations, and the continued constructive collaboration we had during the audit.

Thank you for your attention!



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Management Letter Observation 1: Physical control of PPE

Recommendation:

Physical control of the PPE be established in the form of physical review of selected part of held scientific and non-scientific assets. The review should be exercised by personnel independent of those charged with the custody of checked assets.

Management Response:

A periodic physical check may be an effective control of the existence and completeness of PPE, but is not appropriate for all PPE items at CERN. A review of the risks relating to each type of PPE asset will be done and we will ensure controls are in place to make the best use of CERN resources while still providing assurance on PPE assets to a reasonable level.



Management Letter Observation 2: Remuneration data flow

Recommendation:

Introduce an internal control activity that allows testing of initial input electronic data for payroll and testing of the accuracy and completeness of data transfer between OHR and HRA applications using OHR archives, which should be available for 2 years.

Management Response:

We agree with the recommendation to keep back-ups of the OHR system over a two-year period and to review the information from the back-ups that can be used for additional detective controls to improve our payroll process.



Management Letter Observation 3: Valuation of inventories

Recommendation:

Value inventories using an IPSAS-compliant method of measurement, and describe this method in the Notes. Also include in the notes inventories recognised as an expense during the year.

Management Response:

- Note this item is not material to the financial statements.
- If we value the inventory at lower of cost and replacement value, it is not practical to update the replacement cost of 15000+ items at 31/12 each year.
- The resulting inventory value is not expected to change much.
- By our interpretation of IPSAS our valuation method complies.



Management Letter Observation 3: Valuation of inventories

IPSAS interpretation:

- IPSAS differs to IFRS since it includes the notion of service potential.
- Paragraph 12.15 says inventories shall be measured at the lower of cost and net realizable value except where inventories are held for distribution at no charge or for a nominal charge; or consumption in the production process of goods to be distributed at no charge or for a nominal charge.
- Paragraph 12.11 refers to goods purchased by an entity which are for distribution to other parties for no charge or for a nominal charge.
- We understand a nominal charge in this context to mean a negligible charge.



Management Letter Observation 3: Valuation of inventories

IPSAS interpretation:

- Paragraph 12.38: the practice of writing inventories down below cost to net realizable value is consistent with the view that assets are not to be carried in excess of the future economic benefits or **service potential** expected to be realized from their sale, exchange, distribution or **use**.
- We therefore do not believe our inventory fits in the exception provided in paragraph 12.15.

Restatement of prior year

Change to accounting method for radioactive waste provision: a discount rate is now applied to the estimated future cashflows for disposing waste.

KCHF	Balances at 31 December 2015, as previously reported	Impact of restatement (cumulative)	Restated Balances at 31 December 2015
Property, Plant and Equipment (PPE)	7 515 161	- 5 866	7 509 296
PPE in progress	547 110	- 44 870	502 240
Sub-total Property, Plant and Equipment	8 062 271	- 50 736	8 011 536
Intangible Assets - available for use	115 140	803	115 943
Intangible Assets - in progress	5 457	53	5 509
Sub-total Intangible Assets	120 597	855	121 451
Provision for radioactive waste	- 133 872	21 835	- 112 037
Net Assets	8 048 996	- 28 046	8 020 950

Accounting Reconciliation (of Budget Results to Accounting Result)

	MCHF
BUDGET SURPLUS/DEFICIT (-) FOR THE PERIOD (A)	84.8
Property, plant and equipment (PPE) reconciliation (B)	- 100.2
Expenses capitalized to PPE and intangible assets	334.9
Depreciation and amortization expenses	- 418.7
Write-off PPE	-16.4
Items not recognized in the Budget Surplus/Deficit (C)	- 143.3
Variation of provision for post-employment benefits	- 136.9
Recapitalisation Pension Fund	- 60.0
Variation of provision for elimination of radioactive waste	36.3
Write-off of ppbar	
Amortization of staff benefit accruals*	17.3
TOTAL ACCOUNTING RECONCILIATION (D) = (B)+(C)	- 243.5
NET ACCOUNTING SURPLUS/DEFICIT (-) FOR THE PERIOD = (A)+(D)	- 158.6

CAPITALISED EXPENSES
 Material expenses: 212.9
 Personnel expenses: 122.0
334.9

Investments are lower than consumption of assets => result of operating facilities and limited consolidation and construction

Post Employment Benefit Obligations - Assumptions

	As at 31.12.2016		As at 31.12.2015	
	Pension benefits	CHIS benefits	Pension benefits	CHIS benefits
Discount rate	1.37%	1.37%	1.35%	1.35%
Future salary increase	2.87%	2.87%	2.85%	2.85%
Future pension increase	1.37%	1.37%	1.35%	1.35%
Future health cost increase		3.00%		3.00%
Future LTC cost increase		1.37%		3.00%
Return on plan assets	4.82%	3.50%	4.78%	3.50%
% of award of indefinite contracts	50%	50%	50%	50%
	83%	83%	83%	83%
Demographic tables	VZ2010 GEN	VZ2010 GEN	VZ2010 GEN	VZ2010 GEN

Post Employment Benefit Obligations - Evolution

	as at 31.12.2013	Var. 2014 (restated)	as at 31.12.2014	Var. 2015	as at 31.12.2015	Var. 2016	as at 31.12.2016
MCHF							
Net Liabilities - Pension benefits	4 062	1 841	5 903	- 367	5 537	37	5 574
Discount rate used in the actuarial assumptions	1.97%		0.81%		1.35%		1.37%
Impact of the change in the discount rate		1 851		- 932			
Impact of revised demographic tables				497			
Various adjustments		- 71		- 6		- 18	
Total - Actuarial variations		1 780		- 442		- 18	
Employer cost		61		75		55	
Net Liabilities - CHIS benefits	2 066	772	2 838	- 219	2 619	- 335	2 284
Discount rate used in the actuarial assumptions	1.97%		0.81%		1.35%		1.37%
Impact of the change in the discount rate		803		- 415		- 15	
Impact of revised demographic tables				167			
Impact of the change in LTC assumptions						- 348	
Various adjustments		- 107		- 49		- 54	
Total - Actuarial variations		696		- 298		- 417	
Employer cost		76		79		82	

Post Employment Benefit Net Obligations

kCHF	As at 31.12.2016	As at 31.12.2015
Pension Benefits		
Future benefits obligation	9 280 200	9 288 115
Plan assets	-3 706 272	-3 751 156
Net liabilities	5 573 928	5 536 959
CHIS Benefits		
Future benefits obligation	2 440 494	2 762 471
Plan assets	- 156 312	- 143 592
Net liabilities	2 284 182	2 618 879

Impact of revised inflation rate for future LTC costs: actuarial gains 416.6 MCHF

Revised discount rate assumption implemented 2015 reduces volatility in obligations

Other Revenues - details

kCHF	2016	2015
Interest benefit from interest-free loan	1 863	1 923
Computing : material and training	288	574
Revenues in-kind on PPE	5 233	16 949
Material made available without charge		20
Sub-total Other in-kind contributions	7 384	19 466
Revenue for HIE-ISOLDE, IdeaLab, FAIR, SH.NEUTRINOS	7 504	7 925
Personnel paid on Team accounts	11 783	12 349
Personnel on detachment	921	1 142
Knowledge transfer	1 940	2 455
OpenLab revenues	2 302	2 497
Revenue from the Housing activity	5 956	5 523
Sales and miscellaneous	16 434	13 392
Department Revenues	5 009	3 115
Miscellaneous	1 794	1 343
Sales	4 098	3 994
SCOAP3	4 886	4 272
Sponsoring	648	668
Sub-total Others	46 839	45 283
Total	54 223	64 748

Other Provisions

	As at 31.12.2016	As at 31.12.2015 <i>(restated)</i>
	kCHF	
Radioactive waste management	75 693	112 037
Paid leave - long term portion	79 206	79 807
Damages on accidents and defects		550
Obligations under special contributions	374	9 451
Others	155 273	201 846

Statement of Comparison Budget and Actual amounts (Revised)

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Typo corrected
(previously -260.4)

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