

**TECHNION – ISRAEL  
INSTITUTE OF TECHNOLOGY**

**FINANCIAL STATEMENTS  
AS OF SEPTEMBER 30, 2018**

**Financial Statements as of September 30, 2018**

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**Auditors' Report for the Technion Council and for the Board of Governors  
of the Technion - Israel Institute of Technology**

We have audited the accompanying balance sheets of the Technion – Israel Institute of Technology (hereinafter – "the Technion") as of September 30, 2018 and 2017 and the consolidated balance sheets as of September 30, 2018 and 2017, statements of activities, statements of changes in net assets and statements of cash flows of the Technion and consolidated for each of the years ended on such dates. These financial statements are the responsibility of the Technion's Council and its Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditors Regulations (Auditors' Mode of Performance) 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Technion's Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion and on the basis of our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the Technion and the consolidated as of September 30, 2018 and 2017 and the statements of activities, statements of changes in net assets and statements of cash flows of the Technion and consolidated for each of the years ended on such dates, in conformity with generally accepted accounting principles in Israel (Israeli GAAP).

  
Somekh Chaikin  
Certified Public Accountants (Isr.)

Haifa, March 19, 2019

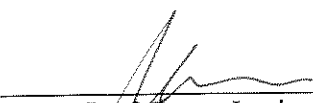
**Balance Sheets as of September 30**

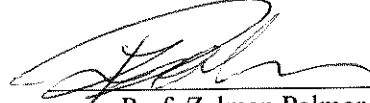
		Consolidated		Technion	
		2018	2017	2018	2017
Note		NIS thousands		NIS thousands	
<b>Assets</b>					
<b>Current assets:</b>					
		831,847	563,300	684,352	417,263
	4	1,083	738	4,601	6,945
	5	133,393	101,771	54,136	28,596
		4,330	4,262	607	730
		970,653	670,071	743,696	453,534
<b>Long-term investments:</b>					
	6	47,804	43,995	-	-
	4	-	-	-	23,562
	7	6,467,053	6,200,625	6,256,172	6,096,234
		6,514,857	6,244,620	6,256,172	6,119,796
<b>Fixed assets, net</b>	8	2,865,800	2,816,564	2,805,454	2,763,810
<b>Total assets</b>		10,351,310	9,731,255	9,805,322	9,337,140


The accompanying notes are an integral part of these financial statements.

**Balance Sheets as of September 30**

Note	Consolidated		Technion		
	2018	2017	2018	2017	
	NIS thousands		NIS thousands		
<b>Liabilities</b>					
<b>Current liabilities:</b>					
Suppliers and service providers	9	57,209	56,243	29,515	21,986
Accounts payable		178,176	188,255	131,192	130,160
Related companies and institutions		685	1,547	-	1,097
Research in progress, net		114,510	94,972	-	-
Planning and Budgeting Committee	3	42,869	6,614	42,869	6,614
Deferred income (mainly tuition)		37,478	38,308	33,571	34,782
		<u>430,927</u>	<u>385,939</u>	<u>237,147</u>	<u>194,639</u>
<b>Non-current liabilities</b>					
Employee benefits	10	3,818,839	3,786,813	3,240,120	3,187,848
Provision for losses of subsidiaries	6	-	-	247,390	396,592
Payable to the American Society for Technion	11	153,698	157,120	153,698	157,120
Deferred taxes	21	20,681	-	-	-
Other liabilities		1,718	1,813	1,520	1,371
		<u>3,994,936</u>	<u>3,945,746</u>	<u>3,642,728</u>	<u>3,742,931</u>
<b>Contingent liabilities</b>					
	12				
<b>Total liabilities</b>		<u>4,425,863</u>	<u>4,331,685</u>	<u>3,879,875</u>	<u>3,937,570</u>
<b>Net assets</b>					
<b>Unrestricted net assets</b>					
For use in activities not designated by the Technion		-	-	-	-
For use in designated activities of the Technion		1,208,268	878,480	1,208,268	878,480
Used for fixed assets		2,865,800	2,816,564	2,865,800	2,816,564
	13A	<u>4,074,068</u>	<u>3,695,044</u>	<u>4,074,068</u>	<u>3,695,044</u>
<b>Restricted net assets</b>					
Temporarily restricted	13B	1,256,504	1,145,536	1,256,504	1,145,536
Permanently restricted	13B	594,875	558,990	594,875	558,990
		<u>1,851,379</u>	<u>1,704,526</u>	<u>1,851,379</u>	<u>1,704,526</u>
<b>Total net assets</b>		<u>5,925,447</u>	<u>5,399,570</u>	<u>5,925,447</u>	<u>5,399,570</u>
<b>Total liabilities and net assets</b>		<u>10,351,310</u>	<u>9,731,255</u>	<u>9,805,322</u>	<u>9,337,140</u>

  
 Prof. Peretz Lavie  
 President and Council Member

  
 Prof. Zalman Palmor  
 Executive V.P.  
 and Director General

  
 Dganit Shindelman  
 Deputy Director General  
 of Finance

Date of approval of the financial statements: March 19, 2019

The accompanying notes are an integral part of these financial statements.

**Statement of Activities for the Year Ended September 30**

	Note	Consolidated		Technion	
		2018	2017	2018	2017
		NIS thousands		NIS thousands	
<b>Income from activities:</b>					
Allocations from the Planning and Budgeting Committee	14	1,084,734	1,017,048	1,084,734	1,017,048
Income from research		346,998	341,977	-	-
Donations through Technion societies	15	64,839	94,645	64,839	94,645
Income from students	16	222,674	230,446	184,509	189,655
Royalties and patents		41,753	32,944	-	-
Amounts released from restricted net assets to activities		118,349	130,823	118,349	130,823
Other income		64,024	74,292	46,451	37,775
		<u>1,943,371</u>	<u>1,922,175</u>	<u>1,498,882</u>	<u>1,469,946</u>
<b>Cost of activities:</b>					
Teaching, research and auxiliary services	17	1,245,909	1,227,942	916,323	905,310
Costs pertaining to students	18	139,439	141,325	139,439	141,325
Pensions, severance pay, paid vacation and redemption of sick pay	10	326,497	323,025	303,506	291,263
Construction and current maintenance		70,251	67,161	70,251	67,161
Other direct expenses		58,676	56,140	39,418	39,887
		<u>1,840,772</u>	<u>1,815,593</u>	<u>1,468,937</u>	<u>1,444,946</u>
<b>Net income from activities before general and administrative</b>		<b>102,599</b>	<b>106,582</b>	<b>29,945</b>	<b>25,000</b>
General and administrative expenses	19	68,474	67,195	42,224	43,027
Raising donations and public relations		19,129	17,765	19,129	17,765
<b>Net income (expenses) from activities before depreciation, pensions and financing</b>		<b>14,996</b>	<b>21,622</b>	<b>(31,408)</b>	<b>(35,792)</b>
Depreciation expenses		(128,938)	(126,269)	(111,203)	(106,996)
Income (expenses) from changes in actuarial liability for pensions and sick pay of employees, not including payments presented in the cost of activities	10	(30,566)	113,568	(39,176)	104,538
Financing income, net	20	442,667	359,131	317,065	306,303
<b>Income before taxes and the Technion's share of profits (losses) of equity accounted entities</b>		<b>298,159</b>	<b>368,052</b>	<b>135,278</b>	<b>268,053</b>
Taxes on income	21	(14,975)	-	-	-
The Technion's share of profits (losses) of equity accounted entities		(1,713)	402	146,193	100,401
<b>Net income for the year</b>		<b>281,471</b>	<b>368,454</b>	<b>281,471</b>	<b>368,454</b>

The accompanying notes are an integral part of these financial statements.

## Statements of Changes in Net Assets for the Year Ended September 30, 2018

	Unrestricted net assets				Restricted net assets			
	For use in activities							
	Not designated by the Technion NIS thousands	Designated activities of the Technion NIS thousands	Used for fixed assets NIS thousands	Total unrestricted NIS thousands	Temporarily restricted NIS thousands	Temporarily restricted research chairs NIS thousands	Permanently restricted NIS thousands	Total restricted NIS thousands
<b>Balance as at October 1, 2016</b>	-	537,705	2,766,205	3,303,910	923,251	204,672	580,514	1,708,437
Net income for the year	368,454	-	-	368,454	-	-	-	368,454
Amounts designated by the Technion, net	(481,031)	481,031	-	-	-	-	-	-
Actuarial gain from re-measurement of defined benefit plan	-	(149,473)	-	(149,473)	-	-	-	(149,473)
Donations	-	-	-	-	230,184	49,633	4,067	283,884
Allocations	-	-	-	-	14,346	381	-	14,727
Other	-	-	-	-	13,655	3,133	-	16,788
Finance, including foreign exchange differences	-	-	-	-	8,551	(1,514)	(23,371)	(16,334)
Interfund transfer	-	56,412	-	56,412	(39,238)	(14,954)	(2,220)	(56,412)
Amounts matched and released	(13,692)	-	-	(13,692)	-	13,692	-	-
Used for fixed assets	-	(47,195)	176,628	129,433	(127,342)	(2,091)	-	(129,433)
Depreciation	126,269	-	(126,269)	-	-	-	-	-
Uses	-	-	-	-	(77,535)	(53,288)	-	(130,823)
<b>Balance as at September 30, 2017</b>	-	878,480	2,816,564	3,695,044	945,872	199,664	558,990	1,704,526
								<b>5,399,570</b>

The accompanying notes are an integral part of these financial statements.

## Statements of Changes in Net Assets for the Year Ended September 30, 2018

	Unrestricted net assets			Restricted net assets			
	For use in activities			Temporarily restricted research chairs	Permanently restricted	Total restricted	Total
	Not designated by the Technion NIS thousands	Designated activities of the Technion NIS thousands	Used for fixed assets NIS thousands				
<b>Balance as at September 30, 2017</b>	-	878,480	2,816,564	3,695,044	945,872	199,664	5,399,570
Net income for the year	281,471	-	-	281,471	-	-	281,471
Amounts designated by the Technion, net	(404,943)	404,943	-	-	-	-	-
Actuarial gain from re-measurement of defined benefit plan	-	2,301	-	2,301	-	-	2,301
Donations	-	-	-	-	194,707	39,635	258,565
Allocations	-	-	-	-	3,930	374	4,304
Other	-	-	-	-	20,130	1,360	22,229
Finance, including foreign exchange differences	-	-	-	-	49,664	14,178	75,356
Interfund transfer	-	(11,049)	-	(11,049)	28,895	(17,255)	-
Amounts matched and released	(5,466)	-	-	(5,466)	-	5,466	-
Used for fixed assets	-	(66,407)	178,174	111,767	(110,338)	(1,429)	-
Depreciation	128,938	-	(128,938)	-	-	-	-
Uses	-	-	-	-	(77,089)	(41,260)	(118,349)
<b>Balance as at September 30, 2018</b>	-	1,208,268	2,865,800	4,074,068	1,055,771	200,733	5,925,447

The accompanying notes are an integral part of these financial statements.

**Statement of Cash Flows for the Year Ended September 30**

	Consolidated		Technion	
	2018	2017	2018	2017
	NIS thousands		NIS thousands	
<b>Cash flows from operating activities:</b>				
Net income for the year	281,471	368,454	281,471	368,454
Adjustments required to reflect cash flows from operating activities (Appendix A)	(372,303)	(551,054)	(379,637)	(586,736)
Net cash used in operating activities	(90,832)	(182,600)	(98,166)	(218,282)
<b>Cash flows from investing activities:</b>				
Sales of (investments in) securities, net	262,323	282,516	233,004	245,155
Acquisition of fixed assets	(194,467)	(176,628)	(169,140)	(153,432)
Consideration from sale of fixed assets	16,293	-	16,293	-
Investments in associate companies, net	(9,496)	(14,152)	-	-
Net cash from investing activities	74,653	91,736	80,157	91,723
<b>Cash flows from financing activities:</b>				
Repayment of long-term credit, net	(372)	(374)	-	-
Donations included in temporarily restricted net assets	194,707	230,184	194,707	230,184
Donations included in temporarily restricted net assets - research	39,635	49,633	39,635	49,633
Allocations and other included in restricted net assets	26,533	31,515	26,533	31,515
Donations included in permanently restricted net assets	24,223	4,067	24,223	4,067
Net cash from financing activities	284,726	315,025	285,098	315,399
<b>Increase in cash and cash equivalents</b>	<b>268,547</b>	<b>224,161</b>	<b>267,089</b>	<b>188,840</b>
Cash and cash equivalents as of beginning of year	563,300	339,139	417,263	228,423
<b>Cash and cash equivalents as of end of year</b>	<b>831,847</b>	<b>563,300</b>	<b>684,352</b>	<b>417,263</b>

The accompanying notes are an integral part of these financial statements.

**Statement of Cash Flows for the Year Ended September 30**

Statement of Cash Flows for the Year Ended September 30

	Consolidated		Technion	
	2018	2017	2018	2017
	NIS thousands		NIS thousands	
Appendix A - Adjustments required to reflect cash flows from operating activities				
Expenses (income) not involving cash flows				
Equity profits, net	1,713	(402)	(146,193)	(100,401)
Depreciation expenses	128,938	126,269	111,203	106,996
Capital loss (gain) on investments, net	8,128	(14,680)	-	-
Increase (decrease) in value and accrued interest on securities and deposits, net	(442,667)	(359,131)	(317,065)	(306,303)
Income from amounts released from restricted net assets	(118,349)	(130,823)	(118,349)	(130,823)
Deferred taxes	20,681	-	-	-
Changes in asset and liability items				
Decrease (increase) in accounts receivable, related companies and long-term receivables	(38,610)	4,792	8,084	14,658
Decrease (increase) in inventory	(68)	228	123	57
Increase (decrease) in reserves for employee benefits	31,763	(112,600)	48,999	(102,990)
Increase (decrease) in suppliers and accounts payable	43,527	(15,544)	41,048	(18,532)
Decrease in other long-term liabilities	(7,359)	(49,163)	(7,487)	(49,398)
	(372,303)	(551,054)	(379,637)	(586,736)

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements as of September 30, 2018

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**Note 1 - General**

The Technion – Israel Institute of Technology (hereinafter – “the Technion”) is an institution of higher education according to the Council for Higher Education Law, 1958.

The Technion is registered for VAT purposes as a non-profit organization and for income tax purposes as a public institution whose public objective is education and science. The Technion has a wholly owned subsidiary, Technion Research and Development Foundation Ltd. (hereinafter: “TRDF”), which the Technion consolidates in its consolidated financial statements. The TRDF engages in:

1. Carrying out research, scientific tests and experiments, commercializing patents, and so forth.
2. Managing laboratories for business purposes.
3. Providing courses and lectures in the framework of the external studies unit.

**Note 2 - Significant Accounting Policies****A. Definitions**

In these financial statements –

- 1) Technion - The Technion – Israel Institute of Technology
- 2) Related companies and institutions – Companies or bodies in which the Technion has management rights or bodies associated with the Technion in accordance with Opinion 29.
- 3) Dollar – The US dollar.
- 4) TRDF - Technion Research and Development Foundation Ltd.
- 5) P&BC - The Planning and Budgeting Committee of the Council for Higher Education.
- 6) Subsidiary – TRDF, the financial statements of which are consolidated with the financial statements of the Technion.
- 7) Associates – Companies that the TRDF’s investment in which is stated, directly or indirectly, on the equity basis in the financial statements.
- 8) Investee companies – Subsidiaries or associates.
- 9) Financial statements – Balance sheet, statement of activities, statement of changes in net assets, statement of cash flows and the notes to the financial statements.
- 10) Unrestricted net assets – The portion of the Technion’s net assets that donors have not restricted, either permanently or temporarily.
- 11) Restricted net assets – The portion of the Technion’s net assets deriving from donations that were received or other inflow of assets, the use of which was restricted by donors or financers.
- 12) Temporary restriction – Conditions of donors that expire upon the occurrence of a certain event or the passing of time, or that can be fulfilled or removed by taking certain actions according to such conditions.
- 13) Permanent restriction – Conditions of donors that do not expire with the passing of time, and cannot be fulfilled or removed by taking certain actions according to such conditions. This kind of restriction permits using only the income from the donation.
- 14) Assets that their proceeds are restricted – Donations and other unilateral transfers that were received for the acquisition of fixed or other assets, and also assets that were received as a gift, that the donor has stipulated that the proceeds from the realization of such assets, if realized, will be used for a certain purpose.

Notes to the Financial Statements as of September 30, 2018

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**Note 2 - Significant Accounting Policies (cont'd)****B. Accounting of non-profit organization**

As from October 1, 2016 the Technion applies Accounting Standard 9, Financial Statements of Higher Education Institutions of the Israel Accounting Standards Board.

**C. Use of estimates**

The preparation of financial statements in conformity with accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the current period. Actual results may differ from such estimates.

**D. Inventory**

Inventory is presented at the lower of cost or market value.

Inventory includes spare parts, maintenance tools and materials that are in warehouses and have not yet been issued to the faculties. The inventory does not include inventory of materials located at the faculties which is presented as an expense. The inventory is presented based on quantities shown in inventory records and on cost computed using the weighted moving average method.

**E. Investments in securities and deposits**

Investments in securities are stated as follows:

- a. Shares, marketable options and bonds - according to market value.
- b. Non-marketable securities - according to their accrued value. The Technion examines from time to time, in accordance with signs indicating a new recoverable amount of its investments, and records impairment according to their fair value.

**F. Fixed assets****(1) Recognition and measurement**

The Technion applies Accounting Standard 27 Fixed Assets, which prescribes rules for the presentation and measurement of fixed asset items and for the disclosure required in respect thereto. Fixed asset items are measured at cost less accumulated depreciation and accumulated impairment losses, other than buildings, the cost of which is measured at fair value as at September 30, 2016 (see Note 8B). As from October 1, 2016 the additions to buildings are recorded on a cost basis.

**(2) Depreciation**

Depreciation is recognized in the statement of activities on a straight-line basis over the estimated useful lives of each part of the fixed asset item, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

Type of asset	Annual depreciation rate (%)
Buildings	2-7
Research equipment	10-15
Computers	33.3

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting year and adjusted if appropriate.

Notes to the Financial Statements as of September 30, 2018

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**Note 2 - Significant Accounting Policies (cont'd)****G. Adjustment in value of restricted donations and allocations**

In addition to linkage differences, the balance of restricted donations and allocations is awarded interest at a rate determined by management for each type of linkage, with this interest rate being determined according to the return on long-term investments.

**H. Investments in subsidiaries and other companies**

The Technion – The investment in the subsidiary - TRDF is presented on the equity basis. Investments in other subsidiaries, that are not significant, are presented at cost.

The Technion examines from time to time the value of its investments as required and records impairment on the basis of their fair value.

Consolidated – Investments of the subsidiary in associated companies are presented on the equity basis, other than investments that are not significant, which are presented at cost.

See Note 6A(4) and 6A(5) regarding 50% investments in foreign subsidiaries.

**I. Consolidated financial statements**

The consolidated financial statements include the financial statements of the Technion's subsidiary, TRDF, which is a subsidiary with significant activity. The activity of other subsidiaries, which is not significant, was not included in the consolidated financial statements.

**J. Employee benefits****(1) Post-employment benefits**

The Technion has a number of post-employment benefit plans, and they are classified as defined contribution plans and as defined benefit plans.

**(a) Defined contribution plans**

A defined contribution plan is a post-employment benefit plan under which the Technion pays fixed contributions into a separate entity (a fund) and has no legal or constructive obligation to pay further amounts if the fund does not have enough assets to pay all the employee benefits relating to the employee's service in the current period and in prior periods. The Technion's obligations for contributions to defined contribution pension plans are recognized as an expense in the statement of activities in the periods during which related services are rendered by employees.

**(b) Defined benefit plans**

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Technion's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The Technion determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset).

The discount rate is the yield at the reporting date on high quality shekel-denominated corporate debentures, that have maturity dates approximating the terms of the Technion's obligations. The calculation is performed annually by a qualified actuary using the projected unit credit method.

Re-measurements of the net defined benefit liability (asset) comprise actuarial gains and losses. Re-measurements are recognized immediately directly in net assets.

Interest costs on a defined benefit obligation and interest income on plan assets are recognized in the statement of activities.

When benefits of a plan are corrected, the portion of the benefits relating to past service by employees is recognized in the statement of activities when the plan is corrected.

## Notes to the Financial Statements as of September 30, 2018

**Note 2 - Significant Accounting Policies (cont'd)****J. Employee benefits (cont'd)****(2) Other long-term employee benefits**

The Technion's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The discount rate is established based on the yield at the reporting date of high quality shekel-denominated corporate debentures, that have maturity dates approximating the terms of the Technion's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognized in the statement of activities in the period in which they arise.

**(3) Termination benefits**

Post-employment benefits are pursuant to the Severance Pay Law or a severance pay agreement created during the period of the employee's service and are based on the employee's salary or a defined amount. Termination benefit obligations are accounted for based on the shutdown method.

**(4) Short-term benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability for short-term employee benefits is recognized for the amount expected to be paid as a result of past service provided by the employee.

**(5) Plan assets – participation of the P&BC**

The P&BC participates in about 50% of the budgetary pension costs paid by the Technion each year. This participation has been provided for already 15 years. According to a letter from the chairman of the P&BC and from the deputy vice president of budget at the P&BC dated January 3, 2018, this practice will continue in the current multi-year plan, and is expected to continue in the same manner in the foreseeable future. Separately and in addition, the Technion's legal counsel issued a legal opinion on the matter of the aforesaid obligation of the P&BC based on, inter alia, the following documents: a notice of the Higher Education Council to the Technion dated August 8, 2001; a confirmation of the Higher Education Council from May 17, 2007 that as from January 1, 2004 the Technion does not have any new employees that have a budgetary pension; the P&BC's instructions to the higher education institutions from August 16, 2017 regarding "the format of submitting a budget proposal"; a letter of the chairman of the P&BC from January 3, 2018. According to the legal opinion, the participation of the P&BC at the rate of 50% of the Technion's budgetary pension payments, up to supplementing the full amount of the payments required from the Technion in respect thereto, is firmly supported by both the set of contractual agreements between the parties and the duties of P&BC as an administrative authority. This position is based on several reasons, with each one in itself substantiating the obligation of the P&BC:

1. A valid and binding agreement exists between the parties with respect to the participation of the P&BC in the Technion's budgetary pension payments;
2. Even if there was no agreement as mention in item 1 above, the P&BC may not renounce its obligation to pay 50% of the Technion's budgetary pension payments because of an administrative promise it had given;
3. The P&BC is duty-bound to the principle of equality, so that its participation in the budgetary pension payments of the Hebrew University creates an independent right of the Technion to receive participation in its budgetary pension payments;
4. The higher duty of good faith that applies to the P&BC, in it being an administrative authority, requires it to treat the Technion fairly, and accordingly it may not renounce its obligation towards the Technion;
5. The reliance of the Technion on the obligation of the P&BC to participate in its budgetary pension payments, and an adverse change in its situation as a result, prevent the P&BC from renouncing its obligation towards the Technion.

## Notes to the Financial Statements as of September 30, 2018

**Note 2 - Significant Accounting Policies (cont'd)****J. Employee benefits (cont'd)****(5) Plan assets – participation of P&BC (cont'd)**

According to the opinion, even in extreme circumstances of the P&BC wanting to renounce its obligation to participate in the Technion's budgetary pension payments, the Technion would have a strong cause of action to receive the participation of the P&BC in the payments, and the chances of such an action being accepted are higher than 70%. Therefore, according to accounting standards the P&BC's obligation to participate in the Technion's budgetary pension payments may be recognized as an asset in the Technion's financial statements.

The matter was brought before the Israel Accounting Standards Board for discussion and according to minutes from September 26, 2017, it was decided that under the said circumstances the participation of the State in the pension payments should be taken into account in the measurement of the liability (as a deduction from the obligation), and accordingly the liability should be presented on a net basis. In view of the aforesaid, the Technion's pension liability is presented on a net basis.

**(6) Sabbatical rights**

The liability for sabbatical leave payments to the academic staff is a conditional liability, not a vested right of the employee, since it is cancelled upon the employee's retirement or death. The expenses relating to this leave are therefore not accrued, but recognized in the period of the actual expenses.

**K. Recognition of revenue**

- (1) Revenues from all kinds of transfers (such as allocations from government bodies or bodies related to them in the framework of budgets for the same period as the financial statements of the Technion), that were budgeted but not yet received, are recognized as income if all the following provisions are fulfilled:

- (a) The existing information, as at the date of issuing the financial statements, shows that there is an irrevocable commitment of the donor, which refers to the period of the report.
- (b) The realization of the commitment is not dependent on the occurrence of any certain future event.

- (2) Pledges for donations not yet received will be recognized as income only if they were actually received by the Technion or a trustee of the Technion, until the date of preparing the financial statements. In extraordinary cases in which the pledges for donations not yet received can be legally enforced and realized, they will be recognized, as mentioned above, at the time of receiving the pledges.

- (3) Tuition – according to the year of study.

- (4) Rent – recognized on the cash basis.

- (5) Revenues from research are recognized on a “completed project” basis, upon completing the research.

**L. Linked balances**

1. Balances denominated in foreign currency or linked thereto are stated according to the representative rate of exchange as at balance sheet date.  
Balances linked to the Consumer Price Index (CPI) are stated in accordance with their contractual linkage terms.
2. The following are details of the US dollar exchange rate, the CPI (known index) and the changes therein:

	September 30, 2018	September 30, 2017	% change from October 1, 2017 to September 30, 2018
CPI – in points*	101.5	100.30	1.20
Exchange rate of US dollar (in NIS)	3.627	3.529	2.78

\* On the 2006 average basis.

## Notes to the Financial Statements as of September 30, 2018

## Note 2 - Significant Accounting Policies (cont'd)

**M. Budget**

The original budget for the 2018 academic year is according to the budget that was approved by the Technion Council in its meeting from September 5, 2017. The budget is considered "accompanying information" and is not audited by the auditors.

**N. Cash and cash equivalents**

Cash and short-term deposits in banks, wherein the period from the date of deposit until the date of maturity is not more than three months.

## Note 3 - Planning and Budgeting Committee

	Consolidated and Technion	
	September 30, 2018	September 30, 2017
	NIS thousands	NIS thousands
Credit balance at beginning of year	(6,614)	(28,441)
Current year allocations (see Note 14)	1,095,768	1,038,832
Less payments received during the year and amounts transferred directly to a third party, net	(1,132,023)	(1,017,005)
Credit balance at end of year	(42,869)	(6,614)

## Note 4 - Related Companies and Institutions

	Consolidated		Technion	
	September 30,		September 30,	
	2018	2017	2018	2017
	NIS thousands		NIS thousands	
Technion Research and Development Foundation Ltd*	-	-	3,518	6,207
Israel Institute for Marine Engineering Research Ltd.	3	5	3	5
Technion Sport Center Ltd.	585	365	585	365
The Samuel Neaman Institute for Advanced Studies in Science and Technology Ltd.	125	-	125	-
Lady Davis foundation	370	368	370	368
	1,083	738	4,601	6,945

\* In an agreement between the Technion Research and Development Foundation (TRDF) and the Technion from 2016, the TRDF committed to pay its debt to the Technion in six annual payments as from September 1, 2016. Accordingly, part of the debt was classified as a long-term debt. In reality, the TRDF repaid the entire balance of the debt during the current year.

## Notes to the Financial Statements as of September 30, 2018

## Note 5 - Accounts Receivable

	Consolidated		Technion	
	September 30,		September 30,	
	2018	2017	2018	2017
	NIS thousands		NIS thousands	
Students – for loans	13,102	13,024	13,102	13,024
Technion societies	31,602	4,653	31,602	4,653
Receivables and accrued income in respect of research	71,624	71,395	-	-
Public and government institutions	9,485	5,658	3,085	4,533
Employees	426	119	43	-
Prepaid expenses	4,898	3,969	4,577	3,734
Other receivables	2,256	2,953	1,727	2,652
	<u>133,393</u>	<u>101,771</u>	<u>54,136</u>	<u>28,596</u>

## Note 6 - Investments in Subsidiary and Investee Companies

	Consolidated		Technion	
	September 30,		September 30,	
	2018	2017	2018	2017
	NIS thousands		NIS thousands	
<b>Investment in subsidiary: (see A.1 hereunder)</b>				
Cost	-	-	80,098	80,098
Capital notes	-	-	76,481	76,481
Accumulated losses	-	-	(403,970)	(553,172)
Liability to cover deficit of subsidiary (presented under long-term liability)	-	-	(247,391)	(396,593)
<b>Investments in investee companies: (see A and B hereunder)</b>				
Investments in investee companies	47,804	43,995	1	1
	<u>47,804</u>	<u>43,995</u>	<u>(247,390)</u>	<u>(396,592)</u>

## A. Details of the Technion's investments:

- (1) Technion Research and Development Foundation Ltd. (hereinafter: "TRDF") – The Technion holds 100% of the share capital and voting rights in TRDF. This investment is presented on the equity basis.
- (2) TRDF's income from royalties and patents amounted to NIS 41,753 thousand in the year ended September 30, 2018 (NIS 32,944 thousand last year).
- (3) The Technion has associated entities such as: Israel Institute for Marine Engineering Research Ltd., Technion Sport Center Ltd. (CIC), The Samuel Neaman Institute for Advanced Studies in Science and Technology Ltd. and several other entities. The activity of these entities is insignificant compared to the Technion's activity and the investment is presented at a token value of NIS 1 thousand.

## Notes to the Financial Statements as of September 30, 2018

## Note 6 - Investments in Subsidiary and Investee Companies (cont'd)

## A. Details of the Technion's investments: (cont'd)

(4) Joan and Irvin Jacobs Technion – Cornell Institute Inc. - JTCI

Technion and Cornell University (hereinafter "Cornell") won a tender of New York City for the foundation of a technological institute and innovation center on Roosevelt Island in New York, and in February 2013 signed an agreement for the incorporation of a non-profit American entity, held by the parties in equal parts (50:50) (hereinafter "JTCI"). JTCI was recognized as a non-profit organization by the American tax authorities and by the State of New York. According to the agreement for constructing the campus (which will house JTCI), the financial responsibility and risks arising from construction of the campus in general and its operation will belong solely to Cornell. In December 2015 an agreement was signed between JTCI and Cornell, which arranges the administrative and operating services Jacobs will receive from Cornell and the payment for such services. The document emphasizes the principle that JTCI shall operate such that its five-year budget is balanced. As part of its commitment to raise donations for JTCI, Cornell undertook to subsidize JTCI's rent payments starting from 2017, the date of moving to the permanent location on Roosevelt Island, until June 2024 (each year at a decreasing rate). The opening ceremony of the campus was held in September 2017. The Technion does not consolidate its portion of JTCI in the financial statements since the JTCI is a foreign institution that cannot distribute profits.

Presented hereunder are summary financial data of JTCI as at June 30, 2018 and 2017 (in thousands of dollars):

	Unrestricted \$ thousands	Temporarily restricted \$ thousands	Permanently restricted \$ thousands	Total for the year ended June 30	
				2018	2017
				\$ thousands	\$ thousands
Income from operating activities	11,331	2,484	-	13,815	5,611
Expenses from operating activities	(13,092)	-	-	(13,092)	(7,476)
Donations to perpetual and other funds	529	-	3,794	4,323	100,616
Gains on investments	468	5,622	-	6,090	5,526
Release from restriction	1,059	(1,059)	-	-	-
Changes in assets, net	295	7,047	3,794	11,136	104,277
				June 30	
				2018	2017
				\$ thousands	\$ thousands
Total assets				135,520	124,504
Net assets:					
Unrestricted				7,956	7,661
Temporarily restricted				13,633	6,586
Permanently restricted				113,665	109,871
Total net assets				135,254	124,118

## Notes to the Financial Statements as of September 30, 2018

**Note 6 - Investments in Subsidiary and Investee Companies (cont'd)****A. Details of the Technion's investments: (cont'd)****(5) Agreement with Shantou University in China for foundation of technological institute (Guangdong Technion Israel Institute of Technology – GTIIT)**

In September 2013 a memorandum of understandings was signed between the Technion and Shantou University for the foundation of a joint technological institute, which will be an academic branch of the Technion in Shantou, granting degrees of the Technion and being academically supervised by the Technion (hereinafter: "GTIIT").

In November 2013, a "framework agreement" was signed between Shantou University, the Technion and the Shantou Municipality, by which the municipality will provide a lot of land for the construction of GTIIT, and the Chinese government will provide a budget in the amount of \$ 150 million for the purpose of constructing and beginning the operation of GTIIT. This agreement was replaced by an agreement signed in August 2016, by four parties, the Technion, the Shantou University, the Shantou Municipality and GTIIT. It defines the investment and adaptation needs for construction of the "north campus" (estimated investment - more than \$ 100 million), investments in equipment and other operating expenses (more than \$ 100 million in the first five years) and plans for continuing expansion of the construction to the "south campus" (estimated investment of \$ 360 million). According to the agreement, the detailed planning of the "south campus" will only start with the approval of the Technion and according to the academic needs of GTIIT.

The agreement also specified that Shantou Municipality will allot the lands on both campuses for no consideration to Shantou University for the educational, research and other related activities of GTIIT. When the activity ends the lands and buildings will be transferred to the ownership of Shantou University. Technion will have no dismantling responsibility and will not be required to provide money, loans or guarantees.

A joint management committee was established for GTIIT in which there are 4 representatives of the Technion and 4 representatives from China.

In November 2015 the project was presented at the meeting of the P&BC and the Council for Higher Education, and approval was received for the Technion's activity in China, subject to conditions the Technion had to meet. The Technion has fulfilled the conditions.

In December 2015 a cornerstone ceremony was held with the participation of high level persons from Israel and China and the construction of the campus began. Construction of the campus's buildings was completed in October 2017 and the opening ceremony of the campus was held in December 2017.

In December 2016 the Chinese education ministry recognized GTIIT as a higher education institution in China and began enrolling students for the opening of the first academic year in August 2017. At that time, 216 students began studying in three engineering departments. 480 students are currently studying at GTIIT.

The Technion focuses its activity on recruiting the academic staff and some of the administrative and technical staff for the new campus.

As of December 2018, 22 staff members at various levels have been recruited. The members of the academic staff received academic appointments from the Technion, based on Technion procedures, but are employed by GTIIT and not the Technion. Some administrative and technical staff members were recruited in Israel. The P&BC and the Council for Higher Education were updated by the Technion on all the aforementioned actions. Total net assets in the financial statements of GTIIT for the fiscal year ended December 31, 2017 is \$ 32 million.

The operating budget for 2018 is \$ 4 million. The Technion does not consolidate in its financial statements GTIIT since it is a foreign institution that cannot distribute profits.

## Notes to the Financial Statements as of September 30, 2018

## Note 6 - Investments in Subsidiary and Investee Companies (cont'd)

## B. Details of TRDF holdings in directly held associated companies:

Name of company	Held by TRDF		Held by investee companies	
	Voting	Profits	Voting	Profits
1. Dimotech Ltd.	100%	100%	-	-
2. Amit - Alfred Mann Institute at the Technion Ltd.	100%	100%	-	-
3. Sealantis Ltd.	15%	16%	20%	20%
4. Sanoculis Ltd.	5%	5%	6%	6%
5. Accellta Ltd.	25%	25%	21%	21%
6. Welltodo Ltd.	13%	13%	-	-
7. Sandboxmodel – SBM Ltd.	25%	25%	-	-
8. Technological Incubator founded by TRDF	17%	17%	-	-
9. Codota Dot Com Ltd.	15%	15%	-	-
10. Ellox Pharmaceuticals Ltd.	4%	4%	-	-
11. Slender Medical Ltd.	10%	10%	-	-
12. Metabomed Ltd.	2%	2%	-	-
13. Israeli Technology Transfer Organization Ltd. (ITT)	8%	8%	-	-
14. Adicet Bio Israel Ltd	2%	2%	-	-
15. Integrated Nano-Technologies LLC (INT)	11%	11%	-	-
16. Todos Technologies Ltd.	3%	3%	-	-
17. Regentis Biomaterials Ltd.	2%	2%	-	-
18. Cortica Ltd.	1%	1%	-	-
19. Liquidcomp - Bit Ltd.	3%	3%	-	-
20. Tehuti Networks Ltd.	0.11%	0.11%	0.187%	0.187%
21. Nano Spun Technologies Ltd.	1%	1%	-	-
22. The Technion Enterpreneurial Incubator Companies Ltd.	1%	1%	99%	99%
23. Medic Vision -Imaging Solutions Ltd.	1%	1%	-	-
24. Cellaris Ltd.	1%	1%	-	-
25. Elminda Ltd.	1%	1%	-	-
26. Viaqua Therapeutics Ltd.	6%	6%	-	-
27. Nanovation G.S. Ltd.	6%	6%	-	-
28. Deep Learning Robotics Ltd.	5%	5%	-	-
29. Digiflex Ltd.	1%	1%	-	-
30. Environmental Systems Ltd.	-	-	50%	50%
31. Correlsense Ltd.	0.15%	0.15%	-	-
32. M.R.S. Medical Sleep Centers Ltd.	-	-	59%	59%
33. Ultraspect Ltd.	-	-	14%	14%
34. Skyrad Ltd.	-	-	17%	17%
35. ARTsy360 Ltd.	10%	10%	-	-
36. Eximo Medical Ltd.	1%	1%	5%	5%
37. Perflow Medical Ltd.	-	-	2%	2%
38. Colospan Ltd. (formerly Cologuard Ltd.)	-	-	4%	4%
39. MEmic	-	-	1%	1%
40. Renalsense	-	-	3%	3%
41. Implant Technologies Ltd.	35%	35%	-	-
42. BEE (Best Emulsifying Equipment) International Ltd.	-	-	15%	15%
43. Delta	2%	2%	-	-
44. Cole Capital	17%	17%	-	-
45. Liberdi Ltd.	1%	1%	-	-
46. Newrocket Ltd.	21%	21%	-	-
47. Olfaguard Ltd.	6%	6%	-	-
48. The Whollysee Ltd.	2%	2%	-	-

## Notes to the Financial Statements as of September 30, 2018

## Note 6 - Investments in Subsidiary and Investee Companies (cont'd)

## B. Details of TRDF holdings in directly held associated companies: (cont'd)

Name of company	Held by TRDF		Held by investee companies	
	Voting	Profits	Voting	Profits
49. Nanit Israel Ltd. – Audisense Inc.	1%	1%	-	-
50. Verifyoo Ltd.	8%	8%	-	-
51. Xact Robotics Ltd.	12%	12%	-	-
52. Bristack Biomedical Ltd. (b)	-	-	-	-
53. SEITAN REESON	33%	33%	-	-
54. Prolor Biotech (b)	-	-	-	-
55. Barcode Diagnostics	26%	26%	-	-
56. Diagnostic Robotic	10%	10%	-	-
57. Feelit	15%	15%	-	-
58. Backtusense	10%	10%	-	-
59. INENSTO	15%	15%	-	-
60. Meat the Future	28%	28%	-	-
61. Moebius	4%	4%	-	-
62. NORAMI MEDICAL	-	-	12%	12%
63. Nutriseal	-	-	3%	3%
64. Oncohost	-	-	3%	3%
65. Onecell Medical	29%	29%	-	-
66. Techsomed	-	-	5%	5%
67. Stalia	2%	2%	-	-
68. Virtual Patient Project	6%	6%	-	-
69. Giomakor	20%	20%	-	-
70. Technion Investment Opportunities Fund, Limited Partnership (c)	-	-	-	-
71. Technion Factor Management Ltd.	100%	100%	-	-
72. Technion Drive Accelerator – Limited Partnership	99%	99%	1%	1%
73. Reotek	-	-	22%	22%
74. Cansul Analistix	23%	23%	-	-
75. Nano Sinks	20%	20%	-	-
76. Optgaid	-	-	6%	6%
77. Nainspetz	-	-	3%	3%
78. Technologies	-	-	9%	9%
79. Lidos Medical	-	-	24%	24%

- (a) There are additional investments in inactive companies that are not include in the table above.
- (b) The TRDF does not have precise information regarding its share in the investee. In any case, the holding rate is immaterial.
- (c) According to an agreement between the Technion and TRDF (hereinafter – the agreement), a limited partnership was founded on August 15, 2011 that began operating in 2012 for an indefinite period of time. According to the agreement, TRDF serves as the general partner of the partnership whereas the Technion is the partnership's limited partner. The partnership was founded for the purpose of investing in hi-tech companies, whereas Technion invests the capital and TRDF is responsible for management. The Technion undertook to invest US\$ 10 million on the dates specified in the agreement and will not be responsible for amounts charged to the partnership beyond the amounts of its investment.  
As at the date of the financial statements the partnership has invested an amount of NIS 29 million in 17 technology companies.  
The Technion's investment is presented in the financial statements within the item of investments in securities and deposits.
- (d) Part of the holdings of TRDF that are indicated above include also the share of staff researchers, who at the time of selling the investment will be entitled to receive part of the consideration received, according to signed agreements between them and TRDF.

## Notes to the Financial Statements as of September 30, 2018

## Note 7 - Investments in Securities and Deposits

	Consolidated		Technion	
	September 30,		September 30,	
	2018	2017	2018	2017
	NIS thousands		NIS thousands	
<b>Deposits</b>				
Linked to the CPI	1,367,931	* 1,548,582	1,367,931	* 1,548,582
Denominated in foreign currency or linked thereto	105,071	49,271	105,071	49,271
Unlinked	1,204,450	* 826,769	1,186,943	* 826,769
	<u>2,677,452</u>	<u>2,424,622</u>	<u>2,659,945</u>	<u>2,424,622</u>
<b>Marketable securities</b>				
Bonds	1,822,006	* 1,974,135	1,822,006	* 1,974,135
Shares and options	2,046,738	1,853,088	1,853,364	1,748,697
	<u>3,868,744</u>	<u>3,827,223</u>	<u>3,675,370</u>	<u>3,722,832</u>
<b>Non-marketable securities</b>				
Corporate bonds	232,226	* 199,778	232,226	* 199,778
State of Israel Bonds	101	9	101	9
Non-marketable capital funds	131,541	101,051	131,541	101,051
	<u>363,868</u>	<u>300,838</u>	<u>363,868</u>	<u>300,838</u>
	<u>6,910,064</u>	<u>6,552,683</u>	<u>6,699,183</u>	<u>6,448,292</u>
Less cash and cash equivalents (included in cash and cash equivalents)	443,011	352,058	443,011	352,058
	<u>6,467,053</u>	<u>6,200,625</u>	<u>6,256,172</u>	<u>6,096,234</u>

\* Reclassified.

## Notes to the Financial Statements as of September 30, 2018

## Note 8 - Fixed Assets, Net

A.

	Technion			
	Land and Buildings (1)	Research equipment	Computers	Total
	NIS thousands			
<b>Cost</b>				
Balance as at October 1, 2017	2,646,940	563,725	98,042	3,308,707
Additions	111,587	51,385	6,168	169,140
Disposals	(16,293)	-	-	(16,293)
Balance as at September 30, 2018	2,742,234	615,110	104,210	3,461,554
<b>Accumulated depreciation</b>				
Balance as at October 1, 2017	102,822	355,901	86,174	544,897
Additions	56,091	46,810	8,302	111,203
Balance as at September 30, 2018	158,913	402,711	94,476	656,100
<b>Carrying amount as at September 30, 2018</b>	2,583,321	212,399	9,734	2,805,454
Carrying amount as at September 30, 2017	2,544,118	207,824	11,868	2,763,810

(1) See B below.

	Consolidated			
	Land and buildings	Research equipment	Computers	Total
	NIS thousands			
<b>Cost</b>				
Balance as at October 1, 2017	2,671,871	645,699	112,339	3,429,909
Additions	113,250	74,653	6,564	194,467
Disposals	(16,293)	-	-	(16,293)
<b>Balance as at September 30, 2018</b>	<b>2,768,828</b>	<b>720,352</b>	<b>118,903</b>	<b>3,608,083</b>
<b>Accumulated depreciation</b>				
Balance as at October 1, 2017	114,241	399,763	99,341	613,345
Additions	58,213	61,887	8,838	128,938
<b>Balance as at September 30, 2018</b>	<b>172,454</b>	<b>461,650</b>	<b>108,179</b>	<b>742,283</b>
<b>Carrying amount as at September 30, 2018</b>	<b>2,596,374</b>	<b>258,702</b>	<b>10,724</b>	<b>2,865,800</b>
Carrying amount as at September 30, 2017	2,557,630	245,936	12,998	2,816,564

(1) See B below.

## Notes to the Financial Statements as of September 30, 2018

**Note 8 - Fixed Assets, Net (cont'd)****B. Revaluation of the buildings category:**

For the purpose of measuring the fair value of the Technion's buildings as at September 30, 2016, In the framework of the initial application of Accounting Standard 9 (see Note 2.B) the Technion obtained an opinion of a real estate appraiser who estimated the physical value of the Technion's assets and their remaining expected useful life. The appraiser, a qualified independent appraiser experienced in work of this type, was assisted by a building engineer having specific experience in the construction of similar buildings.

The physical value was calculated according to the reinstatement cost of the buildings (the lower of actual and functional replacement cost), ignoring special investments in the building and including all the systems attached to the building other than equipment. The aforesaid reinstatement cost was depreciated proportionately according to the time from the building's construction until September 30, 2016 compared to the entire economic useful life of the building. The economic useful life of the buildings was estimated based on the current physical condition of the buildings.

The opinion refers only to built-up areas of the Technion's campus at Neve Sha'anani and does not include the component of land and of present and future building rights. At the faculty of medicine in Haifa, the land component is included.

According to the aforesaid opinion, the carrying amount of the aforesaid buildings is estimated at NIS (thousands) 2,370,761 as at September 30, 2016. As from October 1, 2016 the additions to buildings are recorded on a cost basis.

**C. Additional information regarding land rights:**

- (a)
  - (1) The buildings at Technion Campus, Neve Sha'anani and the faculty of medicine building in Haifa were built on land leased from the Israel Lands Authority (ILA). The lease contract has not yet been signed and the lease has not yet been registered with the Land Registry Office. In the opinion of the Technion's legal counsel, there is no dispute regarding the Technion's lease rights with respect to the land. Negotiations are currently being held between the Technion and the Israel Lands Authority regarding the terms of the lease. The Technion pays current lease payments in respect of these properties.
  - (2) With regard to the land on which the student dormitories (undergraduate) are built, the Technion signed a lease agreement for a period ending on April 29, 2066. There is no parcellation so it is not possible at this time to register the lease on the land registry. In addition, in an agreement with "Dira Lahaskir" (a government company for housing and rent), the Technion committed to pledge this land in favor of the State of Israel up to an amount of NIS 12 million, as security for the Technion's commitment to construct new dormitories (the Broshim dormitories), with respect to the amount it receives as support. The request to register the pledge was submitted in February 2019.
  - (3) The Technion has a perpetual lease right with respect to the land on which the engineering college stands. The lease is for 49 years and ends on April 13, 2020.
  - (4) In July 2017 a four-way agreement was signed between the Ministry of Transportation, Yefe Nof, the Haifa municipality and the Technion for the construction and operation of a cable car, by which the Technion grants the State, at no cost, a right to use the stations' areas and in the future (when the rights in the campus are registered in the name of the Technion) a sublease to the stations' areas. In a supplementing agreement that was signed between the Haifa municipality, Yefe Nof and the Technion, the municipality undertook to provide the Technion, at no cost, alternative land for constructing dormitories. The agreement has not yet been signed.
- (b) There is an in-principle agreement between Technion and Haifa municipality from the end of the 90s whereby Haifa municipality committed to allot the Technion areas that are owned by the municipality (about 170 dunams) on the land located between the Technion and the Haifa University. A plan had been prepared in the past by the Technion, the municipality and the Haifa University, but due to various changes it has still not been executed.

## Notes to the Financial Statements as of September 30, 2018

**Note 8 - Fixed Assets, Net (cont'd)****C. Additional information regarding land rights: (cont'd)**

- (c) The land on which the Kasel Dormitories were built was allotted to the Technion by the Haifa municipality for the purpose of constructing dormitories. The dormitories are in the possession of the Technion. In April 2016 the Haifa city council approved the allotment process, and at the beginning of 2017 a sublease agreement was signed between the Haifa municipality and the Technion.
- (d) The historic campus at Hadar HaCarmel – The land on which the building in the Hadar neighborhood in Haifa was built was purchased in 1908 by a German donor who designated it for the construction of a higher education institution for technological studies and in 1927 transferred it to Keren Kayemet Le'Israel at a token price. The building was constructed in 1912. A lease agreement has not been prepared with the Technion and the lease has not yet been registered with the Land Registry Office, but the land is in the process of arrangement. Keren Kayemet Le'Israel and Keren Hayesod are in disagreement regarding the rights of Keren Hayesod in the land and a ruling on the matter was requested from the Haifa District Court. The Technion filed a claim memorandum with the arrangement clerk in order to protect its rights in the property, and it joined the existing claim in which it alleges having an ownership right in the area and at the very least a perpetual lease for generations at beneficial terms. The Technion's ownership claim was denied and the claim of Keren Kayemet Le'Israel against Keren Hayesod was accepted. Keren Hayesod filed an appeal and the Technion filed a counter appeal. In October 2017 a hearing was held on the appeal and it was agreed to transfer the matter to mediation. The mediation proceeding is still underway.
- (e) Chorev residential apartment buildings – Land of an area of 4.8 dunams in Haifa (block 10797 plots 2-5) that was purchased by the Technion in 1951 as an open public area. The land was registered in the name of the municipality, and the Technion was allowed to construct on it a number of huts for the residence of faculty members. In January 2006 a demand was received from the Haifa municipality to vacate the area and remove the structures. The demand was refused by the Technion.

In 2014 an agreement was signed between the Haifa municipality and the Technion by which until such time as all the temporary structures on the site are vacated, the Technion will continue to have sole responsibility for the entire site and all that is built on it. Soon after vacating the last of the huts, the Technion will complete the destruction of all the huts at its own expense, and will hand over the entire cleared site to the municipality. A provision was included in the books for the cost of demolition and cleanup on the basis of management's assessment.

- (f) Leasehold until 2023 of a plot located near the Technion medical school (block 11696 plot 9).
- (g) Rappaport building and adjacent lot – The site of the Rappaport building was allotted to the Technion, and Technion built on the land the Rappaport Faculty of Medicine building that serves exclusively Technion and the Rappaport Institute. As at September 30, 2018, the land is still not registered in the name of the Technion. Nevertheless, a lease agreement was prepared and was signed by the Technion. According to the demand of ILA, in order to complete registration of the lease in the name of the Technion, the Technion has to prepare plans for the purpose of registration as a separate unit. The agreement between the Technion and the Rappaport Institute includes an obligation to transfer to the Rappaport Institute (CIC) rights in 7 floors of the Rappaport building when this becomes possible.
- (h) A residential apartment on 6 Ruth Hachohen Street in Haifa (block 11200 plots 64 (1/2) and 310 (1/2)).
- (i) Office on 22 Helsinki Street in Tel-Aviv (block 6108 plot 89/1).

## Notes to the Financial Statements as of September 30, 2018

## Note 8 - Fixed Assets, Net (cont'd)

## C. Additional information regarding land rights: (cont'd)

- (j) An office hall on 1 King David Blvd., Tel Aviv, was granted to the Technion as a gift, subject to the right of the Association of Lithuanian Jews in Israel to lease it for a minimum price.  
In December 2017 the property was sold and eliminated from the Technion's assets.  
The value included in the financial statements as at September 30, 2017 is the sale price less the amount of the compensation to the Association of Lithuanian Jews in Israel and the taxes applicable to the Technion.
- (k) Hadera orchard, block 7728, plot 51.  
The Technion has a perpetual lease right until September 30, 2051. A "maintenance agreement" was signed with Pri Or Ltd., by which it cultivates the orchard in exchange for receiving all the revenues from cultivating the orchard.
- (l) Orchard – Lev Hasharon – block 7754 plot 60.  
The Technion has a perpetual lease right. The Development Authority is the registered owner. The second half is registered under the name of the Hebrew University.  
Documents were sent in 2017 for renewal of the lease registration.
- (m) Orchards north of a Sde Verburg that constitute 20% of 91/378 of block 7676, plots no.: 40, 39, 38, 37, 36, 35, 34, 31, 29, 27, 25, 13, 8, 50, 43, 41 – registered ownership right.

## Note 9 - Accounts Payable

	Consolidated		Technion	
	September 30,		September 30,	
	2018	2017	2018	2017
	NIS thousands		NIS thousands	
Employees and institutions for salaries	117,395	114,740	97,705	95,267
Advances from customers	1,191	7,525	-	-
Stipends to students	11,181	10,247	11,181	10,247
Accrued expenses	33,136	40,767	9,606	11,896
Public and government institutions	6,111	1,078	4,696	1,078
Others	9,162	13,898	8,004	11,672
	<u>178,176</u>	<u>188,255</u>	<u>131,192</u>	<u>130,160</u>

## Note 10 - Employee Benefits

## 1) Description of the benefits:

- The permanent employees of the Technion, who began working for the Technion on or before December 31, 2003, are entitled to receive a budgetary pension upon their retirement according to the Technion's retirement arrangement.  
The pension rates upon retirement at the mandatory age of retirement, upon dismissal or upon early retirement are determined based on the number of years of employment with the Technion multiplied by 2% for each year of employment, up to a maximum of 70% of the employee's salary serving as the basis for calculating the pension.  
The liability included in the financial statements was calculated on the basis of an actuarial assessment. The actuarial reports were prepared according to actuarial bases that were published by the Ministry of Finance in January 2013 for pension funds. The interest rate used in the actuarial calculation is according to an interest curve that is based on market data concerning CPI-linked high-quality corporate debentures as determined by Mirvah Hogen Ltd., the company that provides the quotes.

## Notes to the Financial Statements as of September 30, 2018

## Note 10 - Employee Benefits (cont'd)

## 1) Description of the benefits: (cont'd)

## • (cont'd)

Furthermore, the mortality tables used for the purposes of the calculation were according to recent directives of the Ministry of Finance. See also paragraph 3.A (2) hereunder.

The actuarial obligation in respect of employees, retirees and their heirs, insured under the budgetary pension arrangement, includes other components besides the pension payable such as a bonus for excess years and a bonus for unutilized sick leave.

- The employees of the Technion who began working after January 1, 2004, are insured under an accrual pension scheme and/or executive insurance policies. The Technion makes regular deposits in respect of its liabilities to these employees. In accordance with Section 14 of the Severance Pay Law, the Technion's regular deposits for severance pay release it from any further liability to the employees in respect of the deposited severance pay.

## 2) Composition of employee benefits:

	Consolidated September 30,		Technion September 30,	
	2018	2017	2018	2017
	NIS thousands		NIS thousands	
<b>Presented under current liabilities – accounts payable:</b>				
Short-term employee benefits (1)	113,088	109,733	93,398	90,260
Current maturities of other long-term employee benefits	4,307	5,007	4,307	5,007
Total	<u>117,395</u>	<u>114,740</u>	<u>97,705</u>	<u>95,267</u>
<b>Presented under non-current liabilities - employee benefits:</b>				
Liabilities recognized in respect of defined benefit plan for budgetary pension, net (see paragraph A hereunder)	3,520,386	3,494,651	2,962,196	2,924,841
Liabilities in respect of retirement benefits and other long-term benefits (see paragraph B hereunder)	298,453	292,162	277,924	263,007
Total	<u>3,818,839</u>	<u>3,786,813</u>	<u>3,240,120</u>	<u>3,187,848</u>

- (1) Short-term employee benefits include liabilities in respect of employees and institutions for salaries

## Notes to the Financial Statements as of September 30, 2018

## Note 10 - Employee Benefits (cont'd)

## A. Post-employment benefit plans – defined benefit plan

The Technion has a defined benefit plan for employees entitled to a budgetary pension, with respect to which it is entitled to the participation of P&BC in the budgetary pension payments at the rate of 50% (hereinafter: "plan assets").

## (1) Movement in net defined benefit liability and in its components

	Defined benefit obligation		Consolidated Fair value of plan assets <sup>(2)</sup>		Net recognized defined benefit liability	
	September 30		September 30		September 30	
	2018	2017	2018	2017	2018	2017
	NIS thousands		NIS thousands		NIS thousands	
Balance as at October 1	6,531,219	6,485,889	3,036,568	3,010,253	3,494,651	3,475,636
<b>Expense (income) included in income, net:</b>						
Current service cost	68,200	74,660	33,255	36,355	34,945	38,305
Interest costs	241,143	255,940	112,200	120,205	128,943	135,735
Past service expenses (income)	43,670	(295,530)	21,835	(147,765)	21,835	(147,765)
	<u>353,013</u>	<u>35,070</u>	<u>167,290</u>	<u>8,795</u>	<u>185,723</u>	<u>26,275</u>
<b>Recognized in other comprehensive income:</b>						
Actuarial losses from changes in demographic assumptions	-	67,370	-	31,555	-	35,815
Actuarial losses from changes in financial assumptions	12,270	215,640	3,490	98,620	8,780	117,020
Other actuarial losses (gains)	17,780	32,390	28,861	35,752	(11,081)	(3,362)
	<u>30,050</u>	<u>315,400</u>	<u>32,351</u>	<u>165,927</u>	<u>(2,301)</u>	<u>149,473</u>
<b>Other movements:</b>						
Benefits paid contributions paid by the employees	(324,200)	(309,460)	(166,513)	(152,727)	(157,687)	(156,733)
	<u>4,508</u>	<u>4,320</u>	<u>4,508</u>	<u>4,320</u>	<u>-</u>	<u>-</u>
	<u>(319,692)</u>	<u>(305,140)</u>	<u>(162,005)</u>	<u>(148,407)</u>	<u>(157,687)</u>	<u>(156,733)</u>
Balance as at September 30	<u>6,594,590</u>	<u>6,531,219</u>	<u>3,074,204</u>	<u>3,036,568</u>	<u>3,520,386</u>	<u>3,494,651</u>

\* Comprised mainly of the asset of P&BC participation – see Note 2.J(5). Also includes NIS 56 million and NIS 55.86 million as at September 30, 2018 and 2017, respectively, in respect of the balance of a central provident fund for participation in the budgetary pension.

## Notes to the Financial Statements as of September 30, 2018

## Note 10 - Employee Benefits (cont'd)

## A. Post-employment benefit plans – defined benefit plan (cont'd)

## (1) Movement in net defined benefit liability and in its components (cont'd)

	Technion					
	Defined benefit obligation		Fair value of plan assets		Net recognized defined benefit liability	
	September 30		September 30		September 30	
	2018	2017	2018	2017	2018	2017
	NIS thousands		NIS thousands		NIS thousands	
Balance as at October 1	5,961,409	5,923,209	3,036,568	3,010,253	2,924,841	2,912,956
<b>Expense (income) included in income, net:</b>						
Current service cost	66,510	72,710	33,255	36,355	33,255	36,355
Interest costs	219,543	234,620	112,200	120,205	107,343	114,415
Past service expenses (income)	43,670	(295,530)	21,835	(147,765)	21,835	(147,765)
	329,723	11,800	167,290	8,795	162,433	3,005
<b>Recognized in other comprehensive income:</b>						
Actuarial losses from changes in demographic Assumptions	-	63,110	-	31,555	-	31,555
Actuarial losses from changes in financial Assumptions	6,980	197,240	3,490	98,620	3,490	98,620
Other actuarial losses (gains)	26,080	38,890	28,861	35,752	(2,781)	3,138
	33,060	299,240	32,351	165,927	709	133,313
<b>Other movements:</b>						
Benefits paid **	(292,300)	(277,160)	(166,513)	(152,727)	(125,787)	(124,433)
Contributions paid by the employees	4,508	4,320	4,508	4,320	-	-
	(287,792)	(272,840)	(162,005)	(148,407)	(125,787)	(124,433)
Balance as at September 30	6,036,400	5,961,409	3,074,204	3,036,568	2,962,196	2,924,841

\* Comprised mainly of the asset of P&BC participation – see Note 2.J(5). Also includes NIS 56 million and NIS 55.86 million as at September 30, 2018 and 2017, respectively, for the balance of the central provident fund's participation in the budgetary pension.

\*\* Includes an amount of NIS 6,797 thousand that was paid in 2018 (zero in 2017) by the central provident fund for participation in the budgetary pension.

The expense (income) is recognized in the following line items in the statement of activities:

	Consolidated		Technion	
	September 30,		September 30,	
	2018	2017	2018	2017
	NIS thousands		NIS thousands	
Cost of activities	317,403	309,460	285,503	277,160
Allocations from the Planning and Budgeting Committee	(159,716)	(152,727)	(159,716)	(152,727)
Expenses (income) from changes in liability for pensions	28,036	(130,458)	36,646	(121,428)
	185,723	26,275	162,433	3,005

## Notes to the Financial Statements as of September 30, 2018

## Note 10 - Employee Benefits (cont'd)

## A. Post-employment benefit plans – defined benefit plan (cont'd)

Expense (income) related to changes in actuarial liability for pension and sick to employees, less payments presented in cost of activity

	Consolidated		Technion	
	September 30,		September 30,	
	2018	2017	2018	2017
	NIS thousands		NIS thousands	
Expenses (income) from changes in liability for pensions	28,036	(130,458)	36,646	(121,428)
Expenses in respect of changes in liability for sick pay	2,530	16,890	2,530	16,890
	<u>30,566</u>	<u>(113,568)</u>	<u>39,176</u>	<u>(104,538)</u>

## (2) Actuarial assumptions and sensitivity analysis for actuarial liabilities

a) Principal actuarial assumptions at the reporting date (expressed as weighted averages):

	September 30,	
	2018	2017
	%	
Weighted real discount rate implicit in the present value of the obligation	2.21	2.22
Nominal yield rate used to calculate interest cost	3.74	4.03
Nominal rate of pension growth (CPI)	1.50	1.50
Average real rate of growth in salary cost	2.07	2.10

b) Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

	September 30,	
	2018	2017
	NIS thousands	
Description of change in assumptions:		
Increase of 0.1% in real discount rate	(72,510)	(72,730)
Decrease of 0.1% in real discount rate	73,950	74,190
Increase of 0.5% in real rate of growth in salary	77,710	81,360
Decrease of 0.5% in real rate of growth in salary	(74,210)	(77,540)

## B. Liability in respect of retirement benefits and other long-term benefits

	Consolidated		Technion	
	September 30,		September 30,	
	2018	2017	2018	2017
	NIS thousands		NIS thousands	
Liability for retirement benefits	19,228	24,228	19,876	16,605
Liability for redemption of sick leave	152,208	143,429	148,305	139,313
Liability for vacation	44,093	45,709	34,743	35,934
Liability for rights in Science Liaison Fund	82,924	78,796	75,000	71,155
	<u>298,453</u>	<u>292,162</u>	<u>277,924</u>	<u>263,007</u>

**Notes to the Financial Statements as of September 30, 2018**

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**Note 11 - Payable to American Society for Technion**

The American Technion Society (hereinafter – the Society) notified the Technion that donations amounting to \$ 63,000 thousand, which had been transferred to the Technion in the 13 years before September 30, 2008 and derived mainly from revenues that were received according to its reports from the company of Bernard Madoff, are incorrect, and therefore the Technion should reduce its revenues. The amounts that were actually transferred to the Technion were recorded as advances on account of future revenues of the Technion from the Society.

According to an agreement from January 2011 between the Society and the Technion, the aforesaid balance will be repaid in 30 years (on September 30, 2040), less amounts that will be deducted from it over the years. The balance will bear annual interest of 4% as from October 1, 2010, which the Technion will record to the credit of the Society each year. At the end of the period the parties will decide whether to extend the payment of the balance for an additional period.

During 2018 the Society transferred to the Technion an amount of \$ 2,146 thousand, which equals NIS 7,636 thousand (last year - \$ 521 thousand, NIS 1,959 thousand), in respect of amounts that were received from the trustee responsible for the assets of Bernard Madoff and from other sources. As at September 30, 2018 the balance of this liability is \$ 42,376 thousand, which equals NIS 153,698 thousand (last year – \$ 44,522 thousand, which equals NIS 157,120 thousand).

**Note 12 - Commitments and Contingent Liabilities****A. Contingent claims**

1. Several claims in the total amount of NIS 7.5 million are pending against the Technion of which some derive from employer-employee relations and some are civil. In the opinion of the Technion's legal counsel the chances of success of the claims against the Technion are less than 50%. No provision was included for these claims.
2. a. A claim for bodily injuries was submitted by more than 300 claimants against 30 defendants including the Technion, in the matter of the "Versailles Disaster". The claims of other victims of the disaster were attached to that claim as well as claims of providers of health services, Bank Leumi and the National Insurance Institute as benefactors. A claim for property damages has also been consolidated with the claim. As stated, the substance matter of the claim relates to bodily injuries and was therefore not quantified in monetary terms. Notwithstanding, as a result of the proceedings that were held with respect to the claim, including court rulings, the overall amounts claimed, against all the defendants, are estimated at NIS 250 million.  
Following an arrangement that was reached by the Technion and the State, the State undertook to indemnify the Technion for any amount the Technion is required to pay, insofar as required, at an unlimited amount, in all the claims regarding the "Versailles Disaster". Furthermore, there is a commitment of the State to act such that any agreement the State reaches with any of the claimants, insofar as any are reached, will include a clause by which the claim of those claimants against the Technion will be denied. Accordingly, a considerable number of the aforesaid claims were denied.  
The State's commitment to indemnify the Technion fully and at an unlimited amount applies also to a separate claim unrelated to the "Versailles Disaster" that was filed by dozens of owners of units in a building on King David St. in Jerusalem in respect of property damages, who are claiming the costs of reinforcing the building, decline in value and related damages. The overall amount of the claim against all the defendants and third parties reaches tens of millions of NIS according to the claimants. The Technion is a third party in this proceeding.  
In addition, the State also undertook to indemnify the Technion in respect of future claims relating to construction using the "Pal-Kal" method up to an amount of NIS 15 million.  
As a result the Technion is not exposed to a possibility of being required to pay any amounts from its own pocket with respect to these proceedings (other than its own legal expenses).

## Notes to the Financial Statements as of September 30, 2018

**Note 12 - Commitments and Contingent Liabilities (cont'd)****A. Contingent claims (cont'd)**

## 2. (cont'd)

b. A claim in the amount of NIS 13.7 million was filed by the insurance company against the Technion requesting to be returned 35% of the amounts it paid the Technion pursuant to an agreement that was signed between it and the Technion. According to the insurance company the cause of the claim is the refusal of one of the other insurers to return the share of that other insurer, in the aforesaid agreement. For its own reasons, Migdal filed its claim against the Technion and not against the joint insurer.

In the opinion of its legal advisors, the chances that a court ruling will require the Technion to pay the amounts specified in the claim are very low to remote (other than its own legal expenses). Furthermore, this claim is included in the State's indemnity for future claims up to an amount of NIS 15 million, as mentioned above.

3. On October 11, 2005 the Israel Lands Administration sent the Technion a demand for the payment of NIS 6.2 million for usage fees in respect of the alleged "commercial uses" of buildings in the Technion complex for a retroactive period of 7 years. This demand was made following the report of the State Controller on the matter. The legal advisors of the Technion believe that that major part of the demand is based on incorrect facts and legal misinterpretations of the Israel Lands Administration. The position of the advisors was presented also before the State Control Committee of the Knesset.

The advisors contend that using assets to encourage start-up companies and for granting scholarships to students and for the welfare of students (such as: a bank branch, cafeterias, sports center, etc.) are part of the accepted objectives and activities of a modern, developing and technological higher education institution. In addition, if and insofar as any additional payment is required, there is a material dispute regarding the manner of calculating the amounts, and in the opinion of the advisors the amount requested by the Administration is a very initial opening position for negotiations. The matter is in dispute and is in the course of being discussed with the Israel Lands Administration. In the opinion of the legal advisors, the negotiations with the Administration will take a long time and its principal objective, from the viewpoint of the Administration, is to arrange the relations from that point on. No provision was included in the books for this claim.

4. On May 30, 2002, a claim was filed against the Israeli Institute for Marine Engineering Research Ltd. (hereinafter – "the Institute") and against TRDF by the Eilat Coast Development Company Ltd. (hereinafter – "the Plaintiff"), in the amount of NIS 25 million. The Plaintiff is claiming damages it alleges to have sustained as a result of advice it received from TRDF and the Technion in respect to the planning and construction of the eastern laguna of Eilat's North Coast. On May 15, 2016 the Court ruled that the Technion and TRDF would pay the plaintiff compensation in the amount of NIS 1.5 million plus court expenses. These amounts were paid by the Institute. In June 2016 mutual appeals were filed with the Supreme Court on the ruling. In January 2019 the Court decided to reduce the amount of the compensation (including court expenses) that would be paid by the Institute to NIS 700 thousand.
5. In December 2015 the trustee for the liquidation assets of Bernard Madoff filed a claim against the Technion, TRDF and another 28 defendants in Israel. The claim against the Technion and TRDF amounts to \$ 4 million, jointly and severally. In the claim the trustee alleges that the money the Technion received as a donation from an organization that was connected to Madoff, is money that was fraudulently taken from Bernard Madoff, and therefore should be returned to the company, on grounds of unjust enrichment. In the opinion of the Technion's legal counsel the chances of success of the claim are less than 50%. No provision was included in the books for this claim.
6. The Haifa municipality issued the Technion a bill in the amount of NIS 7 million for a paving and drainage levy in respect of the medical school. An administrative petition on the matter will be filed in the near future. At this point it is difficult to estimate the chances of the claim. No provision was included in the financial statements for the aforesaid levy.

## Notes to the Financial Statements as of September 30, 2018

**Note 12 - Commitments and Contingent Liabilities (cont'd)****A. Contingent claims (cont'd)**

7. A number of claims in the total amount of NIS 9.5 million are pending against the TRDF. The insurance company has recognized its insurance obligation in respect of two claims in the estimated amount of NIS 9.2 million. In February 2019 a compromise agreement was signed in respect of these claims. The financial statements include a provision for the aforesaid claims.
8. Claims are currently in course against the Technion, in which the Technion is represented by its insurers that have recognized their insurance obligation toward it with respect to the events alleged in the claims. Due to the existence of insurance coverage for these claims, the Technion is not exposed to any direct monetary risk.

**B. Commitments in respect of orders**

As at September 30, 2018, the Technion has commitments to suppliers and contractors in the amount of NIS 115,081 thousand in respect of orders that were placed or contracts that were signed but not yet supplied or executed (last year - NIS 142,196 thousand).

**Note 13A - Unrestricted Net Assets**

	Consolidated and Technion	
	September 30, 2018	September 30, 2017
	NIS thousands	NIS thousands
Funds designated for employee benefits	2,830,041	2,767,913
Funds offset for employee benefits, see Note 10	(3,818,840)	(3,786,813)
Funds designated for research	335,171	299,762
Funds designated for development	96,057	89,482
Closed budgets	264,577	238,726
Funds for other specified objectives	1,501,262	1,269,410
	1,208,268	878,480
Used for fixed assets, see Note 8	2,865,800	2,816,564
	4,074,068	3,695,044

## Notes to the Financial Statements as of September 30, 2018

## Note 13B - Restricted Net Assets

	Consolidated and Technion							
	Restricted net assets							
	Temporarily restricted				Permanently restricted			
	Scholarships	Research and chairs	Projects and maintenance	Other	Total	Scholarships	Research and chairs	Total
			NIS thousands					NIS thousands
<b>Balance as at October 1, 2016</b>	90,032	204,672	552,971	280,248	1,127,923	289,536	217,078	506,614
Donations	25,518	49,633	179,669	24,997	279,817	1,091	2,559	3,650
Allocations	205	381	13,891	250	14,727	-	-	-
Other	1,615	3,133	3,586	8,454	16,788	-	-	-
Finance, including foreign exchange differences	7,716	(1,514)	7,802	(6,967)	7,037	(10,274)	(9,738)	(1,400)
Interfund transfer	(1,128)	(14,954)	(32,643)	(5,467)	(54,192)	(397)	(1,823)	(2,220)
Amounts matched and released	-	13,692	-	-	13,692	-	-	-
Used for fixed assets	-	(2,091)	(120,869)	(6,473)	(129,433)	-	-	-
Uses	(34,974)	(53,288)	(10,759)	(31,802)	(130,823)	-	-	-
<b>Balance as at September 30, 2017</b>	88,984	199,664	593,648	263,240	1,145,536	279,956	208,076	488,032
Donations	25,972	39,635	107,811	60,924	234,342	22,834	1,378	24,212
Allocations	205	374	3,489	236	4,304	-	-	-
Other	1,103	1,360	7,674	11,353	21,490	12	727	739
Finance, including foreign exchange differences	13,345	14,178	21,098	15,221	63,842	5,648	4,304	9,952
Interfund transfer	(1,911)	(17,255)	68,921	(38,115)	11,640	(42)	(548)	(590)
Amounts matched and released	-	5,466	-	-	5,466	-	-	-
Used for fixed assets	-	(1,429)	(111,261)	923	(111,767)	-	-	-
Uses	(32,571)	(41,260)	(9,201)	(35,317)	(118,349)	-	-	-
<b>Balance as at September 30, 2018</b>	95,127	200,733	682,179	278,465	1,256,504	308,408	213,937	522,345

## Notes to the Financial Statements as of September 30, 2018

## Note 14 - Allocations from the Planning and Budgeting Committee

	Consolidated and Technion	
	For the year ended September 30,	
	2018	2017
	NIS thousands	NIS thousands
Ordinary allocation	839,159	803,713
Allon Scholarships	4,437	3,200
Postdoctoral students	581	408
"Matching" allocations	19,835	19,835
Pre-academic courses	2,181	1,722
Development	3,302	13,083
MAOF scholarships	-	556
HAMER scholarships	41	-
Postdoctoral students from China and India	827	1,413
AIS - Absorption of Immigrant Scientists	2,646	3,514
Learning deficiencies	136	185
Scholarships for minority doctoral students	509	435
Expansion of accessibility to minorities in general	2,717	2,926
Lev Zion scholarships	209	161
Nanotechnology	-	616
Recovery and efficiency program *	159,716	152,727
Involvement of students in the community	422	517
Addition of medical students	-	876
Upgrading teaching and research infrastructure in universities	9,794	2,332
Industrial innovation	99	-
Expansion of accessibility for the orthodox population	4,301	3,173
Accessibility for persons with disabilities	9,711	2,749
Summer courses for students from China and India	795	1,140
Enrichment classes	27	25
Addition of engineering students in universities	15,053	10,318
Arranging clinical training in the medical schools	1,784	1,035
Postdoctoral Arab students	296	296
MA research scholarships for Arab students	218	501
Outstanding students from China for academic studies	2,135	2,424
Hesegim for Hi-Tech	4,258	1,987
Teaching certificate as part of academic degree	3,764	1,350
Absorption grants to outstanding staff members	2,020	2,500
Israeli hope in academia	219	74
Gender fairness in academia	161	62
Indemnity in respect of salary agreement for promotions of biochemists, lab workers and microbiologists	652	698
Online courses – digital learning	1,358	280
Indemnity in respect of one-time bonus to administrative staff	-	1,460
Pazi Fund for joint research with the Atomic Energy Commission	330	541
Zuckerman Fund – Postdoctoral Scholars In Israel Program	1,814	-
Promotion of internationality	125	-
Accessibility for the Ethiopian community	136	-
	<b>1,095,768</b>	<b>1,038,832</b>
Less transfers to:		
Matching allocations to ATS funds and "Lady Davis" fund	7,633	8,085
Transfer to nanotechnology project	-	616
Industrial innovation	99	-
Transfer to development projects	11,034	21,784
	<b>1,084,734</b>	<b>1,017,048</b>

\* Participation of PBC in current budgetary pensions. See Note 10 (3).

## Notes to the Financial Statements as of September 30, 2018

## Note 15 - Donations

Consolidated and Technion					
For the year ended September 30, 2018					
In statement of activities	In temporarily restricted net assets	In permanently restricted net assets	Transfers to related institutions	Total	
		NIS thousands			
Technion Society – Israel	1,958	21,592	26	377	23,953
Technion Society – USA -ATS	50,453	109,934	20,685	2,493	183,565
Technion Society – Canada	5,801	37,369	3,439	-	46,609
Technion Society – England	2,476	-	-	-	2,476
Technion Society – South America	-	11	-	6	17
Technion Society – Mexico	-	-	-	-	-
Technion Society – Germany	-	568	-	-	568
Technion Society – Switzerland	-	-	-	-	-
Technion Society – France	903	7,104	-	-	8,007
Technion Society – South Africa	-	204	-	-	204
Technion Society – Australia	-	-	-	-	-
Technion Societies - Greece	-	1,114	-	-	1,114
Technion Society – Italy	7	64	-	-	71
Technion Society – China	-	42,276	-	-	42,276
Technion Society – Japan	1,247	185	-	-	1,432
Bequests and other	1,994	13,921	73	4	15,992
	64,839	234,342	24,223	2,880	326,284
Revenues in respect of prior years					
- USA - ATS (see Note 11)	7,636	-	-	-	7,636
	72,475	234,342	24,223	2,880	333,920
Consolidated and Technion					
For the year ended September 30, 2017					
In statement of activities	In temporarily restricted net assets	In permanently restricted net assets	Transfers to related institutions	Total	
		NIS thousands			
Technion Society – Israel	1,542	21,560	501	1,423	25,026
Technion Society – USA -ATS	69,711	110,014	251	14,622	194,598
Technion Society – Canada	7,480	49,112	1,224	7	57,823
Technion Society – England	113	5,897	22	-	6,032
Technion Society – South America	4	11	-	-	15
Technion Society – Mexico	-	18	-	-	18
Technion Society – Germany	19	101	-	-	120
Technion Society – Switzerland	-	363	-	-	363
Technion Society – France	899	3,129	-	25	4,053
Technion Society – South Africa	-	146	-	-	146
Technion Society – Holland	3,098	206	-	-	3,304
Technion Society – Australia	-	1	-	15	16
Technion Society – Italy	3,819	41,985	-	-	45,804
Technion Society – China	15	1,403	-	-	1,418
Bequests and other	7,945	45,871	2,069	1,457	57,342
	94,645	279,817	4,067	17,549	396,078
Revenues in respect of prior years					
- USA - ATS (see Note 11)	1,959	-	-	-	1,959
	96,604	279,817	4,067	17,549	398,037

## Notes to the Financial Statements as of September 30, 2018

## Note 16 - Income from Students

A.

	Consolidated		Technion	
	For the year ended		For the year ended	
	September 30,		September 30,	
	2018	2017	2018	2017
	NIS thousands		NIS thousands	
Ordinary tuition – see B	107,246	108,307	107,246	108,307
Registration fees	2,832	2,738	2,832	2,738
Dormitories	29,536	31,616	29,536	31,616
Pre-academic studies	7,384	8,398	7,384	8,398
Summer semester	2,956	2,734	2,956	2,734
Security fee	3,351	3,335	3,351	3,335
Income from tuition, special programs and various courses	66,965	69,688	28,800	28,897
Other	2,404	3,630	2,404	3,630
	<u>222,674</u>	<u>230,446</u>	<u>184,509</u>	<u>189,655</u>

## B. The Technion and consolidated:

	For the year ended September 30, 2018			For the year ended September 30, 2017		
	First academic degree	Second and third academic degrees	Total	First academic degree	Second and third academic degrees	Total
	NIS thousands			NIS thousands		
Gross ordinary tuition	90,438	30,045	120,483	93,542	27,932	121,474
Less:						
Scholarships granted	-	12,204	12,204	-	12,047	12,047
Tuition exemptions	549	484	1,033	628	492	1,120
	<u>549</u>	<u>12,688</u>	<u>13,237</u>	<u>628</u>	<u>12,539</u>	<u>13,167</u>
Income from ordinary tuition	<u>89,889</u>	<u>17,357</u>	<u>107,246</u>	<u>92,914</u>	<u>15,393</u>	<u>108,307</u>

## Notes to the Financial Statements as of September 30, 2018

## Note 17 - Teaching and Research and Auxiliary Services

	Consolidated	Technion		
	For the year ended	For the year ended September 30, 2018		
	September 30,	Salaries and	Current	Total
	2018	related expenses	expenses	
	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Current budget	767,597	660,472	107,125	767,597
Research budgets	424,006	8,616	115,834	124,450
Other budgets	54,306	-	24,276	24,276
	<b>1,245,909</b>	<b>669,088</b>	<b>247,235</b>	<b>916,323</b>

	Consolidated	Technion		
	For the year ended	For the year ended September 30, 2017		
	September 30,	Salaries and	Current	Total
	2017	related expenses	expenses	
	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Current budget	757,807	652,787	105,020	757,807
Research budgets	409,228	7,951	113,125	121,076
Other budgets	60,907	-	26,427	26,427
	<b>1,227,942</b>	<b>660,738</b>	<b>244,572</b>	<b>905,310</b>

## Note 18 - Costs Pertaining to Students

	Consolidated and Technion			Consolidated and Technion		
	For the year ended September 30, 2018			For the year ended September 30, 2017		
	Salaries and	Current	Total	Salaries and	Current	Total
	related expenses	expenses		related expenses	expenses	
	NIS thousands			NIS thousands		
Scholarships	-	91,457	91,457	-	91,684	91,684
Grants and awards	-	7,420	7,420	-	7,729	7,729
Student dormitories	6,413	13,589	20,002	6,034	16,068	22,102
Dean of students office	5,424	776	6,200	5,335	752	6,087
Other	606	13,754	14,360	642	13,081	13,723
	<b>12,443</b>	<b>126,996</b>	<b>139,439</b>	<b>12,011</b>	<b>129,314</b>	<b>141,325</b>

## Notes to the Financial Statements as of September 30, 2018

## Note 19 - General and Administrative Expenses

	Consolidated	Technion		
	For the year ended	For the year ended September 30, 2018		
	September 30, 2018	Salaries and	Current	Total
	Total	related expenses	expenses	
	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Administration and finance	57,155	33,633	4,344	37,977
Professional services and other expenses	11,319	-	4,247	4,247
	68,474	33,633	8,591	42,224

	Consolidated	Technion		
	For the year ended	For the year ended September 30, 2017		
	September 30, 2017	Salaries and	Current	Total
	Total	related expenses	expenses	
	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Administration and finance	56,247	33,254	5,787	39,041
Professional services and other expenses	10,948	-	3,986	3,986
	67,195	33,254	9,773	43,027

## Note 20 - Financing Income, Net

	Consolidated		Technion	
	For the year ended		For the year ended	
	September 30,		September 30,	
	2018	2017	2018	2017
	NIS thousands		NIS thousands	
Income from securities and other financing income	519,791	344,902	393,574	291,429
Management fees and bank interest	(1,768)	(2,105)	(1,153)	(1,460)
	518,023	342,797	392,421	289,969
Income (expenses) for adjustment of restricted funds	(75,356)	16,334	(75,356)	16,334
	442,667	359,131	317,065	306,303

## Notes to the Financial Statements as of September 30, 2018

## Note 21 - Taxes on Income

## The Technion

- A. The Technion is an institution of higher education according to the Council for Higher Education Law, 1958 and it is registered for VAT purposes as a non-profit organization.
- B. The Technion has the status of a "public institution" as defined in Section 9(2) of the Income Tax Ordinance (New Version) – 1961 (hereinafter the ordinance), and is exempt from income tax. The Technion is also a recognized public institution for the purpose of donations according to Section 46 of the Ordinance. The Technion has filed income tax returns up to and including the 2017 tax year. The tax returns up to and including the 2014 tax year are considered final.
- C. The Technion has final tax withholding assessments for income tax and national insurance assessments up to and including the 2014 tax year.
- D. Like all the other higher education institutions, the Technion was approved a special tax year by law that matches the dates of the financial statements. This means that the tax year begins on October 1 and ends on September 30 of the following year.

## Technion Research and Development Foundation Ltd.

- A. As from 2011 the tax year of TRDF begins on October 1 and ends on September 30.
- B. Tax on income in the statement of activities:

	Consolidated	
	For the year ended	
	September 30,	
	2018	2017
	NIS thousands	
Current taxes	8,830	-
Deferred taxes (1)	20,681	-
Taxes in respect of previous years (2)	(14,536)	-
	<u>14,975</u>	<u>-</u>

## (1) Deferred taxes

Until the end of 2017 the TRDF did not recognize deferred tax assets since for many years it had accumulated considerable losses that their utilization in the foreseeable future was doubtful. As at the date of the financial statements the TRDF has utilized all the carried forward tax losses and it evaluates that it will be able to utilize part of the deferred tax assets in the forthcoming years. As at the date of the financial statements, deferred tax assets have been recognized in respect of temporary differences that are likely to be utilized up to and including 2020 (mainly in respect of employee benefits relating to pension payments). Concurrently, a full liability was recognized for deferred taxes relating to marketable securities that the tax on them is expected to be paid mainly in 2019.

## (2) Taxes in respect of previous years

The TRDF accumulated considerable losses in previous years. In 2018 the TRDF has income that is subject to tax after having offset the full amount of the accumulated past losses. Accordingly, in 2018 the TRDF eliminated all the impairment that was recognized in the past, in respect of writing off advances for disallowed expenses, and recognized a deferred tax asset in an amount adjusted to the Consumer Price Index.

- C. TRDF has tax assessments that are considered final up to and including the 2013 tax year.

## Notes to the Financial Statements as of September 30, 2018

## Note 22 - Comparison to the Budget (Unaudited)

	Technion			
	2018		2017	
	Approved budget	Financial performance	Approved budget	Financial performance
	(Unaudited)		(Unaudited)	
	NIS thousands	NIS thousands	NIS thousands	NIS thousands
<b>Income from activities:</b>				
Allocations from the Planning and Budgeting Committee	1,067,123	1,084,734	1,007,235	1,017,048
Donations	68,800	57,290	69,500	68,524
Income from students	126,000	126,503	124,000	127,092
Other unilateral transfers from funds	161,000	161,790	162,000	162,641
Other income	61,000	61,661	61,765	66,681
	<u>1,483,923</u>	<u>1,491,978</u>	<u>1,424,500</u>	<u>1,441,986</u>
<b>Cost of activities:</b>				
Teaching and research and auxiliary services	901,191	901,318	866,370	882,681
Costs pertaining to students	146,206	138,334	140,684	139,660
Retirement and pensions	304,735	305,328	291,802	291,849
Other direct expenses	95,697	110,212	96,789	96,303
	<u>1,447,829</u>	<u>1,455,192</u>	<u>1,395,645</u>	<u>1,410,493</u>
<b>Net income from activities</b>	<b>36,094</b>	<b>36,786</b>	<b>28,855</b>	<b>31,493</b>
General and administrative expenses	42,298	42,788	41,477	43,649
Raising donations and public relations	19,394	19,129	17,478	17,765
<b>Net deficit for the year before financing</b>	<b>(25,598)</b>	<b>(25,131)</b>	<b>(30,100)</b>	<b>(29,921)</b>
<b>Reconciliation to the statement of activities:</b>				
Financing income, net		317,065		306,303
Technion's share of profits of investees		146,193		100,401
Depreciation		(111,203)		(106,996)
Income (expenses) from change in liability for pensions and sick pay		(39,176)		104,538
Other adjustments, net		(6,277)		(5,871)
<b>Net income for the year in the statement of activities</b>		<b>281,471</b>		<b>368,454</b>

מערכת לניהול מסמכים

**5116118**

**TECHNION – ISRAEL**

**INSTITUTE OF TECHNOLOGY**

**FINANCIAL STATEMENTS  
AS OF SEPTEMBER 30, 2018**

**TECHNION – ISRAEL**

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