

**The Hebrew University of
Jerusalem**

**Financial Statements
As of September 30, 2019**

Financial Statements as of September 30, 2019

Contents

	Page
Auditors' Report	2
Balance sheets	3
Statements of Operations	5
Statements of Changes in Net Assets	6-7
Statements of Cash Flows	8-9
Notes to the Financial Statements	10
Report of Independent Auditors on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in accordance with Government Auditing Standards	46
Schedule of Findings Year Ended September 30, 2019	48



Somekh Chaikin
8 Hartum Street, Har Hotzvim
PO Box 212
Jerusalem 9100102, Israel
+972 2 5312000

**Auditors' Report to the Board of Governors of
The Hebrew University of Jerusalem**

We have audited the accompanying balance sheets of The Hebrew University of Jerusalem ("the University") (an institution Established by the Council for Higher Education Law, 1958) as of September 30, 2019 and 2018, and the related statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the University's board and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We did not audit the financial statements of equity accounted companies, whose investment amounted to NIS 66,464 thousand and NIS 62,231 thousand as of September 30, 2019 and 2018 respectively, and the University's share of its earnings amounted to NIS 4,230 and NIS 4,752 thousand for the years ended September 30, 2019 and 2018 respectively. The financial statements of these companies were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to amounts emanating from the financial statements of such companies, is based solely on the report of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditor's Regulations (Manner of Auditor's 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 University'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, based on our audit and on the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of September 30, 2019 and 2018 and the results of its operations, changes in net assets and cash flows for each of the years then ended, in accordance with generally accepted accounting principles in Israel (Israeli GAAP).

Without qualifying our opinion, we draw attention to Note 1 and Note 14B regarding the agreement between the University and the PBC in order to ensure a balanced budget and long-term financial stability for the University.

Other reporting required by Government Auditing Standards.

In accordance with Government Auditing Standards, we have also issued our report dated March 15, 2020 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the University's internal control over financial reporting and compliance.

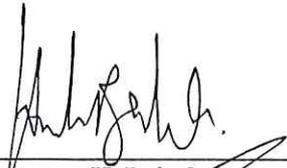

Somekh Chaikin
Certified Public Accountants (Isr.)
Member Firm of KPMG International

March 15, 2020

Balance Sheets

	Note	September 30	
		2019	2018
		NIS thousands	NIS thousands
Assets	3A		
Current assets			
Cash and cash equivalents		73,951	120,966
Deposits and bank balances		308,928	209,253
Friends organizations		113,581	77,468
Grants and recoverable expenses	6	146,432	170,405
Planning and Budgeting Committee (PBC)	8	43,438	36,398
Receivables in respect of construction		27,648	76,522
Accounts receivable	7	164,042	214,903
Inventories		2,287	1,318
		<u>880,307</u>	<u>907,233</u>
Long-term investments			
Investments in investees and others	4	105,035	156,360
Investments in securities and deposits	5	1,466,174	1,477,463
		<u>1,571,209</u>	<u>1,633,823</u>
Fixed assets, net	9	<u>7,051,098</u>	<u>6,977,222</u>
Cash and investments designated for fixed assets		<u>61,100</u>	<u>47,157</u>
Investment property, net	10	<u>329,471</u>	<u>290,402</u>
Total assets		<u>9,893,185</u>	<u>9,855,837</u>

	Note	September 30	
		2019	2018
		NIS thousands	NIS thousands
Liabilities	3A		
Current liabilities			
Employees and related liabilities	13A	152,975	146,311
Suppliers and service providers		23,693	69,233
Accounts payable	11	118,584	74,594
Prepaid tuition		66,501	70,587
Current maturities of budgetary pension, net	13	273,382	274,464
Other provisions		149,593	147,143
		<u>784,728</u>	<u>782,332</u>
Long-term liabilities			
Liabilities for employee rights	13	5,282,668	4,980,898
Deposits from friend organizations and others		147,261	165,320
Liability for annuity payments		3,047	3,364
		<u>5,432,976</u>	<u>5,149,582</u>
Contingent liabilities and commitments	14		
Net assets			
Unrestricted net assets (deficit in net assets):			
Accumulated deficit from activities		(451,521)	(473,179)
Designated by the University	12A	-	10,758
Deficit in endowment funds*	3B	(71,354)	(93,381)
Due to cover liabilities for employee rights	13D	(5,631,974)	(5,327,599)
Used for fixed assets		7,051,098	6,977,222
		<u>896,249</u>	<u>1,093,821</u>
Temporarily restricted net assets:			
Research and special projects	12B	894,848	1,040,476
Investments in fixed assets		61,100	47,157
University's share in net assets of investees		2,771	2,766
		<u>958,719</u>	<u>1,090,399</u>
Permanently restricted net assets:			
Endowment funds	3	1,766,883	1,680,286
Other funds		53,630	59,417
		<u>1,820,513</u>	<u>1,739,703</u>
Total net assets		<u>3,675,481</u>	<u>3,923,923</u>
Total liabilities and net assets		<u>9,893,185</u>	<u>9,855,837</u>


H. Beit-On
Chairman of the Executive Committee


Prof. A. Cohen
President

15.3.20
Date of approval of the
financial statements


Y. Fraenkel
Vice President and Chief Executive Officer


M. Bing
Chief Financial Officer

* Reclassified

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

Statement of Operations

	Note	For the Year ended September 30	
		2019	2018
		NIS thousands	NIS thousands
Income			
Planning and Budgeting Committee (PBC) allocations	15	1,373,524	1,299,020
Contributions from Friends organizations and others	16	116,875	136,566
Income from students	17	278,532	275,548
Income from royalties, licenses and research related services		822	6,570
Other income		200,920	165,283
Amounts released from restricted net assets		712,527	737,740
		2,683,200	2,620,727
Cost of operations			
Teaching, research and auxiliary services	18	1,833,400	1,763,526
Services to students	19	208,126	200,980
Change in budgetary pension obligation expense	13	(85,854)	142,301
Change in liabilities for employee benefits	13	69,969	89,295
Depreciation and amortization	9,10	172,684	148,831
Other direct expenses	20	57,337	57,752
		2,255,662	2,402,685
Net income from operations		427,538	218,042
General and administrative expenses	22	113,086	103,158
Fundraising expenses		34,074	39,822
Advertising and marketing expenses		29,407	24,816
		176,567	167,796
Net income before finance		250,971	50,246
Finance expenses, net	23	(156,008)	(189,816)
Net income (expenses) after finance		94,963	(139,570)
Expense in respect of prior years	13C	-	(85,210)
University's share in net expenses of investees		(4,339)	(2,529)
Surplus (deficit) for the year		90,624	(227,309)

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

Statements of Changes in Net Assets (Deficit in Net Assets)

	Unrestricted net assets				Temporarily restricted net assets			Permanently Restricted net assets	Total	
	Accumulated deficit from activities	Designated by the University	Accumulated deficit in endowment funds*	Due to cover liabilities for employee rights	Used for fixed assets	Research and special projects	Investments in fixed assets	Share in investees		Endowment funds (including other funds)
	NIS thousands									
Balance as of October 1, 2018	(473,179)	10,758	(93,381)	(5,327,599)	6,977,222	1,040,476	47,157	2,766	1,739,703	3,923,923
Additions during the academic year 2019										
Donations	-	-	-	-	-	169,594	49,092	-	96,913	315,599
Planning and Budgeting Committee allocations	-	-	7,072	-	-	7,709	5,507	-	-	20,288
Other income and allocations	-	-	30,805	-	-	513,854	17,689	-	-	562,348
Income from endowment funds investments	-	-	29,153	-	-	-	-	-	11,391	40,544
Income from sale of restricted assets	-	-	10,960	-	-	-	-	-	-	10,960
University share in net asset changes of investees	-	-	-	-	-	-	-	5	-	5
Re-measurement of net liability of defined benefit	-	-	-	(498,610)	-	-	-	-	-	(498,610)
Disposals during the academic year 2019										
Surplus for the year	90,624	-	-	-	-	-	-	-	-	90,624
Amounts released from restrictions	-	-	(25,761)	-	-	(571,895)	-	-	-	(597,656)
Amounts released for overheads	-	-	(16,707)	-	-	(98,164)	-	-	-	(114,871)
Amounts released from restriction for fixed assets	-	-	-	-	172,002	(110,887)	(61,115)	-	-	-
Amounts released from restriction in respect of prior years (see note 12B)	163,227	-	-	-	(163,227)	-	-	-	-	-
Amounts transferred to cover depreciation	63,650	-	-	-	-	(63,650)	-	-	-	-
Amounts allocated to Friends and others	-	-	(6,883)	-	-	-	-	-	-	(6,883)
Amounts allocated to restricted net assets	-	-	(20,101)	-	-	31,398	2,879	-	(14,176)	-
Adjustments of annuity funds	-	-	-	-	-	-	-	-	(275)	(275)
Exchange differences and linkage, net	-	-	13,489	-	-	(23,587)	(109)	-	(13,043)	(23,250)
Transfers of unrestricted amounts:										
Amounts transferred to cover change in liabilities for employee rights	(194,235)	-	-	194,235	-	-	-	-	-	-
Release of management designation from prior years	10,758	(10,758)	-	-	-	-	-	-	-	-
Amounts transferred to purchase of fixed assets	(65,101)	-	-	-	65,101	-	-	-	-	-
Cancellation of prior year receivables in respect of construction (see note 12B)	(47,265)	-	-	-	-	-	-	-	-	(47,265)
Balance as of September 30, 2019	(451,521)	-	(71,354)	5,631,974	7,051,098	894,848	61,100	2,771	1,820,513	3,675,481

* Reclassified

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

Statements of Changes in Net Assets (Deficit in Net Assets)

	Unrestricted net assets					Unrestricted net assets			Permanently restricted net assets		Total
	Accumulated deficit from activities	Designated by the University	Accumulated deficit in endowment Funds*	Due to cover liabilities for employee rights	Used for fixed assets	Research and special Projects	Investments in fixed Assets	Share in investees	Endowment funds	Share in investees	
									(including other funds)		
NIS thousands											
Balance as of October 1, 2017	(682,682)	198,503	(134,271)	(5,233,625)	6,927,706	1,021,357	46,472	18,975	1,719,718	38,469	3,920,622
Additions during the academic year 2018											
Donations	-	-	-	-	-	172,684	38,298	-	27,335	-	238,317
Planning and Budgeting Committee allocations	-	-	7,722	-	-	2,397	3,886	-	-	-	14,005
Other income end allocations	-	-	21,290	-	-	571,751	38,691	-	-	-	631,732
Income from endowment funds investments	-	-	99,954	-	-	-	-	-	473	-	100,427
University share in net asset changes of investees	-	-	-	-	-	-	-	(16,209)	-	(38,469)	(54,678)
Re- measurement of liability of defined benefit	-	-	-	46,441	-	-	-	-	-	-	46,441
Disposals during the academic year 2018											
Deficit for the year	(227,309)	-	-	-	-	-	-	-	-	-	(227,309)
Amounts released from restrictions	-	-	(20,111)	-	-	(604,135)	-	-	-	-	(624,246)
Amounts released for overheads	-	-	(16,675)	-	-	(96,819)	-	-	-	-	(113,494)
Amounts released from restriction for fixed assets	-	-	-	-	158,168	(73,888)	(84,280)	-	-	-	-
Amounts transferred to cover depreciation	139,390	-	-	-	(139,390)	-	-	-	-	-	-
Amounts allocated to Friends and others	-	-	(18,900)	-	-	-	-	-	-	-	(18,900)
Amounts allocated to restricted net assets	-	-	(25,281)	-	-	35,621	3,833	-	(14,173)	-	-
Adjustments of annuity funds	-	-	-	-	-	-	-	-	(294)	-	(294)
Exchange differences and linkage, net	-	-	(7,109)	-	-	11,508	257	-	6,644	-	11,300
Transfers of unrestricted amounts:											
Amounts transferred to cover change in liabilities for employee rights	140,415	-	-	(140,415)	-	-	-	-	-	-	-
Amounts transferred to academic activity	187,745	(187,745)	-	-	-	-	-	-	-	-	-
Amounts transferred to purchase of fixed assets	(30,738)	-	-	-	30,738	-	-	-	-	-	-
Balance as of September 30, 2018	<u>(473,179)</u>	<u>10,758</u>	<u>(93,381)</u>	<u>(5,327,599)</u>	<u>6,977,222</u>	<u>1,040,476</u>	<u>47,157</u>	<u>2,766</u>	<u>1,739,703</u>	<u>-</u>	<u>3,923,923</u>

* Reclassified

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

Statements of Cash Flows

	For the Year ended September 30	
	2019	2018
	NIS thousands	NIS thousands
Cash flows from operating activities		
Surplus (deficit) for the year	90,624	(227,309)
Adjustments to reconcile cash flows from operating activities (A)	(8,147)	316,739
Net cash provided by operating activities	82,477	89,430
Cash flows from investing activities		
Purchase of fixed assets	(237,103)	(188,906)
Purchase (sale) of investment property	(1,535)	248
Changes in cash and investments designated for fixed assets	(13,943)	(685)
Changes in investments in securities and deposits, net	(65,712)	24,153
Investments in investees	-	(46,991)
Net cash used in investing activities	(318,293)	(212,181)
Cash flows from financing activities		
Amounts allocated to temporarily restricted net assets, net	92,480	150,889
Amounts allocated to permanently restricted net assets, net	96,913	27,335
Changes in liability for annuity payments	(592)	(336)
Net cash provided by financing activities	188,801	177,888
Increase (decrease) in cash and cash equivalents	(47,015)	55,137
Cash and cash equivalents at the beginning of the year	120,966	65,829
Cash and cash equivalents at the end of the year	73,951	120,966

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

Statements of Cash Flows

	For the Year ended September 30	
	2019	2018
	NIS thousands	NIS thousands
A. Adjustments to reconcile cash from operating activities:		
Income (expenses) not involving cash flows:		
Depreciation and amortization	172,684	148,831
Exchange rate differences allocated to restricted net assets	(23,250)	11,300
The University's share in net ordinary expenses of investees	4,339	2,529
Changes in asset and liability items:		
Decrease (increase) in balance of friends organizations	(36,113)	21,576
Decrease in balance of Planning and Budgeting Committee	6,176	59,431
Decrease (increase) in accounts receivable	61,821	(30,394)
Decrease (increase) in receivables in respect of construction	1,609	(22,999)
Decrease (increase) in inventories	(969)	174
Increase in employees and related liabilities	6,664	2,333
Decrease in suppliers and service providers	(45,540)	(21,810)
Increase in other accounts payable	43,990	15,172
Decrease in prepaid tuition	(4,086)	(13,825)
Increase in other provisions	2,450	8,509
Increase (decrease) in liability of employee rights	(197,922)	135,912
	(8,147)	316,739
B. Supplementary information on investing and financing activities not involving cash flows:		
Accounts receivable in respect of sale of investment property	10,960	-

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

Notes to the Financial Statements

Note 1 - General

- A. The Hebrew University of Jerusalem (hereafter - the University) is an entity incorporated under the Council for Higher Education Law, 1958. The Hebrew University began its activity on April 1, 1925 on Mount Scopus, Jerusalem. The University is an institute of higher education, with both teaching and research activities, and has six campuses within and outside of Jerusalem.
- B. The University is recognized under the Israeli Income Tax Ordinance (New Version) as a "public organization" and as a "not-for-profit organization" under the Value Added Tax Law - 1975. Contributions to the University are eligible for a tax credit to the donor under Israeli tax law.
- C. During February 2018 an agreement was signed between the University and the Planning and Budgeting Committee (hereafter – PBC) in order to ensure a balanced budget which will lead to long-term financial stability. See Note 14B.

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

Associate/Investee – An entity in which the University has control, as defined in Opinion 57 of the Institute of Certified Public Accountants in Israel, or has significant influence over financial and operational policy, and is presented using the equity method. From the academic year 2018, the University does not consolidate the financial statements of its investees due to immateriality.

B. Accounting for non-profit entities

Effective October 1, 2016 the University applies Accounting Standard No.9, "Financial Statements of Institutions of Higher Education" of the Israeli Accounting Standard Board (hereinafter: "Standard 9").

C. Net assets

Net assets are classified based on their restriction.

Temporarily restricted net assets

Net assets regarding which a restriction exists (by an outside party) of a temporary nature. As amounts are released from temporarily restricted net assets for use for their designated purposes, they are reflected in the statement of operations. These net assets include specifically designated projects, including capital projects.

Restricted amounts received are recorded in the statement of operations in parallel with the recording of the expenses for which they were designated. Amounts recognized as income during the reporting period are presented as "Amounts released from restriction" in the statement of operations. The balance of the restricted donations to be utilized in the future is presented as "Temporarily restricted net assets".

Permanently restricted net assets

Includes endowment funds which were created primarily from donations and whose income may only be used according to the terms stipulated by the endowment. The investment gains are transferred to temporarily restricted net assets for the restricted purpose.

Note 2 - Significant Reporting and Accounting Policies (cont'd)**C. Net assets (cont'd)****Unrestricted net assets**

Net assets, regarding which, no restriction exists by an outside party. Amounts used for purchase of fixed assets and amounts due to cover liabilities for employee benefits were separated from these net assets.

Unrestricted net assets, designated by the University

Includes net assets which were not restricted by third parties, but were designated by the University for special purposes. During the year the balance of unrestricted net assets, designated by the University was released to operating activities.

D. Cash and cash equivalents

Cash equivalents comprise highly liquid investments, including unrestricted short-term bank deposits with an original maturity of three months or less from the date of investment.

E. Allowance for doubtful accounts

The allowance for doubtful debts is determined in respect of specific debts whose collection, in the opinion of the University's management, is doubtful.

Tuition receivable, Friends Organizations, grants and recoverable expenses, receivables in respect of construction, etc. are reflected in the accounts net of appropriate allowance for doubtful accounts.

F. Investments in deposits, securities and others1. Marketable securities

Marketable securities held as a current investment, are stated at their market value as of the balance sheet date. Changes in the value of these securities are fully recognized on a current basis in the statement of operations. Marketable securities held to maturity are stated at cost (debentures – including accrued interest), less a provision for impairment in value not of a temporary nature.

2. Non-marketable securities

Non-marketable securities are stated according to their fair value as of the balance sheet date. Marketable securities held to maturity are stated at cost (debentures – including accrued interest), less a provision for impairment in value not of a temporary nature.

3. Capital notes

Capital notes are presented at cost plus foreign exchange and gains or losses, or inflation linkage according to the terms of the note.

4. Investments which are part of portfolios designated by management or by donors to cover restricted net assets are not included in the current assets of the University and are presented as long-term investments.

Note 2 - Significant Reporting and Accounting Policies (cont'd)**G. Fixed assets****1. Recognition**

The University implements Accounting Standard 27 regarding fixed assets (hereinafter – "the standard") beginning October 1, 2016, which is the date of implementation of Standard 9. According to the standard, the University presents its fixed assets on a cost basis net of accumulated depreciation.

At initial implementation date, the University revalued its land and buildings. From this date the fair value represents the assets cost and is depreciated over the estimated useful life of the assets.

2. Depreciation

The fixed assets are depreciated according to the straight-line method over the estimated useful life of the assets.

The annual rates of depreciation are as follows:

	<u>%</u>
Vehicles	15-20
Buildings and improvements	2
Computers and scientific equipment	33
Software	4-44

Collections such as art pieces and historical assets are recognized at nominal value in these financial statements.

H. Investment property

Investment property is measured at cost. The cost of investment property includes their purchase price, and any expense that can be directly attributable to the acquisition of the asset.

Investment property includes land property and buildings of different types that is held for generating long-term return from rent and land appreciation, and is not used by the University for its ongoing activities.

I. Impairment in value of assets

The University applies Accounting Standard No. 15 - Impairment of Assets. Standard No. 15 sets out procedures which entities must follow in order to ensure that their assets, as reported in their financial statements, are not stated in an amount exceeding their fair value, which is the higher of the net selling price and the present value of the estimated future cash flows expected to be derived from the use and disposal of the asset. The Standard also lays down the rules of presentation and disclosure for assets whose value has been impaired.

Note 2 - Significant Reporting and Accounting Policies (cont'd)**J. Life income funds – annuities**

The liability for payment of life income annuities reflects the actuarial liability, based on the expected annual payments and a discount rate in dollar terms.

The excess of donations received over the liability for payment of life income annuities is transferred to permanently restricted net assets. Changes in the actuarial liability are charged to permanently restricted net assets.

Upon termination of the liability, the balance of the fund is transferred to income or remains among Endowment Funds, in accordance with the donor's restrictions.

K. Employee benefits

The University implements Accounting Standard No. 39, Employee Benefits (hereinafter: "Standard 39"). This Standard is based on IAS 19 Employee Benefits and replaces Opinions 19 and 20 of the Institute of Certified Public Accountants. The Standard prescribes the accounting treatment for four types of employee benefits: short-term employee benefits, post-employment benefits including severance pay benefits, long-term employee benefits and benefits in respect of termination under special circumstances. The main effect of the implementation of Standard 39 is that actuarial gains and losses are recognized directly in the statement of changes in net assets, and liabilities for redemption of sick leave and excess years grant are calculated according to an actuarial model.

1. Post-employment benefits

The University has a number of post-employment benefit plans. The plans are financed partly by deposits with insurance companies or with funds managed by a trustee, and 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 University pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an expense in profit or loss in the periods during which related services are rendered by employees.

Note 2 - Significant Reporting and Accounting Policies (cont'd)**K. Employee benefits (cont'd)****1. Post-employment benefits (cont'd)****b) Defined benefit plans**

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The University'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 shown at its present value, and the fair value of any assets of the plan is deducted.

The discount rate is the yield at the reporting date for high quality shekel-denominated corporate debentures that have maturity dates approximating the terms of the University'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 comprise actuarial gains and losses, and the return on plan assets. From October 1, 2017, re-measurements are recognized immediately in unrestricted net assets due to liabilities for employee rights.

When the benefits of a plan are improved or curtailed, the portion of the increased benefit relating to past service by employees or the gain or loss on curtailment are recognized immediately in the statement of operations when the plan improvement or curtailment occurs.

The University recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs. Such gains or losses comprise the difference between the portion of the present value of the defined benefit obligation that is settled on the date of settlement, and the settlement price, including transferred plan assets.

Severance pay benefits are post-employment benefits that incurs during the service period of the employee in accordance with the severance law. This benefit is calculated based on the employees' salary or an agreed upon amount. The University chose to account for severance pay benefits according to the shutdown model in accordance with Standard 39 Employee Benefits.

2. Other long-term employee benefits

The University'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, and the fair value of any related assets is deducted. 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 University's obligations. The calculation is performed using the projected unit credit method.

Note 2 - Significant Reporting and Accounting Policies (cont'd)**K. Employee benefits (cont'd)****3. Short-term benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided or upon the actual absence of the employee when the benefit is not accumulated (such as maternity leave).

The employee benefits are classified, for measurement purposes, as short-term benefits or as other long-term benefits depending on when the University expects the benefits to be wholly settled.

4. Sabbatical rights

The liability to pay sabbatical compensation to academic employees of the University is a contingent liability and not a vested liability since it is cancelled upon death or retirement of the employee. Since the main purpose of the sabbatical leave is to enhance the University's reputation or is otherwise beneficial to the employer, the expenses relating to the sabbatical leave are not accrued for and are expensed when paid.

L. Revenue recognition

1. Income from all types of transfers which were promised but not yet received are recognized as income if all the following conditions are met:

- (a) The existing information, as of the date that the financial statements are issued, indicates that there is an irrevocable obligation to transfer the funds and the amounts relate to the reporting period.
- (b) The realization of the commitment is not contingent on the occurrence of a specific future event.

Pledges not yet received are recognized as income or increase in restricted net assets only if received by the University or its escrow by the date of approval of the financial statements.

2. Tuition income - based on academic year

3. Rendering of services - Revenue from services is recognized over the period of the agreement or upon providing the services, if the probability of the flow of the economic benefits attributed to the service provided is certain.

Note 2 - Significant Reporting and Accounting Policies (cont'd)**M. Expenditures**

Expenditures are recognized on an accrual basis. Regarding sabbatical rights. See K4 above.

N. Exchange rates and linkage basis

1. Balances in or linked to foreign currency are presented according to the representative exchange rates at the reporting date (the representative exchange rate of U.S. \$ 1 as of the reporting date was NIS 3.482; September 30, 2018 - NIS 3.627).
2. Balances linked to the Israeli CPI are presented according to the index published for the month ending on the reporting date (September 30, 2019 - 125.06 points; September 30, 2018 - 124.68 points).

O. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions regarding transactions or matters whose effect on the financial statements cannot be accurately determined at the time of their preparation. Even though the estimates and assumptions are based on management's best judgment, the final effect of such transactions or matters may be different from the estimates and assumptions made in their respect.

P. Reclassification

Certain prior year figures have been reclassified in order to conform to current year presentation.

Notes to the Financial Statements**Note 3 - Permanently Restricted Net Assets - Endowment Funds (Including other funds)**

- A.** The endowment funds of the University, while not having the status of a separate legal entity, are unavailable for purposes other than those agreed upon with the donors.

These Funds are under the supervision of the Funds Committee (hereinafter - "the Committee"). The Composition of the assets and liabilities of the Endowment Funds as included in the balance sheet of the University:

	September 30	
	2019	2018
	NIS thousands	NIS thousands
Current assets		
Deposits and bank balances	137,450	81,535
Accounts receivable	15,895	3,916
Long-term investments		
Investments in securities and deposits	1,466,174	1,477,463
Investment property, net	196,476	204,374
Current liabilities		
Accounts payable	1,492	1,660
Long-term liabilities -		
Deposits with Friends and others	147,261	165,320
Liability for payment of annuities	3,047	3,364

- B.** In accordance with a resolution by the Committee in 2011, the University may withdraw from the endowment funds up to a ceiling of NIS 425 million. This ceiling, which includes the current debt and the accumulated deficit of the endowment funds (hereinafter – "the weighted debt"), is gradually decreasing in accordance with an agreed upon plan between the Committee and the University. Should the University withdraw funds in excess of the said ceiling, the allocation to the University will be reduced by the excess amount. As of September 30, 2019, the weighted debt ceiling is NIS 239 million and the weighted debt balance is NIS 182 million (as of September 30, 2018, the weighted debt ceiling is NIS 256 million and the weighted debt balance is NIS 163 million).
- C.** Endowment funds include funds which a specific external restriction applying to them is not clear and therefore may not be restricted. Management of the University accompanied by its legal council is in midst of performing an in-depth review of these Funds and as a result the identified unrestricted funds will be released.

Note 4 - Investment in Investees and Others**List of affiliated corporations of the University:**

<u>The Corporation</u>	<u>Relationship</u>
▪ Yissum Research Development Company of the Hebrew University of Jerusalem Ltd. (1)	Wholly owned
▪ Company for the Management of the Hebrew University's Assets Ltd.(1)	Wholly owned
▪ The Hebrew University Magnes Press, Jerusalem (1978) Ltd. (1)	Wholly owned
▪ The Magid Institute for Continuing Education Established by the Hebrew University of Jerusalem Ltd. (1)	Wholly owned
▪ The University Veterinary Hospital Founded by the Hebrew University of Jerusalem (R.A) (1)	Wholly owned
▪ SHARE (1)	Wholly owned
▪ The Cosell Center for Physical Education, Leisure and Health Promotion (R.A) (1)	Wholly owned - super majority for articles amendments
▪ Huji Tech (1) see Note 14C	Shared ownership - 80%
▪ Agrinnovation L.P (1)	Shared ownership - 54%
▪ Academon Ltd. (2)	Shared ownership - 50%
▪ Bloomfield Science Museum, Jerusalem (R.A) (3)	Shared ownership - 50%
▪ The Snunit Center for the Advancement of Web Based Learning (R.A) (3)	Shared ownership - 50%
▪ The Florence Melton Adult Mini-School corporation (3)	Shared ownership - 50%
▪ The National Library of Israel Ltd. (PBC) (3)	Shared ownership - 33%*
▪ The Center for Agricultural Economics Research (PBC) (3)	Shared ownership - 25%
▪ The Lady Davis Fellowship Trust (3)	Partially held - the University constitutes 3 of the 7 members of the association
▪ The Jerusalem Botanical Garden, Jerusalem (R.A) (3)	Partially held - the University constitutes 1 of the 6 members of the association
▪ National Institute for Testing and Evaluation (R.A) (3)	Partially held - the University constitutes 1 of the 7 members of the association
▪ The Inter-University Computation Center (R.A) (3)	Partially held - the University constitutes 1 of the 8 members of the association
▪ The Israel Museum (PBC) (3)	The University holds 1/7 of founders' stocks

Notes to the Financial Statements**Note 4 - Investment in Investees and Others (cont'd)**

- (1) The University maintains control of these corporations and the investments in these corporations are presented using the equity method, in accordance with Opinion 68 of the Institute of Certified Public Accountants in Israel as amended. The University does not consolidate the accounts of its investees in its financial statements due to immateriality.
- (2) The University's holdings in this corporation does not give it control. The investment in this corporation is presented using the equity method in accordance with Opinion 68 of the Institute of Certified Public Accountants in Israel, as amended.
- (3) The University is affiliated, directly and indirectly, with non-profit organizations and public benefit companies of which the University does not have a share in their earnings.

* In accordance with the National Library Law, 2007, the National Library Ltd (PBC) (hereinafter - the library) was fully owned by the University for an interim period of up to 3 years commencing August 1, 2008. At the end of the interim period, the composition of shareholders of the library was supposed to change such that its shares would be held by the State of Israel (50%), the University (25%) and other public institutions (25%). In 2011, shares were allocated to the State of Israel and the University. As of the date of approval of these financial statements, no shares have been allocated to other public institutions, and therefore, the University holds 33% of the library's share capital as of September 30, 2019.

Note 5 - Investments in Securities and Deposits

	September 30	
	2019	2018
	NIS thousands	NIS thousands
Marketable securities	809,676	823,815
Bank deposits	31,795	31,605
State of Israel bonds	80,264	83,022
Capital notes	-	467
Bonds held to maturity	313,873	308,814
Investments of Canadian Friends and Lady Davis Trust	143,405	161,188
Investments in venture capital funds	80,495	61,938
Other investments	6,666	6,614
	1,466,174	1,477,463

Notes to the Financial Statements

Note 6 - Grants and Recoverable Expenses

	September 30	
	2019	2018
	NIS thousands	NIS thousands
Research programs	141,620	143,033
Special projects	4,812	27,372
	146,432	170,405

Note 7 - Accounts Receivable

	September 30	
	2019	2018
	NIS thousands	NIS thousands
Companies and institutions (including related parties)	57,768	143,806
Prepaid expenses	22,211	21,872
Income receivable	47,541	29,488
Credit cards	15,338	12,222
Others	21,184	7,515
	164,042	214,903

Note 8 - The Planning and Budgeting Committee (PBC)

	September 30	
	2019	2018
	NIS thousands	NIS thousands
Balance at the beginning of the year per PBC's approval	17,398	(38,973)
Allocations for current obligations	1,426,437	1,506,259
Allocations to cover budgetary pension payments	353,286	347,634
Less - amounts received during the year	(1,825,522)	(1,797,522)
Balance at the end of the year per PBC's approval	(28,401)	17,398
Allocations for research component prior years	27,839	-
Financial stability allocation according to an agreement	44,000	19,000
	43,438	36,398

Notes to the Financial Statements

Note 9 - Fixed Assets, Net

A. Composition

	Land	Buildings and improvements	Vehicles	Scientific equipment NIS thousands	Computers and software	Art and collections	Total
Cost							
Balance as of September 30, 2018	1,260,192	5,875,549	434	82,544	16,413	1	7,235,133
Additions for the year	-	141,379	453	60,204	35,067	-	237,103
Balance as of September 30, 2019	1,260,192	6,016,928	887	142,748	51,480	1	7,472,236
Accumulated depreciation							
Balance as of September 30, 2018	-	227,865	86	27,456	2,504	-	257,911
Depreciation for the year	-	118,959	151	39,638	4,479	-	163,227
Balance as of September 30, 2019	-	346,824	237	67,094	6,983	-	421,138
Net book value as of September 30, 2019	1,260,192	5,670,104	650	75,654	44,497	1	7,051,098
Net book value September 30, 2018	1,260,192	5,647,684	348	55,088	13,909	1	6,977,222

Note 9 - Fixed Assets, Net (cont'd)**B. Revaluation of land and buildings**

1. In accordance with Accounting Standard No. 9 initial implementation guidelines the University elected to perform a revaluation of its land and building as of October 1, 2016. The following is a list of revalued assets, included in the above mentioned revaluation, and information on their fair value as of transition date:

	Fair value as of transition date
	NIS thousands
Mt. Scopus Campus	2,471,388
E. Safra Campus	2,419,847
Interuniversity Institute for Marine Sciences	28,646
Ein Kerem Campus	923,537
Rehovot Campus	858,818
Beit Dagan Campus	60,890
Student dormitories on 7, 9, 11 Guatemala St.	89,292
Student dormitories on 61 and 63 Stern St.	56,696
A warehouse in Jerusalem – Jabotinsky St.	90
Apartment and warehouse in Jerusalem – 29A Neve Sha'anani St.	1,650
Warehouses in Jerusalem – 18 Neve Sha'anani St.	330
Apartment and warehouse in Jerusalem – 11 Bustenai St.	2,765
Apartment in Jerusalem – 51 Kubovy St.	1,054
Friedman Sadie – An orchard in Sde Warburg	27
Apartment in Eilat – 33 Eilat St.	561
Apartment in Eilat – Sheshet HaYamim St.	589
Beit Eliahu Eilat – 17 Bialik St., Jerusalem	3,009
	<hr/>
	6,919,189
	<hr/> <hr/>

2. Valuation work for the above mentioned fair value measurement was performed by independent external land appraisers – Mr. Barry Cherniavsky and Mr. Yoni Cherniavsky.

Note 9 - Fixed Assets, Net (cont'd)**B. Revaluation of land and equipment (cont'd)**

3. Appraisal principles:

- a) The appraisal approach applied to assess the fair value of the assets above was based on the physical value of properties (the cost approach). In this approach, land is valued assuming it is vacant, plus costs of construction and an entrepreneur's margin.
A related approach is the extraction method, in which the value of land is extracted from physical value by deducting the entrepreneur's margin and construction costs.
- b) The value of land was estimated by applying the guidelines of the Israel Chief Government Appraiser (CGA) for land valuation of public buildings, which, according to zoning code, cover higher education institutions, among others.
According to the most up-to-date guidelines of the CGA, from April 2008, the value of land for public buildings is estimated based on the quantitative alternative use in its surroundings, by making appropriate adjustments to rent and use intensity.
According to those guidelines, the value of the land for public buildings is estimated using the sales comparison approach, with adjustments to rent and low flexibility of use, use intensity and unutilized building rights.
The estimated value was deducted by 25% for rent limitations and low flexibility of use, and by 15% for use intensity.
- c) For some of the land properties, of which lease agreements with the Israel Land Authority have not been renewed as of the balance sheet date, the value of those land properties, was reduced by the lease fee that is expected to be paid to the Israel Land Authority under any future lease agreement that may be signed (see Note 14A).

Notes to the Financial Statements

Note 10 - Investment Property, Net

	<u>Land</u>	<u>Real estate, real estate rights and orchards</u>	<u>Total</u>
	<u>NIS thousands</u>	<u>NIS thousands</u>	<u>NIS thousands</u>
Cost			
Balance as of October 1, 2018	159,519	183,227	342,746
Additions for the year	29	48,660	48,689
Deductions for the year	(163)	-	(163)
Balance as of September 30, 2019	159,385	231,887	391,272
Accumulated Depreciation			
Balance as of October 1, 2018	-	52,344	52,344
Depreciation for the year	-	9,457	9,457
Balance as of September 30, 2019	-	61,801	61,801
Net book value as of September 30, 2019	159,385	170,086	329,471
Net book value September 30, 2018	159,519	130,883	290,402

* See note 14C.

Note 11 - Accounts Payable

	<u>September 30</u>	
	<u>2019</u>	<u>2018</u>
	<u>NIS thousands</u>	<u>NIS thousands</u>
Scholarships	19,558	17,610
Companies and institutions (including related parties)	8,992	22,846
Prepaid income	35,097	9,618
Accrued expenses	39,175	8,272
Others	15,762	16,248
	118,584	74,594

Notes to the Financial Statements**Note 12 - Net Assets****A. Unrestricted net assets designated by the University**

Amounts designated for a maintenance fund in prior years amounting to NIS 10,758 thousand were released during the year.

B. Temporarily restricted net assets balances for research and special projects

	September 30	
	2019	2018
	<u>NIS thousands</u>	<u>NIS thousands</u>
Research programs	589,175	625,743
Special projects (*)	305,673	414,733
	<u>894,848</u>	<u>1,040,476</u>

(*) During the year, the University conducted a thorough examination of the special projects, and found that an amount of NIS 64 million did not have external restriction. Accordingly, these amounts were released from restriction during the year, and were used for financing of a construction project.

Notes to the Financial Statements

Note 13 - Liabilities for Employee Rights

A. Composition of employee benefits

	September 30,	
	2019	2018
	<u>NIS thousands</u>	<u>NIS thousands</u>
Presented under current liabilities		
Employees and related liabilities	152,975	146,311
Absorption basket presented in other provisions (C below)	75,924	72,237
Current maturities of budgetary pension, net	<u>273,382</u>	<u>274,464</u>
Total	<u><u>502,281</u></u>	<u><u>493,012</u></u>
Presented under non-current liabilities		
Liabilities for severance pay (C below)	110,921	99,687
Liabilities for other employee benefits (C below)	493,993	479,235
Liabilities for budgetary pension, net*	<u>4,677,754</u>	<u>4,401,976</u>
	<u><u>5,282,668</u></u>	<u><u>4,980,898</u></u>

* Includes liability for excess years grant.

Notes to the Financial Statements

Note 13 - Liabilities for Employee Rights (cont'd)

B. Liability for budgetary pension, net

1. Movement in budgetary pension, net

	Budgetary pension obligation		Fair value of plan assets (B)		Reimbursement assets - PBC Commitment (A)		Defined benefit pension obligation, net	
	for the year ended September 30		for the year ended September 30		for the year ended September 30		for the year ended September 30	
	2019	2018	2019	2018	2019	2018	2019	2018
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Balance at beginning of year	10,639,310	10,795,412	56,755	52,362	5,906,115	6,037,668	4,676,440	4,705,382
Current and past service costs	*(82,730)	*146,694	3,124	4,393	-	-	(85,854)	142,301
Interest cost	378,930	367,660	-	-	204,537	203,000	174,393	164,660
Actuarial losses (gains) from changes of re-measurements	1,085,770	(33,360)	-	-	617,000	13,081	468,770	(46,441)
Benefits paid	(635,899)	(637,096)	-	-	(353,286)	(347,634)	(282,613)	(289,462)
Balance at end of year	11,385,381	10,639,310	59,879	56,755	6,374,366	5,906,115	4,951,136	4,676,440
Less current maturities							(273,382)	(274,464)
Presented as long-term liabilities							4,677,754	4,401,976

* Including a decrease of NIS 138,920 thousand in respect of past service cost. See E below (prior year an increase of NIS 86,810).

Note 13 - Liabilities for Employee Rights (cont'd)**B. Pension and severance pay (cont'd)****1. Movement in budgetary pension, net (cont'd)****a. Discounted amounts receivable for PBC participation for budgetary pension (hereinafter: "PBC participation")**

During 2000/2001, the University reached agreements with the PBC and University employees regarding funding of the budgetary pension. Under these agreements, all employees hired from July 1, 2000 will join an external pension fund (instead of budgetary pensions) and certain other employment terms for new employees in the academic staff will differ from those of present employees. In addition, according to the agreement with the PBC, the PBC will partially fund the costs of budgetary pensions until the liability in respect thereof is fully settled. The expected amounts receivable as part of PBC participation for funding budgetary pension are discounted based on long-term interest rate vector that is identical to the one used for calculating the actuarial obligation for calculating the budgetary pension, and considering the long-term expected amounts receivable from PBC through the end of obligation by the University to pay budgetary pension to its employees and retirees.

The balance sheet presents the budgetary pension obligation of the University net of the expected amount receivable from PBC for participation in funding budgetary pension.

b. Assets designated for covering actuary pension obligation

As from 2004, under the provisions of the Israel Economic Recovery Plan Law, employees eligible for a budgetary pension are now required to make a contribution thereto. In 2004, the contribution was equivalent to 1% of the salary and in 2005 to 2%. The Arrangements Law for 2007 determined that, as from January 2007, these amounts will be accumulated in a separate account in the name of the employee and used for the purpose of paying pension to that employee. The University places the amounts deducted from employees' salaries in an external fund.

Note 13 - Liabilities for Employee Rights (cont'd)**B. Pension and severance pay (cont'd)****2. Actuarial assumptions**

Below are the main actuarial assumptions concerning the employment benefit plan as of the balance sheet date:

- a. According to an updated guidance of the Capital Market, Insurance and Saving for Pension Funds Authority, updated boards should be activated as of the actuarial reports of 31 December 2019. The University's Management decided to implement the change as of 30 September 2019.
- b. The rate of termination was determined based on historical trends of the University at a rate of 0%.
- c. The rate of salary increases is in accordance with various existing agreements of the University, including a distinction for various types of employees and in accordance with seniority levels.
- d. The discount rate (nominal) is based on the yield at the reporting date on high quality shekel-denominated corporate debentures that have a similar life span for the life of the gross liability

	<u>2019</u>	<u>2018</u>
Discount rate as of September 30	<u>2.7681%</u>	<u>3.6613%</u>

3. Based on the actuarial report, the projected annual pension payments (including future obligation) before PBC participation, in current values are as follows:

	<u>Total</u>
	<u>NIS million</u>
2020	657
2021 - 2029	5,346
2030 - 2039	4,247
2040 - 2049	2,071
2050 - 2094	769

Notes to the Financial Statements

Note 13 - Liabilities for Employee Rights (cont'd)

C. Reserves in respect of other employee rights

	Balance of reserves as of October 1, 2018	Payments during the year	Updating the reserves	Balance of reserves as of September 30, 2019
	NIS thousands			
Liability for severance pay (1)	99,687	(18,956)	30,190	110,921
Redemption of vacation days (2)	24,500	(315)	778	24,963
Redemption of sick leave days (3)	225,511	(15,131)	39,860	250,240
Rights in scientific liaison fund (4)	229,224	(30,312)	19,878	218,790
Absorption basket (5)	72,237	(13,386)	17,073	75,924
	<u>651,159</u>	<u>(78,100)</u>	<u>107,073</u>	<u>680,838</u>
Less:				
Increase in liability of redemption of sick leave days is respect of re-measurement recognized in net assets			(29,840)	
Interest costs recognized in finance expenses			<u>(7,970)</u>	
			<u>69,969</u>	

- (1) The severance pay is determined based on the shutdown model.

Effective January 1, 1983, the University deposits partial pension and severance pay coverage with recognized pension and severance pay funds or insurance policies in respect of academic and administrative staffs not having permanent status. In addition, for the benefit of employees in certain levels, the University deposits amounts equivalent to 1.25% of the pensionable salary of employees who commenced their employment prior to 2004.

Under the terms of its agreements, the University is to contribute to pension and severance pay funds or insurance policies, on a current basis, 6%-8.33% of the employees' salaries on account of its severance pay liability. Contributions at a rate lower than 8.33% only partially cover the University's severance pay liability. The financial statements include a suitable provision in respect of the completion of the unfunded obligation.

- (2) The liability for redemption of vacation days is recorded based on the shutdown model up to a maximum accumulation of 60 days per year (90 days in prior years).

Notes to the Financial Statements

Note 13 - Liabilities for Employee Rights (cont'd)**C. Reserves in respect of other employee rights (cont'd)**

- (3) Pursuant to existing wage agreements, employees who retire after the age of 55 or as a result of passing away are entitled to partial compensation for unused sick days. The liability is computed in accordance with a key of 6 or 8 days per each 30 accumulated days and subject to utilization of sick leave in the course of the period of employment. This liability is recognized as a post-employment benefit. In the prior year, due to early implementation of standard 39, the change in the liability at an amount of NIS 85,210 was presented under prior year expenses.
- (4) Fund for International Scientific Liaison designed to advance scientific relationships of active academic staff members and to expand their scientific knowledge. These rights are conferred rights, linked to the U.S. dollar, which may be transferred to the employees' survivors after their passing.
- (5) The absorption basket is intended to fund various expenses associated with the admission of new faculty members in the University. This item is presented in the balance sheet as part of other provisions.

D. Unrestricted net assets obligation for employee rights

	<u>NIS thousands</u>
Balance as of September 30, 2018	5,327,599
Add:	
Actuarial gain due to budgetary pension obligation, net	468,770
Updating budgetary pension obligation, net	88,539
Updating reserves for severance pay and employee rights	<u>107,779</u>
	<u>665,088</u>
Less:	
Payments for budgetary pension, net	282,613
Payments for employee rights	<u>78,100</u>
	<u>360,713</u>
Balance as of September 30, 2019	<u>5,631,974</u>

Note 13 - Liabilities for Employee Rights (cont'd)**E. Compensation Agreement**

Academic staff -

In December 2016, a collective salary agreement was signed between Heads of Universities and senior academic staff organizations in which it was agreed to perform changes in budgetary pension terms for retired senior academic staff. The changes mainly include a transition to CPI-linked pension instead of linkage to salary increases of an employee's rank prior to retirement. Close to the signing of the above agreement, a special collective agreement was signed between the University and the Senior Academic Staff Association of the University according to which it was agreed to change the pension terms for senior academic staff that will retire after December 31, 2016. The most significant change is linking the provision of the cost-of-living adjustment B at the accrual rate for budgetary pension, and the reduction of the excess years grant. The excess year grant that will be paid to the academic staff will be 65% of their monthly salary for every year between 30 and 35 years of seniority and 100% of the monthly salary for seniority above 35 years.

In addition, the pension was reduced for pensioners who retired until December 31, 2016, by 2.75% in return for a full cost-of-living B adjustment.

Administrative Staff -

Following the directive of the Treasury Ministry Wages Director in May 2016 to link the cost-of-living adjustment B to employees to the accrual rate for budgetary pension, the Treasury Ministry Wages Director and the Administrative Staff Union reached an understanding whereby employees who retired from January 1, 2017 are not entitled to an increment beyond the accrual rate.

In August 2019, a collective agreement was signed with the Administrative Staff, by which it was agreed on certain changes in the pension conditions from January 2019. According to the agreement, accrual for pension rights has been reduced so that full accrual will be only upon fulfilling 35 years of employment and additionally, reduction in the rights for excess years grant. The effect of the changes in the accrual pension rate, completion of pension at retirement and reduction of the excess years grant above results in a reduction in the actuarial obligation of approximately NIS 24 Million.

Regarding pensioners, there will be a reduction of 2.75%-6% gradually over the years 2019-2024 in the monthly grant to pensioners who retired up to December 31, 2016 and receive full cost of living adjustment. The effect of this reduction in the actuarial obligation is approximately NIS 115 Million.

Note 14 - Contingent Liabilities and Commitments**A. Contingent liabilities**

- 1) A dispute has arisen between the University and the Israel Lands Authority (hereinafter - "ILA") regarding the value of the Mount Scopus campus for purposes of determining leasehold payments. The parties have set a mechanism for determining the aforementioned land values subsequent to September 30, 2003 but final calculations have not yet been made. The University paid the lease fees for the years 2013-2019 based on its calculations. The debt requests received by the University up until the year 2019 in respect of the lease fees amounts to approximately NIS 3.7 million. The parties agreed to enter into an arbitration procedure to settle the aforementioned dispute. This procedure has not yet commenced.
- 2) There is currently a dispute between the University and the Jerusalem municipality regarding the municipality's demands to pay municipal tax for the period from January 1, 2012. The University pays the undisputed amount on an ongoing basis.
- 3) The trustee overseeing the liquidation of the assets of Bernard L. Madoff (hereinafter – "the plaintiff") lodged a lawsuit against several institutions, including the University and a subsidiary thereof; the plaintiff claims that the University and the subsidiary received funds amounting \$ 36 million that were received through the Yeshaya Horowitz Association (hereinafter- the "Association"). According to the plaintiff also the association, the Hebrew University and its subsidiary were aware, or should have been aware of the fact that the funds were not donated legally and should therefore refund them. Based on the opinion of its legal counsels, the chance of the claim being accepted is low and therefore no provision was included in the financial statements in connection with this claim.
- 4) From the year 2018, there is a demand for construction and development charges totaling NIS 128 million was received from the Jerusalem Municipality in respect of the University campus assets. Based on the opinion of its legal counsel, the prospects of the claim are low, and therefore no provision has been included in the financial statements in connection with this demand.
- 5) During the year 2015, a request was received from the Rehovot municipality to pay development fees in the amount of NIS 15 million. The demand will be discussed in normal court order. Since the requirement is in the preliminary stage, the chances of the requirement cannot be estimated at this stage.
- 6) The University management, based on the opinion of its legal counsel, included a provision in these financial statements which sufficiently covers the aforementioned claims and various other claims arising in the ordinary course of its operations.

Note 14 - Contingent Liabilities and Commitments (cont'd)**B. Agreement with the Planning and Budgeting Committee ("PBC")**

On February 28, 2018, an agreement was signed between the University and PBC (hereinafter – "the agreement") to ensure a balanced budget that will reinforce academic and administrative excellence of the University, and allow long-term financial stability. The expected Government support to the current budget of the University resulting from this agreement will be an average of NIS 100 million per year over 10 years, which represent additional NIS 70 million relative to the baseline year, and in total approximately NIS 700 million in additional support. This will be accompanied by efficiency, savings and growth measures by the University. The purpose of the plan is that the University will be able to have a balanced current budget without any special support by the end of the period.

The following are key principles of the recovery plan as contemplated by the agreement (hereinafter – "the plan"):

1. **Eliminating the current structural deficit -**
The University committed to take steps that include savings in salary increases and procurement and increasing sources of income that in every budgeted year of the plan, the actual performance of the current budget approved by the house committee will be balanced and without deficit.
2. **Eliminating the accumulated deficit -**
The "accumulated deficit", as defined by the agreement, comprises obligations to external entities, including payroll, obligations to internal sources, and additional obligations that are not reflected in the financial statements of the University.
The University committed to close within a decade the accumulated deficit that amounted to NIS 1.8 billion as of September 30, 2016, including through disposal of assets that are not used for academic activities. In addition, the University committed to provide collateral from other resources to secure its liabilities. As of the balance sheet date the University has deposits in designated bank accounts amounting to approximately NIS 69 million according to the agreement. These deposits are included as part of the balance of deposits and bank balances.
3. **Meeting national objectives for the Israeli higher education system-**
As part of national objectives that have been set for the Israeli higher education system, the University committed to make intensive effort to meet national objectives, such as increasing the number of students majoring in knowledge related professions and increasing the number of students from minority and ultra-orthodox population.
4. **Corporate restructuring-**
The University has taken steps for corporate restructuring of the University, in order to strengthen the effectiveness of oversight by the Executive Committee over management of the University.
5. **Oversight and enforcement-**
A committee has been set up by PBC with the purpose of overseeing the compliance of this plan through meetings with the University's management. In addition, the University appointed an internal committee on behalf of the executive committee to accompany the implementation of the plan. The support of the government, as mentioned above, is conditional of the University fulfilling the milestones listed in the plan.
During October 2019, the University's management reported to the PBC committee regarding compliance with the agreement for the year ended September 30, 2019.

Note 14 - Contingent Liabilities and Commitments (cont'd)**C. Agreement for establishing and operating a high-tech technological park**

During 2018, the University, together with the Jerusalem Development Authority (hereinafter the JDA), acquired additional shares in Huji tech, which was intended to establish a high-tech technological park in the E. Safra Campus.

During the reporting year, the parties (the University and JDA) decided to operate the project of the technological park within the University.

The parties agreed that they will be entitled to proceeds from the project according to their holding rate in the company. In light of this, the cost of investing in the company has been recognized as a non-cash dividend by the conceptual distribution of land rights to the University and to JDA in proportion to their holding. The University's share of land rights is included in the cost of Investment Property in these financial statements. The University published a tender for the establishment and operation of a high-tech technological park. In December 2019, after the balance sheet date, the University signed a contract for the construction and operation of the high-tech technological park with Gav Yam Ltd. In accordance with the agreement, Gav Yam will set up the entire project and in exchange for this the University will sub-lease to Gav Yam their share of the project according to the combination transaction rate, for the duration of the sub-lease. In addition, Gav Yam will operate the entire project, including the University's portion, and pay the University amounts from the project receipts according to its part of the combination. Gav Yam will transfer to JDA the amounts from the proceeds of the project in accordance with their investment ratio in the purchase of the Company's shares.

Notes to the Financial Statements

Note 15 - Allocations from the Planning and Budgeting Committee (PBC)

	For the Year ended September 30	
	2019	2018
	NIS thousands	NIS thousands
Direct participation	1,094,439	1,075,810
Matching allocations	42,143	42,143
Scholarships and others	34,714	45,315
Special participation	37,827	13,988
Research grants	6,284	1,640
Various allocations	91,469	85,844
Participation in budgetary pension	353,286	347,634
Recovery and efficiency (see note 14B)	119,561	113,000
Special support and participation in budgetary pension prior year	-	128,519
	1,779,723	1,853,893
Add-		
Allocations for research prior years	27,839	-
Financial stability according to the agreement	25,000	19,000
	52,839	19,000
Less-		
Participation in budgetary pension	353,286	347,634
Participation recorded in the previous year	-	128,519
Transfer of parallel allocations to third parties	13,510	14,166
Transfer to third parties	74,091	75,522
Transfer to research and special projects	7,709	2,397
Transfer to development project	5,507	3,886
Prepaid income	4,935	1,749
	459,038	573,873
	1,373,524	1,299,020

Note 16 - Contributions from Friends Organizations and Others

	For the Year ended September 30	
	2019	2018
	NIS thousands	NIS thousands
Donations from Israel	5,407	4,844
Donations from abroad	111,468	131,722
	116,875	136,566

Notes to the Financial Statements

Note 17 - Income from Students

A. Composition

	For the Year ended September 30	
	2019	2018
	NIS thousands	NIS thousands
Regular tuition (B)	192,531	188,893
Tuition from overseas students	14,539	16,646
Registration fee	4,654	2,357
Dormitories	51,872	50,733
Pre-academic program	3,605	5,248
Other	11,331	11,671
	<u>278,532</u>	<u>275,548</u>

B. Income from regular tuition

	For the Year ended September 30	
	2019	2018
	NIS thousands	NIS thousands
Bachelor's degree	108,966	107,972
Master's degree	53,001	49,492
Other	30,564	31,429
	<u>192,531</u>	<u>188,893</u>

Note 18 - Teaching, Research and Auxiliary Services

	For the Year ended September 30, 2019				For the Year ended September 30, 2018
	Salaries and employee benefits	Current expenses	Equipment, furniture and books	Total	Total
	NIS thousands				NIS thousands
Ordinary budget	818,661	307,205	46,692	1,172,558	1,132,250
Self-supporting budgets	90,195	80,161	20,023	190,379	176,280
Research budgets	119,500	205,393	85,465	410,358	402,121
Other budgets	38,578	13,378	8,149	60,105	52,875
	<u>1,066,934</u>	<u>606,137</u>	<u>160,329</u>	<u>1,833,400</u>	<u>1,763,526</u>

Notes to the Financial Statements

Note 19 - Services to Students

	For the Year ended September 30, 2019			For the Year ended September 30, 2018
	Salaries and employee benefits	Current expenses	Total	Total
	NIS thousands			NIS thousands
Tuition exemptions	-	28,425	28,425	28,273
Scholarships, grants and awards	-	114,717	114,717	111,999
Dean of Students	24,903	17,510	42,413	42,301
Other	5,756	16,815	22,571	18,407
	30,659	177,467	208,126	200,980

Note 20 - Other Direct Expenses

	For the Year ended September 30, 2019			For the Year ended September 30, 2018
	Salaries and employee benefits	Current expenses	Total	Total
	NIS thousands			NIS thousands
Ordinary budget	32,465	17,476	49,991	50,606
Self-supporting budgets	268	574	842	631
Other budgets	-	6,554	6,554	6,515
	32,733	24,604	57,337	57,752

Note 21 - Summary of Salary Expenses

	For the Year ended September 30	
	2019	2018
	NIS thousands	NIS thousands
Gross salary	927,833	879,138
Employer taxes	126,494	118,958
Social benefit expenses	170,303	160,934
Change in provisions for retirement benefit obligation	52,896	157,709
Other provisions	17,073	16,796
	1,294,599	1,333,535

Notes to the Financial Statements

Note 22 - General and Administrative Expenses

	For the Year ended September 30	
	2019	2018
	NIS thousands	NIS thousands
Salaries and related expenses	65,396	63,619
Rent and maintenance	13,762	14,022
Car rentals and maintenance	1,175	1,316
Postage and telephone	610	671
Office maintenance and printing	4,232	5,475
Travel expenses and refreshment	811	835
Professional services	5,674	5,438
Taxes and levies	1,694	1,710
Doubtful accounts	8,098	-
Other	11,634	10,072
	113,086	103,158

Note 23 - Finance Expenses, Net

	For the Year ended September 30	
	2019	2018
	NIS thousands	NIS thousands
Losses from foreign exchange hedge transactions, net	1,147	6,175
Interest income from deposits	(2,043)	(617)
Foreign exchange differences on balances linked to the CPI or foreign currency	(26,846)	14,916
Bank expenses	1,387	4,682
Interest cost of actuary obligation, net	182,363	164,660
	156,008	189,816

Note 24 - Transactions with Related parties

The University has transactions with its subsidiaries and other related parties, primarily representing University charges for overhead on account of research and special projects, rental of facilities, payroll reimbursement, interest and sundry other charges.

Notes to the Financial Statements

Note 25 - Budget Comparison (Unaudited)

A. Composition:

	For the Year ended September 30, 2019	
	Budget	Budget Execution
	NIS thousands	NIS thousands
Income		
Planning and Budgeting Committee allocations	1,708,190	1,726,810
Contributions from Friends organizations and others	128,657	116,875
Income from students	291,305	278,532
Income from royalties, licenses, research projects and rendering services	9,712	822
Income from special programs	226,740	200,920
Amounts released from restricted net assets	670,059	670,059
	<u>3,034,663</u>	<u>2,994,018</u>
Cost of operations		
Teaching, research and auxiliary services	1,890,335	1,859,102
Services to students	195,594	208,126
Budgetary pension obligation expense	611,182	625,861
Change in liabilities for employee and other provisions	62,425	69,969
Depreciation and amortization expenses	-	-
Other direct expenses	59,289	40,025
	<u>2,818,825</u>	<u>2,803,083</u>
Net income from operations	215,838	190,935
General and administrative expenses	147,284	113,082
Fundraising expenses	34,937	34,074
Advertising and marketing expenses	27,495	29,407
	<u>209,716</u>	<u>176,563</u>
Net income before finance	6,122	14,372
Finance expenses, net	(6,111)	(13,817)
Income for the year	<u>11</u>	<u>555</u>

B. The Executive Council approved the budget on November 11, 2018.

C. The annual approved budget is derived out of multi-annual budget as to net assets that are temporarily restricted.

Notes to the Financial Statements**Note 26 - Comparison to Performance Report (Unaudited)**

	September 30, 2019
	<u>NIS thousands</u>
Surplus for the year - as presented in statement of activities	90,624
Revaluation differences on linked balance sheet items	(26,846)
Cancellation of transactions with the Endowment Funds	(6,075)
Cancellation of share in net losses from ordinary operations of investees	4,339
Unbudgeted change of salary provisions	6,905
Increase in researchers savings, net	(2,748)
Depreciation and amortization	163,254
Release of internal designation of students' village maintenance fund	10,758
Change in provision for pension, net	(190,941)
Amounts used for acquisition of fixed assets	(48,715)
	<hr/>
Current operating surplus in the ordinary budget, according to performance report for the year ended September, 30 2019	<u>555</u>

Note 27 - Subsequent events

In light of the outbreak of the Corona virus during December 2019 and the spread of the virus in the year 2020, the University's management is analyzing the implications on the University's activities including the ramifications of restrictions imposed by the Israeli Government on the Israeli Government on the Israeli economy.

The University is working to maintain and continue its activities in the best possible way, subject to these restrictions.

Notes to the Financial Statements

FINANCIAL DATA IN U.S DOLLARS
(Unaudited)

For the convenience of the reader, the financial statements as of September 30, 2019 and for the year then ended, have been translated to US\$ using the representative exchange rate prevailing at the balance sheet date, 2019 - US\$ 1 = NIS 3.482 (2018 - US\$ 1 = NIS 3.627). The US\$ amounts presented in these financial statements should not be construed to represent amounts receivable, payable or convertible into US\$ unless otherwise indicated in these statements.

	September 30,	
	2019	2018
	Convenience translation	
	USD thousands	USD thousands
Assets		
Current Assets		
Cash and cash equivalents	21,238	33,351
Deposits and bank balances	88,721	57,693
Friends organizations	32,619	21,359
Grants and recoverable expenses	42,054	46,982
Planning and Budgeting Committee	12,475	10,035
Receivables in respect of construction	7,940	21,098
Accounts receivable	47,111	59,251
Inventories	677	363
	252,815	250,132
Long-term investments		
Investments in investees and others	30,165	43,110
Investments in marketable securities and deposits	421,072	407,351
	451,237	450,461
Fixed assets, net	2,025,014	1,923,690
Cash and investments designated to fixed assets	17,547	13,002
Investment property, net	94,622	80,067
Total assets	2,841,235	2,717,352

Notes to the Financial Statements

	September 30	
	2019	2018
	Convenience translation	
	USD thousands	USD thousands
Liabilities		
Current liabilities		
Employees and related liabilities	43,933	40,339
Suppliers and service providers	6,804	19,088
Accounts payable	34,056	20,566
Prepaid tuition	19,099	19,462
Current maturities of budgetary pension, net	78,513	75,672
Other provisions	42,962	40,569
	<u>225,367</u>	<u>215,696</u>
Long-term liabilities		
Liabilities for employee rights and other provisions	1,517,136	1,373,283
Deposits from friend organizations and others	42,292	45,580
Liability for annuity payments	875	927
	<u>1,560,303</u>	<u>1,419,790</u>
Commitments and contingent liabilities		
Net assets		
Unrestricted net assets (deficit in net assets):		
Undesignated by the University	(129,673)	(150,377)
Designated by the University		2,966
Accumulated deficit of the endowment funds*	(20,492)	(25,746)
Due to cover liabilities for employee rights	(1,617,454)	(1,448,956)
Used for fixed assets	2,025,014	1,923,690
	<u>257,395</u>	<u>327,323</u>
Temporarily restricted net assets:		
Research and special projects	256,993	286,870
Investments in fixed assets	17,547	13,002
University's share in net assets of investees	795	763
	<u>275,335</u>	<u>274,889</u>
Permanently restricted net assets:		
Endowment funds	507,433	463,272
Other funds	15,402	16,382
	<u>522,835</u>	<u>479,654</u>
Total net assets	<u>1,055,565</u>	<u>1,081,866</u>
Total liabilities and net assets	<u>2,841,235</u>	<u>2,717,352</u>

* Reclassified

Notes to the Financial Statements

	For the Year ended September 30,	
	2019	2018
	Convenience translation	
	USD thousands	USD thousands
Income		
Planning and Budgeting Committee appropriations	394,463	358,153
Contributions from Friends organizations and others	33,564	37,653
Revenue from students	79,992	75,971
Revenue from royalties, licenses, research projects and rendering services	236	1,811
Other income	57,702	45,570
Amounts released from restrictions net assets	204,632	203,402
	770,589	722,560
Cost of operations		
Teaching, research and auxiliary services	526,536	486,222
Services to students	59,772	55,412
Budgetary pension obligation expense	(24,657)	39,234
Change in liabilities for employee benefits and other provisions	20,094	24,620
Depreciation expenses	49,593	41,034
Other direct expenses	16,467	15,923
	647,805	662,445
Net income from operations	122,784	60,115
General and administrative expenses	32,477	28,442
Fundraising expenses	9,786	10,979
Advertising and marketing expenses	8,445	6,842
	50,708	46,263
Net income before financing	72,076	13,852
Finance income, net	(44,804)	(52,333)
Net income (expenses) after financing	27,272	(38,481)
Expense in respect of previous years	-	(23,493)
University's share of net expenses of investees	(1,246)	(697)
Surplus (deficit) for the year	26,026	(62,671)

Notes to the Financial Statements

	Unrestricted net assets				Temporarily restricted net assets			Permanently Restricted net assets	Total	
	Accumulated deficit from activities	Designated by the University	Accumulated deficit in endowment funds*	Due to cover liabilities for employee rights	Used for fixed assets	Research and special projects	Investments in fixed assets	Share in investees		Endowment funds (including other funds)
USD thousands- convenience translation										
Balance as of October 1, 2018	(135,893)	3,090	(26,818)	(1,530,040)	2,003,797	298,816	13,543	794	499,628	1,126,917
Additions during the academic year 2019										
Donations	-	-	-	-	-	48,706	14,098	-	27,833	90,637
Planning and Budgeting Committee allocations	-	-	2,031	-	-	2,214	1,582	-	-	5,827
Other income and allocations	-	-	8,847	-	-	147,574	5,080	-	-	161,501
Income from endowment funds investments	-	-	8,373	-	-	-	-	-	3,271	11,644
Income from sale of restricted assets	-	-	3,148	-	-	-	-	-	-	3,148
University share in net asset changes of investees	-	-	-	-	-	-	-	1	-	1
Re-measurement of net liability of defined Benefit	-	-	-	(143,196)	-	-	-	-	-	(143,196)
Disposals during the academic year 2019										
Surplus for the year	26,026	-	-	-	-	-	-	-	-	26,026
Amounts released from restrictions	-	-	(7,399)	-	-	(164,243)	-	-	-	(171,642)
Amounts released for overheads	-	-	(4,798)	-	-	(28,192)	-	-	-	(32,990)
Amounts released from restriction for fixed Assets	-	-	-	-	49,398	(31,846)	(17,552)	-	-	-
Amounts released from restriction in respect of prior years (see note 12B)	18,280	-	-	-	-	(18,280)	-	-	-	-
Amounts transferred to cover depreciation	46,877	-	-	-	(46,877)	-	-	-	-	-
Amounts allocated to Friends and others	-	-	(1,977)	-	-	-	-	-	-	(1,977)
Amounts allocated to restricted net assets	-	-	(5,773)	-	-	9,017	827	-	(4,071)	-
Adjustments of annuity funds	-	-	-	-	-	-	-	-	(79)	(79)
Exchange differences and linkage, net	-	-	3,874	-	-	(6,773)	(31)	-	(3,747)	(6,677)
Transfers of unrestricted amounts:										
Amounts transferred to cover change in liabilities for employee rights	(55,782)	-	-	55,782	-	-	-	-	-	-
Release of management designation from prior Years	3,090	(3,090)	-	-	-	-	-	-	-	-
Amounts transferred to purchase of fixed assets	(18,696)	-	-	-	18,696	-	-	-	-	-
Cancellation of prior year receivables in respect of construction (see note 12B)	(13,575)	-	-	-	-	-	-	-	-	(13,575)
Balance as of September 30, 2019	(129,673)	-	(20,492)	(1,617,454)	2,025,014	256,993	17,547	795	522,835	1,055,565

* Reclassified



Somekh Chaikin
8 Hartum Street, Har Hotzvim
PO Box 212
Jerusalem 9100102, Israel
+972 2 5312000

Report of Independent Auditors on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in accordance with Government Auditing Standards

**Board of Governors of
The Hebrew University of Jerusalem**

We have audited, in accordance with the auditing standards generally accepted in Israel and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of The Hebrew University of Jerusalem, which comprise the statement of financial position as of September 30, 2019 and 2018, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements. Due to our location outside of the U.S., we do not have a continuing education program which conforms to Paragraphs 3.6 through 3.9 of *Government Auditing Standards*. We do have a continuing education program which conforms to requirements applicable in Israel. Also, we do not have an external quality control review by an unaffiliated audit organization which conforms to Paragraphs 3.33 through 3.36 of *Government Auditing Standards*, because no such program is operated in Israel with respect to Universities.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Hebrew University of Jerusalem's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Hebrew University of Jerusalem's internal controls. Accordingly, we do not express an opinion on the effectiveness of The Hebrew University of Jerusalem's internal controls.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Somekh Chaikin
8 Hartum Street, Har Hotzvim
PO Box 212
Jerusalem 9100102, Israel
+972 2 5312000

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Hebrew University of Jerusalem's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance. Other matters are disclosed in the attached schedule of findings as required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the The Hebrew University of Jerusalem's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the The Hebrew University of Jerusalem internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Somekh Chaikin
Certified Public Accountants (Isr.)
Member Firm of KPMG International

March 15, 2020



Somekh Chaikin
8 Hartum Street, Har Hotzvim
PO Box 212
Jerusalem 9100102, Israel
+972 2 5312000

Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

**To the Board of Governors of
The Hebrew University of Jerusalem**

Report on Compliance for Each Major Federal Program

We have audited The Hebrew University of Jerusalem (the University) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the University's major federal program for the year ended September 30, 2019. The University's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the University's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in Israel; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.



Somekh Chaikin
8 Hartum Street, Har Hotzvim
PO Box 212
Jerusalem 9100102, Israel
+972 2 5312000

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

Due to our location outside of the U.S., we do not have a continuing education program which conforms to Paragraphs 3.6 through 3.9 of Government Auditing Standards. We do have a continuing education program which conforms to requirements applicable in Israel. Also, we do not have an external quality control review by an unaffiliated audit organization which conforms to Paragraphs 3.33 through 3.36 of Government Auditing Standards, because no such program is operated in Israel.

Opinion on the Major Federal Program

In our opinion, The Hebrew University of Jerusalem complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2019.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2019-001 through 2019-003. Our opinion on the major federal program is not modified with respect to these matters.

The University's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The University's response and corrective action plan were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response or the corrective action plan.

Report on Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an



Somekh Chaikin
8 Hartum Street, Har Hotzvim
PO Box 212
Jerusalem 9100102, Israel
+972 2 5312000

opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2019-001 to 2019-003, that we consider to be significant deficiencies.

The University's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The University is also responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. The University's response and corrective action plan were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response or the corrective action plan.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Somekh Chaikin
8 Hartum Street, Har Hotzvim
PO Box 212
Jerusalem 9100102, Israel
+972 2 5312000

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of The Hebrew University of Jerusalem as of and for the year ended September 30, 2019, and have issued our report thereon dated March 15, 2020, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in Israel. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Somekh Chaikin
Somekh Chaikin
Certified Public Accountants (Isr.)
Member Firm of KPMG International

March 25, 2021

The Hebrew University of Jerusalem

Schedule of Expenditures of Federal Awards for the Year Ended September 30, 2019

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass - Through Entity Identifying Number	Total Federal Expenditures \$	Amount provided to subrecipients \$
National Institute of Health Programs				
NIH/Dana-Farber Cancer I/Preprocessing and Analysis Tools for High-Throughput Technologies	93.859	1260004	31,245	
NIH/Harvard School of Public Health/ Statistical Methods for Censored and Dependently Truncated Data	93.853	1R01NS094610-01A1	8,561	
NIH/ Further Extension of the SHARE-Israel Panel Study	93.866		93,396	
NIH/University of Idaho/Ocular vasculature & retinal neurogenesis	93.867	ABK598-SB-001	42,764	
NIH/Harvard School of Public Health/Air Pollution and Autism in Israel: A Population-Wide Study	93.113	112173-5095737	18,362	
NIH/University of Florida/ Non-invasive detection of cell death in Type 1 diabetes	93.847	UFDSP00011939	236,611	
NIH/ Drivers and consequences of beta cell DNA damage in type 1 diabetes	93.847	573037	121,089	
NIH/Beckman Research Institute	93.847	51504.2000556.669318	18,182	
NIH/Washington University/Integrated placenta imaging : Novel methods for probing function and metabolism	93.865	WU-16-165	93,754	
NIH/University of Indian/Multimode Observation of Virus Capsid Assembly	93.855	BL-4647307-HU	50,758	
NIH/Center for cell circuits	93.172	5000337-5500000890	72,065	
NIH/Large-scale, simultaneous intracellular recording and stimulation of neural activity	93.853		331,395	
NIH/Allen Institute/ A multimodal atlas of human brain cell type	93.242	2017-0561	103,579	
NIH/ Harvard School of Public Health/Sensorimotor - Processing, decision making, and internal states: towards a realistic multiscale circuit model	93.853	1U19NS104653-01	76,088	
NIH/Computational modeling of viral capsid and bacterial microcompartment assembly	93.859	403635	19,332	
NIH/ Rockefeller University/Motor Compositionality in the Control of Facial Movements	93.853	1R01NS110901-01	12,855	
NIH/ Massachusetts Institute/ Identification of adaptive response mechanisms in breast cancer by information theory and proteomics	93.396	S4837	12,669	
Total National Institute of Health Programs			1,342,705	0

The Hebrew University of Jerusalem

Schedule of Expenditures of Federal Awards for the Year Ended September 30, 2019

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass - Through Entity Identifying Number	Total Federal Expenditures \$	Amount provided to subrecipients \$
Defense Advanced Research Projects Agency				
DARPA/ Testing And Modeling of Brandeis Artifacts	12.000	2015-018	41,287	
DARPA/ Autonomous biosensor network : module design & concept validation	12.910		112,395	
DARPA / Autonomous biosensor network : module design & concept validation	12.910		388,898	
Total Defense Advanced Research Projects Agency			542,580	0
Department of Energy Programs				
DOE/University of Oklahoma/Microphysical and thermodynamic retrievals in deep convective clouds using polarimetric radar measurements and spectral cloud models	81.049	2016-42	35,031	
DOE/ ARM shortwave spectrometers to study the clear-cloud transition zone and mixing processes	81.049		55,521	
DOE/University of Oklahoma/High concentrations of Ice: Investigations using polarimetric radar observations combined with in situ measurements and cloud modeling	81.049	2019-25	25,946	
Total Department of Energy Programs			116,498	0
US Agency for International Development				
USAID - Irrigation with Treated Wastewater and the Interactions with Biosolids	19.700		31,270	
USAID - Irrigation of agricultural crops with reclaimed wastewater: effects on soil, plant environment, yield and quality	19.700		12,708	
USAID - Irrigation of agricultural crops with reclaimed wastewater: effects on soil, plant environment, yield and quality	19.700		5,731	
USAID - WheatME: Improve Wheat Production under Climate Changes in the Middle East Region	19.700		2,166	1,528
USAID - Alleviation of deleterious effects of extreme heat on tomato cultures by inoculation with virus: bio	19.700		2,491	
Total US Agency for International Development			54,366	1,528
U.S. Department of Defense				
U.S. NAVY/ Tufts University / Exogenous control of octopus skin coloration ex vivo	12.300	ON0001	75,165	52,460
U.S.AMRAA – Broad spectrum host oriented therapy for wound infection	12.420		227,970	

The Hebrew University of Jerusalem

Schedule of Expenditures of Federal Awards for the Year Ended September 30, 2019

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass - Through Entity Identifying Number	Total Federal Expenditures \$	Amount provided to subrecipients \$
U.S. ARMY - Critically of the Phosphate Carrier SLC25A3 for Mitochondrial Inorganic Phosphate Uptake to Sustain Striated Muscle Function	12.420	080-27000-X16001	69,650	
AFO SR – Advances in Metamaterial	12.800	2026194-1	60,126	
ONR-AFO SR - Realistic models of cortical pyramidal neurons based on accurate whole-cell synaptic mapping: Implications for biologically-inspired AI models	12.300	S4782	48,231	
Total Department of Defense			481,142	52,460
U.S. Department of Homeland Security				
United States Department of Homeland/ Awareness & Localization... of Explosive Related Threats	97.	505035-78051	17,275	17,275
United States Department of Homeland - What are the social, economic, psychological and environmental risk factors	97.000	8007RC	15,690	
Total United States Department of Homeland			32,965	17,275
U.S. Department of Commerce				
U.S. Department of Commerce – Analysis and interpretation of shoeprint evidence	11.619	E426-17-02	5,208	
Total US Department of Commerce			5,208	0
National Science Foundation				
National Science Foundation - Collaborative Research: Equipment for and Running of the PSI MUSE Experiment	47.409	0015	45,369	
Total National Science Foundation			45,369	0
Total Expenditures of Federal Awards			2,620,833	71,263

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of The Hebrew University of Jerusalem (the University) under programs of the federal government for the year ended September 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the University.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Note 3. Indirect Cost Rate

The Hebrew University of Jerusalem has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

The Hebrew University of Jerusalem
Schedule of Findings and Questioned Costs
Year ended September 30, 2019

(1) Summary of Auditors' Results

- a. Type of report issued on whether the financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**
- b. Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:
 - Material weaknesses: **No**
 - Significant deficiencies: **None Reported**
- c. Noncompliance material to the financial statements: **No**
- d. Internal control deficiencies over major programs disclosed by the audit:
 - Material weaknesses: **No**
 - Significant deficiencies: **Yes**
- e. Type of report issued on compliance for major programs: **Unqualified**
- f. Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **Yes**
- g. Major programs:
 - Research and Development Cluster – various CFDA numbers
- h. Dollar threshold used to distinguish between Type A and Type B programs: **\$750,000**
- i. Auditee qualified as a low-risk auditee: **No, as a Single Audit was not performed in 2018.**

(2) Findings Relating to the Financial Statements Reported in Accordance with Government Auditing Standards

None

(3) Findings and Questioned Costs Relating to Federal Awards

2019-001 Effort Reporting

Various Award CFDA Numbers
Allowable Costs / Cost Principals

Criteria

2 CFR part 200, states that compensation for personal services covers all amounts paid currently or accrued by the institution for services of employees rendered during the period of performance under sponsored agreements. Such amounts include salaries, wages, and fringe benefits. These costs are allowable to the extent that the total compensation to individual employees conforms to the established policies of the institution, consistently applied, and provided that the charges for work performed directly on sponsored agreements and for other work allocable as F&A costs are determined and supported.

There is no single best method for documenting the distribution of charges for personal services. Methods for apportioning salaries and wages, however, must meet certain criteria specified, among which are:

- The method must recognize the principle of after-the-fact confirmation or determination so that costs distributed represent actual costs, unless a mutually satisfactory alternative agreement is reached.
- A payroll distribution system that allows confirmation of activity allocable to each sponsored agreement and each of the categories of activity needed to identify F&A costs and the functions to which they are allocable.

Condition / Cause

Expenses for personal services, salaries and wages are distributed based on the planned level of effort and not based on the actual time spent on the federal research project. In one of the sampled items, the actual time spent on the federal research was lower than the level effort initially planned.

Effect

Costs associated with personal services, salaries and wages might be distributed or charged inadequately across research programs.

Questioned Costs

Cannot be determined

Recommendation

The University should implement a control to ensure that allocation of costs is based on actual time and cost allocations instead of allocation based on planned level of effort.

Management's Views and Planned Corrective Action Plan

In the current situation, The University maintains time-sheets that are completed by the staff employed in each of the grants. However, the actual personnel expenses are charged to the grants according to the amounts reported in the Human Resources salary systems.

The University will take the necessary actions to make sure that the charges made against the federal awards will reflect the percentage of effort as declared in effort reports.

2019-002 Segregation of Duties

Various Award CFDA Numbers
Allowable Costs / Cost Principals

Criteria

2 CFR part 220 requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Among common internal control practices, adequate segregation of duties should be in place between performance, review, and recordkeeping of tasks, and adequate access controls should be in place to ensure that employees do not have access to process transactions that they are not authorized to.

Condition / Cause

Procurement employees, who have access to create suppliers in the financial system, also have the ability to input supplier invoices and approve them for payment.

Effect

A combined access to create suppliers and to approve payments, increases the risk of fraudulent and / or erroneous transactions with respect to payments issued against federal awards.

Recommendation

The University should take action in order to ensure segregation of duties between supplier setup, invoice processing and invoice approval.

Management's Views and Planned Corrective Action Plan

The University has replaced its computer system to an ERP system. The Financial department has taken the necessary actions to ensure the segregation of duties regarding supplier setup, invoice processing and invoice approval in the new system.

2019-003 Management Requirements of equipment

Various Award CFDA Numbers
Allowable Costs / Cost Principals

Criteria

2 CFR part 220 requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Among common internal control practices, a control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. 2 CFR part 220, Cost Principles for Educational Institutions, states that the institution's financial management system shall ensure that no one person has complete control over all aspects of a financial transaction.

Condition / Cause

- The University has no sufficient data of the location, use and condition of the equipment.
- A physical inventory of the property is not being taken and the results are not being reconciled with the property records at least once every 2 years.

Effect

Insufficient data of the location, use and condition of the equipment, may increase the risk of misplacement of equipment or theft, and increase the risk of the equipment to be damaged.

Recommendation

The University should take action in order to ensure a control system which will provide sufficient data of the location, use and condition of the equipment.

Management's Views and Planned Corrective Action Plan

The University is in the process of implementing a process and controls which will allow for identifying the equipment information and location and enable periodic physical inventory counts