



PANORAMA 015
ANNUAL FINANCIAL STATEMENTS



ÉCOLE POLYTECHNIQUE
FÉDÉRALE DE LAUSANNE

FOREWORD

Following the introduction of International Public Sector Accounting Standards (IPSAS) on 1 January 2015, EPFL's financial statements have been prepared under these standards for the first time in 2015.

The Swiss Federal Institute of Technology in Lausanne (EPFL) is an independent, public-sector university recognized around the world. It carries out joint R&D projects with Swiss and foreign companies and collaborates with top-tier universities from across the globe. Its funding comes from government agencies in Switzerland, other European countries, America, and Asia, as well as from numerous foundations.

The past ten years have seen major changes in the standards of governance that universities are expected to adhere to. These changes include the adoption of the IPSAS standards, which effectively convey the strength of EPFL's financial position.

Below is a summary of the highlights of the 2015 financial statements.

INCOME STATEMENT

The federal contribution provided by the Swiss government accounted for nearly two-thirds of EPFL's revenue in 2015, the same proportion as in 2014. This contribution is intended to cover all of EPFL's operating expenses and basic infrastructure investments. Research contributions and donations and bequests, which make up one-third of the school's revenue, are intended to fund R&D projects carried out by its scientists and engineers – especially its PhD and post-doc students. This revenue as a whole rose 3.8% in 2015 to CHF 981 million. Breaking it down, the federal contribution increased 3.8%, or CHF 23.9 million, and third-party funding rose 1.9%, or CHF 6.2 million.

Operating expenses grew 4.2%, slightly outpacing the 3.2% rise in operating revenue. The higher operating expenses reflect a larger increase in personnel expenses (which make up 64% of operating expenses) and an increase in depreciation and amortization due to the high level of investment spending in the past few years. The growth in other operating expenses was limited to 1.5%.

The net finance income of negative CHF 10.1 million can be attributed primarily to the expected loss at Société pour le Quartier Nord de l'EPFL (SQNE, the sole tenant of the buildings, including the SwissTech Convention Center), which is accounted for using the equity method (90% holding), and to a valuation allowance on EPFL's loan to SQNE. 2015 was only the second full year of operations at the SwissTech Convention Center; EPFL opened the center to host international science and engineering conferences and other events, and to promote knowledge sharing on its campus.

The result for the financial year was CHF 31.2 million, or 3.2% of operating revenue. This result is due primarily to a high level of donations (mainly from the sponsoring of research chairs and infrastructure) that are not recurring in nature, as well as an increase in the federal contribution. This result also reflects the new accounting standards adopted in 2015 that allow for a one- to two-year timing difference between the recognition of revenue (mainly donations and bequests) and the corresponding expenses.

BALANCE SHEET

Assets

- **Cash and cash equivalents.** The decrease in this line item is due to changes in the contractual terms of deposits with the Swiss Federal Finance Administration (FFA); CHF 232.2 million of these deposits were reclassified into current financial assets at end-2015.
- **Non-current receivables.** These consist of funding that has been promised but not yet received from government agencies and foundations. The amount of non-current receivables is equal to over one year's revenue excluding the federal contribution.
- **Co-financing.** The buildings that EPFL uses belong to the Swiss federal government and are therefore not recognized on EPFL's balance sheet. However, several buildings were co-financed through sponsoring programs. The value of co-financing recognized on the balance sheet is the amortized value of donations received and transferred to the Swiss federal government.

Liabilities and equity

- **Dedicated third-party funds.** This line item is the offsetting entry of non-current receivables, and consists of the funds remaining for R&D projects. However, the amount recorded here is greater than the amount of non-current receivables because of the timing difference between when an initial payment is received (prefinancing) and when those funds are used.
- **Net defined benefit liability.** This liability is calculated using the dynamic method set forth in IPSAS 25 and not the static method set forth in Swiss GAAP. The CHF 542 million recorded in this line item does not mean that EPFL's pension plans are underfunded, but that the current economic climate – and especially the low returns on investments – could require targeted measures in the medium or long term. The regulatory coverage ratio for ETH Domain pension plans with Publica was 100.5% at end-2015.
- **Equity.** The offsetting entry for the net defined benefit liability pushed equity into negative territory. While this is unusual, it will not affect EPFL's cash flow in the medium or long term. EPFL has enough dedicated reserves and free reserves – which together total CHF 310 million – to invest in new research projects. This amount may seem large, but it is in line with the amount of third-party funding needed for one year (i.e., the difference between the federal contribution and operating revenue, which is around CHF 333 million).

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Glossary

BCC	Building Cost Classification
BVV	Ordinance on Occupational Retirement, Survivors' and Disability Pension
CoC	Cost of Completion
CSEM	Centre suisse d'électronique et de microtechnique
CTI	Commission for Technology and Innovation
DBO	Defined Benefit Obligation
ECAL	École cantonale d'art de Lausanne
EPFL	Ecole polytechnique fédérale de Lausanne
FFA	Federal Finance Administration
FIT	Federal Institutes of Technology
FP7	Framework Programme 7
FPs	European Union Framework Programmes for Research
FTE	Full Time Equivalents
IPSAS	International Public Sector Accounting Standards
LH	Leading House
MED	Mecanical D Wing
PUC	Projected Unit Credit
SERI	The State Secretariat for Education, Research and Innovation
SNSF	The Swiss National Science Foundation
SQIE	Société pour le Quartier de l'Innovation de l'EPFL
SQNE	Société pour le Quartier Nord de l'EPFL
SUVA	Schweizerische UnfallversicherungsAnstalt
KCHF	Thousands of Swiss Francs

ANNUAL FINANCIAL STATEMENTS

Income statement

in thousand CHF	2014	2015	Deviation	Appendix
Federal financial contribution	555 864	579 647	23 783	
Federal contribution to accommodation	69 054	69 213	159	
Total federal contribution	624 918	648 860	23 942	5
Tuition fees and other utilisation fees	11 443	10 115	-1 328	5
Swiss National Science Foundation (SNSF)	80 214	86 790	6 576	
Commission for Technology and Innovation (CTI)	15 962	16 828	866	
Special federal funding of applied research	12 378	15 051	2 674	
EU Framework Programs for Research and Innovation (FP)	65 575	58 419	- 7 155	
Industry-oriented research	37 998	39 988	1 990	
Other project-oriented third-party funding	19 946	28 388	8 441	
Research contributions, mandates and scientific services	232 072	245 464	13 391	5
Donations and bequests	50 535	51 089	555	5
Other revenue	32 226	25 800	- 6 426	5
Operating revenue	951 194	981 328	30 134	
Personnel expenses	583 100	602 930	19 830	6
Other operating expenses	254 976	258 791	3 815	7
Depreciation and amortization	44 336	49 191	4 855	14, 17
Transfer expenses	20 200	29 173	8 973	8
Operating expenses	902 611	940 084	37 474	
Operating result	48 583	41 244	- 7 340	
Finance income	8 662	18 689	10 026	
Finance cost	17 274	28 746	11 472	
Net Finance income (+) / cost (-)	- 8 612	- 10 057	- 1 445	9
Surplus (+) or deficit (-)	39 972	31 187	- 8 785	

The 3.2% rise in operating revenue can be attributed mainly to an increase in the Federal financial contribution.

Operating expenses rose by 4.2%, nearly half of which stems from personnel expenses. Transfer expenses in 2015 included one-off contributions to partner organizations amounting to KCHF 15,000.

Balance sheet

in thousand CHF	31.12.2014	31.12.2015	Deviation	Appendix
Cash and cash equivalents	336 064	90 562	- 245 502	10
Current receivables	27 908	42 759	14 850	11
Current financial assets	32 678	262 951	230 272	15
Inventories	2 170	2 075	- 96	12
Prepaid expenses and accrued income	15 984	10 595	- 5 389	13
Total current assets	414 805	408 941	- 5 864	
Property, plant and equipment	181 417	186 381	4 964	14
Intangible assets	1 652	2 626	974	14
Non-current receivables	341 150	339 669	- 1 482	14
Investments held	2 172	1 444	- 728	16
Non-current financial assets	23 271	20 161	- 3 110	15
Co-financing	58 824	72 538	13 714	17
Total non-current assets	608 486	622 818	14 332	
Total assets	1 023 291	1 031 759	8 468	
Current liabilities	77 257	78 056	799	18
Current financial liabilities	145	503	357	19
Accrued expenses and deferred income	19 978	18 618	- 1 360	20
Short-term provisions	16 983	19 193	2 210	21
Short-term liabilities	114 363	116 370	2 007	
Dedicated third-party funds	385 614	371 963	- 13 650	23
Non-current financial liabilities	13 734	19 760	6 027	19
Net defined benefit liability	387 587	542 315	154 728	22
Long-term provisions	19 714	19 998	284	21
Long-term liabilities	806 648	954 037	147 389	
Total liabilities	921 011	1 070 406	149 395	
Valuation reserves	- 127 781	- 299 895	- 172 114	
Dedicated reserves	144 607	161 870	17 264	
Free reserves	144 036	147 870	3 834	
Co-financing	58 824	72 538	13 714	17
Accumulated surplus (+) / deficit (-)	- 117 406	- 121 030	- 3 624	
Condederation's share of net assets/equity	102 280	- 38 647	- 140 927	
Minority interests	-	-	-	
Total equity	102 280	- 38 647	- 140 927	
Total liabilities and equity	1 023 291	1 031 759	8 468	

On the assets side, the most significant changes are an increase in the term of EPFL's deposits with the FFA from "< 90 days" to "> 90 days," which accounts for the decrease in cash and cash equivalents and the increase in current financial assets, and a rise in co-financing, which refers to contributions from third parties to help fund the construction of buildings owned by the Swiss federal government and used by EPFL.

On the liabilities and equity side, the most significant change is a KCHF 154,728 increase in the net defined benefit liability (calculated according to IPSAS 25), which resulted in a slightly negative equity position at the end of the year. However these defined benefit liabilities are not financial liabilities because the method used to calculate them differs from that set forth in Swiss law.

Statement of changes in equity

in thousand CHF	Valuation reserves	Dedicated reserves	Free reserves	Co-financing	Accumulated surplus (+) / deficit (-)	Total equity
2014						
As of 01.01.2014	–	113 024	161 792	57 595	– 142 320	190 090
Surplus (+) or deficit (-)					39 972	39 972
Defined benefit liability (Items directly recognised in equity)	– 127 781					– 127 781
Reclassifications in equity		31 583	– 17 756	1 230	– 15 057	–
Total changes in equity	– 127 781	31 583	– 17 756	1 230	24 915	
As of 31.12.2014	– 127 781	144 607	144 036	58 824	– 117 406	102 280
2015						
01.01.2015	– 127 781	144 607	144 036	58 824	– 117 406	102 280
Surplus (+) or deficit (-)					31 187	31 187
Defined benefit liability (Items directly recognised in equity)	– 172 114					– 172 114
Reclassifications in equity		17 264	3 834	13 714	– 34 811	–
Total changes in equity	– 172 114	17 264	3 834	13 714	– 3 624	
As of 31.12.2015	– 299 895	161 870	147 870	72 538	– 121 030	– 38 647

Valuation reserves consist of defined benefit liabilities and are described in Note 22. The negative equity position at the start of the period is due to the recognition on 1 January 2014 of a KCHF 271,922 provision for defined benefit liabilities, calculated under IPSAS 25. Changes since then that affect equity have been recorded in valuation reserves. The total impact of these defined benefit liabilities is KCHF 542,315.

Dedicated reserves include remaining commitments under contracts with new professors (start-up funds) in the amount of KCHF 16,730 (vs KCHF 15,032 in 2014), and net contractual commitments with donors (mainly the role as LH) in the amount of KCHF 7,319 (vs KCHF 11,552 in 2014), for a total of KCHF 24,049 (vs KCHF 26,584 in 2014).

Cash flow statement

in thousand CHF	2014	2015	Deviation
Surplus (+) or deficit (-)	39 972	31 187	- 8 785
Depreciation and amortisation	44 336	49 191	4 855
Finance income / costs (non-cash)	8 222	7 528	- 694
Income from investments	1 333	4 732	3 399
Increase/decrease in net working capital	- 21 783	- 9 926	11 856
Increase/decrease in net defined benefit liabilities	- 12 116	- 17 386	- 5 270
Increase/decrease in provisions	- 2 176	2 494	4 671
Increase/decrease in non-current receivables	- 31 881	1 482	33 363
Increase/decrease in dedicated third-party funds	1 956	- 13 650	- 15 606
Reclassification and other (non-cash) income	5 994	856	- 5 138
Cash flows from operating activities	33 855	56 506	22 651
Furnishings, vehicles, other movable goods	- 744	- 230	514
Machinery, tools and operational equipment	- 29 652	- 28 069	1 583
IT hardware	- 5 103	- 3 180	1 923
Advance payments, mobile installations under construction	- 13 871	- 17 519	- 3 648
Buildings	- 2 322	- 1 093	1 229
Assets under construction	- 3 182	- 10 631	- 7 449
Tangible assets	- 54 874	- 60 723	- 5 848
Software	- 1 158	- 312	846
Intangible assets in realisation	-	- 1 032	- 1 032
Intangible assets	- 1 158	- 1 344	- 186
Increase in co-financing	- 2 810	- 16 190	- 13 380
Increase in loans	- 15 629	- 5 000	10 629
Increase in current and non-current financial assets	- 3 849	- 235 313	- 231 464
Financial assets	- 22 288	- 256 503	- 234 215
Total investments	- 78 320	- 318 570	- 240 249
Disposal of property, plant and equipment	-	9 091	9 091
Decrease in loans	-	750	750
Decrease in investments held	1 484	2 172	689
Decrease in current and non-current financial assets	6 018	4 549	- 1 469
Total divestments	6 018	16 562	10 543
Cash flows from investing activities	- 72 302	- 302 008	- 229 706
Other manual corrections with equity impact	- 4	-	4
Cash flows from financing activities	- 4	-	4
Total cash flow	- 38 451	- 245 502	- 207 050

in thousand CHF	2014	2015	Deviation
Cash and cash equivalents at 1 January	374 515	336 064	- 38 451
Total cash flow	- 38 451	- 245 502	- 207 050
Cash and cash equivalents at 31 December	336 064	90 562	- 245 502
Contained in the cash flow from operating activities are:			
Dividends received	3 505	1 892	- 1 613
Interest received	2 172	1 444	- 728
Interest paid	1 346	452	- 894
	- 13	- 4	10

The negative cash flow in 2015 primarily reflects a change in the contractual terms of EPFL's deposits with the FFA. Without this reclassification, cash flow for the year would have been a negative KCHF 13,346.

APPENDIX TO THE FINANCIAL STATEMENTS

1 | BUSINESS ACTIVITY OF EPFL

EPFL is one of the two Swiss Federal Institutes of Technology. With the status of a national school since 1969, the engineering school has grown in many ways, to the extent of becoming one of the most famous European institutions of science and technology. EPFL is Europe's most cosmopolitan technical university with students, professors and staff from over 120 nations. A dynamic environment, open to Switzerland and the world, EPFL is centred on its three missions: teaching, research and technology transfer. EPFL works together with an extensive network of partners including other universities and institutes of technology, developing and emerging countries, secondary schools and colleges, industry and economy, political circles and the general public, to bring about real impact for society.

Its main campus brings together some 14,000 people, including 10,000 students. 13 complete study programmes, from Bachelors to Masters, are offered in Engineering, Basic Sciences, Information Technology and Communication, Life Sciences, as well as in the field of Construction, Architecture and the Environment. They are accompanied by exchange programmes in the world's best institutions and industrial internships to better understand the realities of the corporate world.

With over 350 laboratories and research groups on campus, EPFL is one of Europe's most innovative and productive scientific institutions. Ranked top 3 in Europe and top 20 worldwide in many scientific rankings, EPFL has attracted the best researchers in their fields. The School's unique structure fosters trans-disciplinary research and promotes partnerships with other institutions. It continuously combines fundamental research and engineering.

The campus also offers services and facilities to transform scientific excellence into economic competitiveness, jobs and quality of life. A breeding ground for new companies, coaching services, study programmes in entrepreneurship and innovation programmes foster relations between the laboratories and the companies.

2 | BASIS OF ACCOUNTING

Legal basis

EPFL's accounting has the following legal basis (including directives and regulations):

- Federal Act on the Federal Institutes of Technology of 4 October 1991 (FIT Act; SR 414.110)
- Ordinance on the Domain of the Swiss Federal Institutes of Technology of 19 November 2003 (Ordinance on the ETH Domain; SR 414.110.3)
- Ordinance on the Finance and Accounting of the ETH Domain of 5 December 2014 (SR 414.123)
- Accounting Manual for the ETH Domain (Version 5.1)

Accounting standards

Since 1 January 2015, EPFL's annual financial statements have been prepared in alignment with the International Public Sector Accounting Standards (IPSASs). The underlying accounting provisions are set out in the Accounting Manual Directive for the ETH Domain (Art. 34 Directives, Ordinance on the Finance and Accounting of the ETH Domain, SR 414.123).

The balance sheet and income statement in the 2014 annual financial statements were restated in line with IPSASs so as to ensure that the current annual financial statements are comparable with those for the previous year.

Application of transitional provisions in new IPSASs

For the 2015 and 2016 accounting periods, there is a transition for the implementation of IPSASs in the following areas, leading to deviations from IPSASs.

Deviation 1

IPSAS 6-8 (Consolidated and Separate Financial Statements, Investments in Associates, Interests in Joint Ventures) are not applied to investments held of over 20 percent. Instead, these are accounted for using a similar treatment to the former accounting method (following the accounting manual for the ETH Domain).

Reason: Under IPSAS 6-8, the accounting must be assessed at institutions outside the core ETH Domain. This assessment is time-consuming and labour-intensive.

Deviation 2

Receivables from non-exchange transactions (IPSAS 23) are not fully divided into current and non-current positions based on the contractual provisions.

Reason: Numerous contracts had to be assessed for the restatement. To check the contractual terms of payment would require too much additional work. As the corresponding performance obligations are presented within non-current liabilities, the overall presentation of the balance sheet is not materially distorted.

Deviation 3

The provisions in the accounting manual for the ETH Domain governing provisions for holiday and overtime including long service awards already earned are not fully implemented.

Reason: The manual requires provisions for holiday and overtime payments to be calculated using the holiday and overtime balances actually recorded. These data are managed in a decentralised manner, and the changes to procedures and systems required to obtain the data are time-consuming.

Deviation 4

The provisions on financial instruments disclosures (IPSAS 30) are not fully implemented.

Reason: The implementation of IPSAS 30 requires extensive changes to processes and procedures. Implementing the requirements and retroactively obtaining the relevant data is time-consuming and labour-intensive.

Deviation 5

EPFL does not apply the provisions on finance leases (IPSAS 13). Instead the previous accounting method applies (according to the manual for accounting in the ETH Domain), and any commitments made are disclosed in the Notes.

Reason: No IPSAS accounting provisions were in force at the time of signing the contract. Furthermore, individual finance leases already come under the provisions following the transitional regulations in the area of simple partnerships / consolidation. This ensures an equal treatment.

Deviation 6

The provisions of IPSAS 23.76 ff. on transfers of goods and services in-kind are not applied.

Reason: The complex issue must be assessed in detail at all institutions and requires changes to procedures, among other things. This assessment and the changes to procedures are time-consuming and labour-intensive.

Standards issued but not yet applied

The following IPSASs were issued in the period before the annual financial statements were approved. They only become effective at a later date on and have not been applied, in these annual financial statements.

IPSAS 33	First-time Adoption of Accrual Basis IPSASs
IPSAS 34	Separate Financial Statements
IPSAS 35	Consolidated Financial Statements
IPSAS 36	Investments in Associates and Joint Ventures
IPSAS 37	Joint Arrangements
IPSAS 38	Disclosure of Interests in Other Entities

All the above standards become effective on 1 January 2017. Their effect on the annual financial statements will be systematically analysed and the standards will be implemented as of 1 January 2017.

3 | ACCOUNTING POLICIES

The accounting policies are derived from the basis of accounting. The financial statements present a true and fair view of the net assets and financial position as well as financial performance, presenting revenue and expenses in the period in which they occur (accrual accounting).

The financial statements are based on historical cost. Exceptions to this rule are described in the following presentation of the accounting principles.

The annual financial statements of EPFL are included in the consolidated financial statements of the ETH Domain.

Currency translation

The reporting is prepared in Swiss francs. All figures are shown in thousands of Swiss francs.

Foreign currency transactions are translated using the exchange rate at the transaction date, which is the date on which the transaction is initially recognised. At each reporting date, monetary items in foreign currencies are translated using the closing rate.

The resulting currency translation differences are recognised as other finance income or finance costs. Non-monetary items are translated using the exchange rate at the transaction date.

Revenue recognition

Each inflow of funds is assessed to determine whether it is an exchange transaction (IPSAS 9) or a non-exchange transaction (IPSAS 23).

In the case of an exchange transaction (IPSAS 9), the revenue is generally recognised when the goods are delivered or the services rendered. For project agreements, the service obligation not yet performed is allocated to liabilities. In the case of a non-exchange transaction (IPSAS 23), where there is neither an exchange nor a performance or repayment obligation, revenue is recognised in surplus or deficit in the reporting period, increasing it accordingly.

Revenue is structured as follows.

Federal contribution

The contribution by the Federal Government to the ETH Domain comprises the financial contribution and the federal contribution to accommodation, which are granted to EPFL pro rata. Both types of revenue are classified as non-exchange transactions (IPSAS 23). Federal contributions are recognised in the year in which they are paid.

Tuition fees and other utilisation fees

Revenue from tuition fees and other utilisation fees is classified as an exchange transaction (IPSAS 9). As a rule, revenue is recognised when the goods are delivered or the services rendered. If services performed beyond the reporting date are material, they are accounted for on an accrual basis.

Research contributions, mandates and scientific services

Project-related contributions are given to EPFL by various donors with the aim of promoting teaching and research. Depending on the nature of the contributions, they are classified as either an exchange or a non-exchange transaction. How revenue is recognised depends on whether there is a performance or repayment obligation. Revenue from non-exchange transactions (IPSAS 23) is recognised when a receivable is legally binding, an inflow of resources is probable and there is no further performance obligation.

Donations and bequests

Revenue from donations and bequests is classified as a non-exchange transaction (IPSAS 23).

Other revenue

Among other items, other revenue includes other service revenue and real estate revenue. This revenue is classified as an exchange transaction (IPSAS 9). As a rule, revenue is recognised when the goods are delivered or the services rendered. If services are performed beyond the reporting date, they are accounted for on an accrual basis.

Cash and cash equivalents

Cash and cash equivalents comprise cash-in-hand, demand and term deposits with financial institutions and funds invested with the Federal Government with a term of up to 90 days. Liquid assets in the national currency (CHF) are valued at the nominal value.

Recognition of receivables

Current receivables from exchange (for goods and services) and non-exchange transactions are reported in one item in the balance sheet. Non-current receivables relate exclusively to non-exchange transactions (IPSAS 23).

In the case of receivables from non-exchange transactions (IPSAS 23), such as from SNSF and EU projects and from other donors, it is probable that there will be an inflow of funds in relation to the total contractual project volume. Therefore, the total amount of the project is usually recognised as a receivable at inception of the agreement if the actual amount can be measured reliably. If the recognition criteria cannot be met, information is disclosed under contingent assets.

Current receivables from exchange transactions are stated at cost less a valuation allowance for expected defaults when the revenue is realised.

Global valuation allowances are usually recognised on receivables based on their age structure. In rare cases, specific valuation allowances are recognised instead if there are concrete indications that a default will occur.

Inventories

Inventories are measured at the lower of cost and net realisable value. The procurement or manufacturing costs are derived by using the weighted average method. For inventories that are difficult to sell, appropriate value adjustments are to be made.

Property, plant and equipment

Tangible assets are entered in the balance sheet at their procurement or manufacturing costs minus the accumulated depreciation. Depreciation is applied linearly, according to the estimated period of useful life.

The estimated periods of useful life are:

Asset category	Usefull life
Immovable assets	
Property	unrestricted
Leasehold improvements < 1 million CHF	10 years
Leasehold improvements > 1 million CHF	according to components ¹
Immeubles et constructions	according to components ²
Movable assets	
Machinery, equipment, tools, devices	5 years
Passenger vehicles, delivery vehicles, trucks, aircraft, ships etc.	5 years
Furnishings	5 years
IT and communication	3 years

¹ In the case of items of property, plant and equipment with a value of CHF 1 million or above, it is checked whether components (with a value that is significant in relation to the total value) need to be recognised and depreciated separately because they have a different useful life (components approach).

² Useful life depends on the type of building, its purpose and the fabric of the building (20–100 years). Assets under construction are not yet depreciated.

Capitalised leasehold improvements in leased premises are depreciated over the estimated useful life or over the term of the lease if shorter.

In the event of additions to property, plant and equipment, it is checked whether components with a value that is significant in relation to the total value need to be recognised and depreciated separately because they have a different useful life (components approach).

Investments which increase the economic benefits of an item of property, plant and equipment or extend its useful life are recognised in the carrying amount and depreciated over the estimated useful life. Pure repair and maintenance costs are recognised as an expense. Borrowing costs for assets under construction are capitalised.

The residual value of property, plant and equipment that is put out of service or sold is derecognised at the time of the asset's physical disposal. The gains or losses resulting from the derecognition of an item of property, plant and equipment are recognised as operating revenue or operating expenses.

Movable cultural items and works of art (e.g. teaching collections, art or historical collections, libraries) are not recognised as assets. An inventory of these items is kept, however.

Intangible assets

Intangible assets are recognised at cost. Standard software is amortised over three years using the straight-line method. Other intangible assets with an amortisation period required to be determined individually are amortised over their estimated useful life using the straight-line method.

Impairments (property, plant and equipment and intangible assets)

Property, plant and equipment and intangible fixed assets are reviewed annually for indications of impairment. If specific indications are identified, an impairment test is performed. If the carrying amount permanently exceeds the value in use or net realisable value, an impairment is recognised in surplus or deficit to the amount of the difference.

Leases

Leases of property where EPFL substantially assumes all the risks and rewards incidental to ownership are treated as finance leases. At inception of the lease, the asset and liability under a finance lease are recognised at the fair value of the leased property or, if lower, the present value of the minimum lease payments. Each lease payment is apportioned between the reduction of the outstanding liability and the finance charge. The reduction is deducted from the recognised lease liability.

Other leases where EPFL is the lessee are recognised as operating leases. They are not carried in the balance sheet, but instead recognised as an expense in the income statement.

Financial assets

Financial assets are recognised at fair value if they are acquired with the intention of generating a profit from short-term fluctuations in price or if they are designated as financial

assets at fair value (e.g. investments held without significant influence). Changes in value are recognised in surplus or deficit.

Financial assets with a fixed maturity which the entity has the intention and ability to hold to maturity are stated at amortised cost using the effective interest method. The effective interest method allocates the difference between the acquisition and the repayment value (premium/discount) over the term of the asset using the net present value method.

Other financial assets that are held for an undefined period and may be sold at any time for liquidity reasons or in response to changes in market conditions are classified as available-for-sale and stated at fair value. Unrealised gains and losses are recognised in equity and only transferred to surplus or deficit when the financial asset is sold or an impairment occurs.

Loans are stated either at amortised cost (loans of less than CHF 10 million) or at amortised cost using the effective interest method (loans of over CHF 10 million).

Derivative financial instruments are used primarily for hedging or as a strategic position. Without exception, they are measured at fair value. Changes in value are usually recognised in surplus or deficit. One exception are derivative financial instruments designated as cash flow hedges, for which changes in value are recognised in equity.

Investments held

Under the transitional provisions, investments held are measured and disclosed in a similar way to the former accounting method. As a rule, they are measured at cost less any valuation allowance.

Co-financing

Co-financing is third-party funding acquired by EPFL that is used for construction projects in property owned by the Federal Government. Co-financing is measured based on the measurement of the underlying property, which the Federal Government recognises at cost less accumulated depreciation. A property's ongoing depreciation therefore reduces the value of the co-financing to the same degree. Co-financing is reported at the same amounts on both the assets and the equity and liabilities side (equity) of the balance sheet.

Current liabilities

Current liabilities are usually recognised on receipt of the invoice. This item also includes current accounts with third parties (including social insurance institutions). Current liabilities are measured at their nominal amount.

Financial liabilities

Financial liabilities are monetary liabilities resulting from financing activities. They are usually interest-bearing. Liabilities that are due for repayment within 12 months of the reporting date are current. They are measured at amortised cost.

Provisions

Provisions are recognised when a past event gives rise to a present obligation, an outflow of resources is probable and the amount can be estimated reliably.

Net defined benefit liability

EPFL's net defined benefit liability comprises the obligations relating to EPFL from employee benefit plans within the employee benefit scheme the ETH Domain maintains at the PUBLICA collective foundation, which provide retirement, death and disability benefits. The net defined benefit liability corresponds to the defined benefit obligations calculated in accordance with the methods specified in IPSAS 25 less the fair value of the pension fund assets (if necessary, adjusted for a surplus in accordance with paragraph 69b or past service cost).

The defined benefit obligation (DBO) is calculated by external actuarial experts using the projected unit credit (PUC) method. The DBO corresponds to the present value of the benefits earned up to the valuation date, and service cost to the benefits under the applicable terms that will be earned in the following year.

The calculation is made based on information about the beneficiaries (salary, vested benefits, etc.) and using actuarial assumptions, which include both demographic assumptions (retirement rates, disability rates, mortality rates, etc.) and financial assumptions (salary trends, pension trends, returns, etc.). The amounts calculated are discounted to the valuation date by applying the discount rate.

Under the PUC method, benefit entitlements are added evenly over the number of years of service to be rendered, rather than reflecting the actual distribution of retirement credits under the ETH Domain's employee benefit scheme, where they are graduated and increase with age. The defined benefit obligation was measured based on the current membership base of the ETH Domain's employee benefit scheme as of 31 October 2015, using actuarial assumptions as of 31 December 2015 (e.g. BVG 2010 actuarial tables) and the plan provisions of the ETH Domain's employee benefit scheme. The results were then adjusted using current cash flows as of 31 December 2015.

The effects of plan amendments (past service cost) are recognised immediately in surplus or deficit in the period in which they occur provided they result in vested benefits. Any additional effects are recognised in equity by attributing them evenly over the expected average remaining working life until employees are entitled to the benefits. Actuarial and investment gains and losses on defined benefit plans are recognised directly in equity in the reporting period in which they occur.

Material other long-term employee benefits (e.g. reversional long service awards) are also measured using the PUC method.

Dedicated third-party funds

Liabilities arising from dedicated projects where revenue is classified as a non-exchange transaction (IPSAS 23) are presented in the balance sheet as dedicated third-party funds within non-current liabilities; non-current because the projects usually last for several years and the current portion of the liability cannot be determined. They are measured based on the outstanding performance obligations at the reporting date, which are calculated from the total contractual project volume less services performed up to the reporting date.

Equity

Net assets/equity is the residual interest in the assets of an entity after deducting all its liabilities.

Equity is structured as follows:

- Valuation reserves
- Dedicated reserves
 - donation and bequests
 - teaching and research reserves
 - infrastructure and administration reserves
- Free reserves
- Co-financing

Valuation reserves

The following are recognised in the valuation reserves without affecting surplus or deficit:

- Revaluation reserves for available-for-sale financial assets. Fair value changes are recognised in equity until the financial assets are sold.
- Valuation reserves from defined benefit obligations: Actuarial and investment gains and losses on defined benefit obligations or plan assets are recognised in equity.
- Valuation reserves from hedging transactions: If hedge accounting is used, positive and negative replacement values from hedging transactions are recognised in equity and released to surplus or deficit when the hedged transaction affects surplus or deficit.

Dedicated reserves

Dedicated reserves in equity include the following items.

- **Donations and bequests:** This item includes unused funds remaining from donations and bequests that do not qualify as liabilities, but nevertheless have certain conditions attached. Freely available funds (without conditions) from donations and bequests are presented under free reserves.
- **Teaching and research reserves:** This item indicates that various internal commitments exist and appropriate reserves have had to be recognised to cover them. These mostly comprise "election commitments", i.e. funds granted to newly elected professors under contractual arrangements so that they can set up their professorship.
- **Infrastructure and administration reserves:** These include reserves for fluctuations in the value of the securities portfolio, i.e. risk capital. The reserves for building projects relate to Federal Government funds which were granted and paid out for real estate projects, and which have not yet been used due to delays. Corresponding funds must be available from the federal financial contribution.

The revenue for dedicated reserves, except for electoral commitments, must have been obtained in advance, that means the funds must either have already been paid in, or entered in the balance sheet as a receivable, and be available for the intended purpose. Reserves to cover commitments to elect / appoint new professors are to be set up if a corresponding assurance has been issued in writing and an employment contract is then concluded. It is mandatory to set up these reserves, even if the full reserves have not yet been generated.

Free reserves

The free reserves include:

- Free reserves of the Executive Board: There are no external or internal conditions which would restrict the freedom to decide on their use.
- Free research reserves of the departments/professors: These primarily result from balances remaining on completed third-party funded projects.
- Free reserves from the federal financial contribution. These show the funds that have not yet been used, as at the reference date. They are not subject to any specific conditions.

Co-financing

Co-financing is third-party funding acquired by EPFL that is used for construction projects in property owned by the Federal Government. These funds transferred to the Federal Government are presented as co-financing within non-current assets and the third-party funds recognised as revenue in surplus or deficit are presented as dedicated equity under the heading Co-financing.

Accumulated surplus/deficit

The accumulated surplus or deficit shows the cumulative results at the reporting date. It comprises the surplus/deficit carried forward, the surplus/deficit for the period and re-classifications in equity.

Contingent liabilities and contingent assets

A contingent liability is either:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of an uncertain future event not wholly within the control of the entity, or,
- it is a present obligation that arises from past events, but is not recognised because of its low probability of occurrence (between 10 and 50 percent/less than 50 percent) or because the obligation cannot be measured reliably (criteria for the recognition of a provision are not met).

Financial commitments

Financial commitments are presented in the notes if they are based on events prior to the reporting date, they will definitely lead to obligations to third parties after the reporting date and their amount can be measured reliably.

Estimation uncertainty in the application of accounting policies

Preparation of the annual financial statements requires the use of estimates and assumptions. Estimates and assumptions are based on past experience and other factors that are reasonable and justified, such as expectations regarding the occurrence of future events. Additionally, when applying the accounting policies, decisions have to be made that may have a significant effect on the amounts reported in the annual financial statements. Although these estimates are based on management's best knowledge, actual results may differ from those estimates.

This applies to the following items in particular:

Impairment of receivables

Bad debt value adjustments are made by management based on an ageing evaluation of receivables as well as on risk default assessments.

Useful life and impairment of property, plant and equipment

The useful life of property, plant and equipment is defined and periodically reviewed bearing in mind the current technical environment and past experience. A change in the estimate may affect the future amount of the depreciation charges and the carrying amount.

Estimates that could lead to a reduction in the carrying amount (impairment) are likewise made in the course of the regular impairment test.

Provisions

These involve a higher degree of estimation than other balance sheet items and therefore may lead to a higher or lower cash outflow depending on the actual outcome of a past event.

Net defined benefit liability:

The net defined benefit liability is calculated based on long-term actuarial assumptions for the defined benefit liability and for the expected return on plan assets. Those assumptions may differ from actual future developments. The determination of the discount rate and future salary trends is a key part of the actuarial valuation.

Recognition of donations and bequests

EPFL regularly receives donations and bequests in the form of assets. Under IPSASs, these must be recognised initially at fair value. The determination of that fair value requires management to make estimates.

Total Federal contribution

The basic funding granted by the Swiss federal government, also called the federal contribution, accounts for two-thirds of EPFL's total revenue. This funding is intended primarily to cover the costs of teaching, research and overhead. It also covers the rent charged to EPFL by the Swiss federal government for the use of government-owned land and buildings.

The total federal contribution rose by 3.8%, or KCHF 23,942, in 2015, whereas the federal contribution to accommodation was essentially unchanged.

Research contributions, mandates and scientific services

in thousand CHF	2014	2015	of which revenues IPSAS 23	of which revenues IPSAS 9	Deviation
Swiss National Science Foundation (SNSF)	80 214	86 790	86 790	–	6 576
Commission for Technology and Innovation (CTI)	15 962	16 828	16 828	–	866
Special federal funding of applied research	12 378	15 051	14 099	952	2 674
EU Framework Programmes for Research and Innovation (FP)	65 575	58 419	58 419	–	– 7 155
Industry oriented research	37 998	39 988	15 665	24 323	1 990
Other project-oriented third-party funding	19 946	28 388	27 263	1 125	8 441
Total research contributions, mandates and scientific services	232 072	245 464	219 064	26 400	13 391

Research contributions, mandates and scientific services include all funding granted by national and international institutions, as well as third-party funding from Swiss cantons and municipalities, international organisations, Swiss federal agencies and private-sector entities. Third-party funding is mainly aimed at two- to five-year projects, and is recognised as revenue on a percentage-of-completion basis during the accounting period in which the funding is used.

Research contributions, mandates and scientific services rose 5.8% in 2015 to KCHF 245,464. The decline in revenue from European Union Framework Programmes for Research (FPs), which includes KCHF 2,991 of direct financing from the Swiss State Secretariat for Education, Research and Innovation (SERI) for the H2020 programme, was largely offset by a KCHF 6,576 increase in funding from SNSF and a KCHF 2,674 increase in SERI. The sharp rise in third-party funding is mainly related to the new EPFL campus in Sion and the funding it gets from the canton of Valais.

Tuition fees and other utilisation fees

Tuition fees and other utilisation fees consist mainly of tuition from Bachelor, Master and PhD programmes, as well as income from continuing education classes.

This revenue decreased by KCHF 1,328 to KCHF 10,115, primarily as a result of a KCHF 926 decline in continuing-education income due to a change in the accounting method. In 2015, EPFL adopted a strict accrual accounting method for continuing-education income (in accordance with the accounting principles used), which now also includes fees from continuing education classes charged by Formation Continue UNIL-EPFL.

Tuition from Bachelor and Master programmes grew by KCHF 200 to KCHF 8,730.

Donations and bequests

in thousand CHF	2014	2015	Deviation
Total donations and bequests	50 535	51 089	555

This line item consists of donations and bequests made to EPFL. These funds allow EPFL to implement strategic initiatives more quickly (such as creating new chairs) and acquire the necessary equipment to spur both research and teaching.

Other revenues

in thousand CHF	2014	2015	Deviation
Revenue from licences and patents	8 284	5 170	- 3 114
Sales	5 380	5 945	564
Refunds	3 687	2 976	- 712
Other services	12 388	9 293	- 3 095
Real estate revenue	2 486	2 417	- 69
Total other revenue	32 226	25 800	- 6 426

Other revenues fell in 2015, mainly as a result of an exceptional sale of intellectual property in 2014 in the amount of KCHF 3,135. The decrease in other services revenue largely reflects a decline in the personnel costs that are rebilled to entities outside EPFL.

6 | PERSONNEL EXPENSES

in thousand CHF	2014	2015	Deviation
Professors	73 303	75 301	1 998
Scientific personnel	258 333	263 198	4 865
Technical and administrative personnel, apprentices, trainees	156 423	166 494	10 071
EO, SUVA and other refunds	- 2 077	- 2 084	- 7
Total salaries and wages	485 983	502 909	16 926
Social insurance	30 194	31 272	1 079
Pension costs	41 963	39 347	- 2 616
Accident and sickness insurance SUVA (BU/NBU)	1 559	1 622	63
Family Compensation Fund	9 847	11 498	1 651
Total social insurance schemes and pensions expenses	83 562	83 739	177
Other employer contributions	1 879	1 916	36
Temporary personnel	5 014	5 416	402
Change in provisions for holiday and over time payments	- 1 404	1 732	3 137
Change in provisions for contributions - long service awards	1 514	1 285	- 229
Other personnel expenses	6 551	5 932	- 619
Total personnel expenses	583 100	602 930	19 830
Funded by contribution of the Confederation	399 423	413 007	13 583
Funded by third party	183 676	189 923	6 246
Total personnel expenses	583 100	602 930	19 830

Personnel expenses rose 3.4% in 2015, primarily due to the ETH Board's decision to raise salaries by an average of 0.6%, and to a 2.8% increase in FTEs. The following table shows the breakdown of EPFL staff.

in full time equivalent	2014	2015	Deviation
Professors	309	312	3
Scientific personnel	3 300	3 356	56
Technical and administrative personnel, apprentices, trainees	1 591	1 675	84
Total Full Time Equivalent	5 200	5 343	143

The reduction in pension costs is due to a correction (a reduction in the pension expense) made under IPSAS 25. The correction was KCHF 16,101 in 2015 vs KCHF 10,602 in 2014, or an increase of KCHF 5,499.

7 | OTHER OPERATING EXPENSES

in thousand CHF	2014	2015	Deviation
Expenses for goods and materials	37 191	37 551	360
Premises costs	106 550	99 250	- 7 299
Other operating cost	111 235	121 990	10 755
Other operating expenses	254 976	258 791	3 815

Expenses for goods and materials include KCHF 28,531 of supplies and KCHF 9,020 of capital goods not recognised as assets (value of less than CHF 10,000).

Premises costs include rent for buildings owned by the Swiss federal government (this rent is the same amount as the federal contribution to accommodation, see Note 5) and by third parties. These costs also include maintenance, repair, cleaning and surveillance costs. The decrease in premises costs in 2015 is related to a rise in other transfer expenses (see Note 8). These changes are due to the fact that in 2015, Campus Biotech Geneva Foundation took over payment of the rent for the Campus Biotech buildings in Geneva; this rent was previously paid jointly by EPFL and the University of Geneva.

Other operating costs consist of IT, telecom, electricity, water and waste management costs, as well as library-related expenses, professional fees and travel expenses.

8 | TRANSFERT EXPENSES

in thousand CHF	2014	2015	Deviation
Scholarships and grants to students and doctoral students	7 136	7 211	75
Other transfer expenses	13 064	21 962	8 898
Transfer expenses	20 200	29 173	8 973

The increase in transfer expenses in 2015 can be attributed to one-off contributions of KCHF 5,000 to Campus Biotech Geneva Foundation and KCHF 10,000 to Institute of Translational Molecular Imaging Foundation to help cover start-up costs. The regular contribution to Campus Biotech Geneva Foundation was increased to help pay its operating costs, including rent for the premises at Chemin des Mines 9, Geneva.

9 | NET FINANCE INCOME / (COSTS)

in thousand CHF	2014	2015	Deviation
Interest income	1 346	452	- 894
Income from investments	2 172	1 444	- 728
Changes in fair value adjustments of financial assets	1 196	1 166	- 30
Other finance income incl. currency translation differences	3 948	15 627	11 678
Finance income	8 662	18 689	10 026
Interest expense	13	4	- 10
Changes in fair value and value adjustment of financial assets	12 725	15 071	2 346
Other finance costs incl. currency translation differences	4 536	13 671	9 135
Finance cost	17 274	28 746	11 472
Total net finance income (+) / cost (-)	- 8 612	- 10 057	- 1 445

Net finance income fell in 2015 as a result of trends in the capital and money markets – most notably due to lower interest rates.

Other finance income and costs include currency translation differences on non-current receivables and liabilities in foreign currencies (mainly related to EU research programmes), which largely offset each other.

Income from investments relates to EPFL's share (95%) of SQIE's net profit for 2015. The KCHF 15,071 financial cost recognised under changes in fair value adjustments of financial assets includes EPFL's share (90%) of SQNE's net profit for 2015 and a fair value adjustment on a non-current receivable from SQNE (see Note 15).

10 | CASH AND CASH EQUIVALENTS

in thousand CHF	31.12.14	31.12.15	Deviation
Cash	69	73	4
Swiss Post	19 609	46 806	27 197
Bank	8 289	12 994	4 705
Short-term deposits (<90 days)	308 097	30 689	- 277 408
Total Cash and cash equivalents	336 064	90 562	- 245 502

A large part of EPFL's cash and cash equivalents is invested in short-term deposits (<90 days) with the FFA. These are funds that are not required immediately for projects and are invested according to the ETH Board's investment guidelines and cash management policy. At end-2015, short-term deposits amounted to KCHF 30,689, and another KCHF 232,156 were recorded under current financial assets (see Note 15), for a total of KCHF 262,845.

11 | RECEIVABLES

in thousand CHF	31.12.14	31.12.15	Deviation
Receivables from exchange transactions	24 424	17 621	- 6 803
Receivables from non-exchange transactions	4 221	21 667	17 445
Other receivables	1 139	4 956	3 817
Value adjustments	- 1 876	- 1 484	392
Total current receivables	27 908	42 759	14 850
Receivables from non-exchange transactions	341 150	339 669	- 1 482
Total non-current receivables	341 150	339 669	- 1 482

The decrease in receivables from exchange transactions reflects the fact that there were a large amount of receivables due from foreign debtors at 31 December 2014.

Current receivables from non-exchange transactions include a KCHF 13,523 receivable from the canton of Valais related to financing for the EPFL campus in Sion, as well as a KCHF 2,500 receivable from a donor.

Non-current receivables include the net remaining funding for contractually-agreed projects, and are mainly related to contributions and non-exchange contracts. Contractually-agreed donations are also treated as non-current receivables until the funds have been received. Offsetting entries for non-current receivables are discussed under dedicated third-party funds (Note 23) and revenues (Note 5).

12 | INVENTORIES

in thousand CHF	31.12.14	31.12.15	Deviation
Inventories purchased	2 091	2 002	- 88
Inventories self-produced	80	72	- 8
Total inventories	2 170	2 075	- 96

Inventories of purchased goods are measured at cost. Inventories of self-produced goods are measured at production cost.

13 | PREPAID EXPENSES AND ACCRUED INCOME

in thousand CHF	31.12.14	31.12.15	Deviation
Interest	100	73	- 27
Other prepaid expenses and accrued income	15 884	10 522	- 5 362
Total prepaid expenses and accrued income	15 984	10 595	- 5 389

The decrease in prepaid expenses and accrued income reflects the reclassification of the KCHF 3,704 invoice for SUVA 2016 to other receivables.

14 | PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

in thousand CHF	Total property, plant and equipment and intangible assets	Furnishings, vehicles	Machinery, equipments	IT hardware	Advance pay- ments and mov- able assets under construction	Total movable assets
Valeur d'acquisition						
Etat au 01.01.2014	492 323	27 913	302 605	111 903	12 386	454 807
Entrées	63 955	2 702	33 422	5 513	13 871	55 507
Reclassements	–	–	–	–	–9 641	–9 641
Sorties	–39 615	–370	–20 173	–6 612	–7 700	–34 855
Etat au 31.12.2014	516 663	30 245	315 854	110 803	8 915	465 818
Réévaluations cumulées						
Etat au 01.01.2014	–316 231	–17 545	–187 381	–90 216	–3 522	–298 665
Amortissements	–42 755	–1 984	–27 388	–10 154	–	–39 525
Dépréciations	–	–	–	–	–	–
Reclassements	–0	–	–0	–	3 522	3 522
Sorties	25 391	362	14 261	6 032	–	20 655
Etat au 31.12.2014	–333 595	–19 167	–200 508	–94 338	–	–314 013
Valeur au bilan au 31.12.2014	183 069	11 079	115 346	16 466	8 915	151 806
Valeur d'acquisition						
Etat au 01.01.2015	516 663	30 245	315 854	110 803	8 915	465 818
Entrées	62 171	230	28 069	3 180	17 570	49 049
Reclassements	–	–	1 625	399	–2 024	–
Sorties	–9 623	–	–313	–	–67	–380
Etat au 31.12.2015	569 211	30 476	345 235	114 382	24 395	514 488
Réévaluations cumulées						
Etat au 01.01.2015	–333 595	–19 167	–200 508	–94 338	–	–314 013
Amortissements	–45 325	–2 049	–29 811	–9 796	–	–41 656
Dépréciations	–1 390	–99	–1 224	–66	–	–1 390
Reclassements	–	–	–	–	–	–
Sorties	105	–	105	–	–	105
Etat au 31.12.2015	–380 204	–21 316	–231 438	–104 200	–	–356 953
Valeur au bilan au 31.12.2015	189 007	9 160	113 797	10 182	24 395	157 534

Fixed assets are divided into three categories:

- **Movable assets**, which consist mainly of equipment and, to a lesser extent, vehicles, furnishings and IT hardware.
- **Immovable assets**, which consist mainly of fixtures and fittings installed by tenants (BCC 3) in buildings owned by the Swiss federal government.
- **Intangible assets**, which consist of software and programs under development.

	Buildings	Properties	Assets under construction	Total Immovable assets	Software	Intangible assets in realisation	Total intangible assets
	180	27	32 947	33 154	4 363	–	4 363
	–	–	6 873	6 873	1 173	402	1 575
	–	–	9 641	9 641	–	–	–
	–	–	–4 581	–4 581	–178	–	–178
	180	27	44 879	45 086	5 357	402	5 759
	–	–	–13 668	–13 668	–3 898	–	–3 898
	–	–	–2 866	–2 866	–364	–	–364
	–	–	–	–	–	–	–
	–	–	–3 522	–3 522	–	–	–
	–	–	4 581	4 581	155	–	155
	–	–	–15 475	–15 475	–4 107	–	–4 107
	180	27	29 404	29 611	1 250	402	1 652
	180	27	44 879	45 086	5 357	402	5 759
	–	–	11 725	11 725	312	1 085	1 397
	–	–	–	–	–	–	–
	–	–	–9 243	–9 243	–	–	–
	180	27	47 361	47 568	5 669	1 486	7 155
	–	–	–15 475	–15 475	–4 107	–	–4 107
	–	–	–3 246	–3 246	–423	–	–423
	–	–	–	–	–	–	–
	–	–	–	–	–	–	–
	–	–	–	–	–	–	–
	–	–	–18 721	–18 721	–4 530	–	–4 530
	180	27	28 640	28 847	1 139	1 486	2 626

Almost all the buildings that EPFL uses are owned by the Swiss federal government, and are therefore recognised as assets in the Swiss government's balance sheet rather than EPFL's.

The KCHF 62,171 reflect major investments in new equipment and the fitting out of a new building.

None of EPFL's property, plant, equipment and intangible assets has been pledged as collateral or is subject to a reservation of ownership clause or any sort of restriction.

15 | FINANCIAL ASSETS

in thousand CHF	31.12.14	31.12.15	Deviation
Securities, discounted papers and fixed deposits	32 678	30 795	- 1 883
Other financial assets	-	232 156	232 156
Total current financial assets	32 678	262 951	230 272
Long term loans	17 646	14 533	- 3 113
Other financial assets	5 625	5 628	3
Total non-current financial assets	23 271	20 161	- 3 110

Current financial assets include third-party funding that is available in the short term. These funds are invested in the money market or deposited with the FFA, in accordance with the cash management agreement between the FFA and the ETH Board and the ETH Board's investment guidelines.

Other current financial assets consist of deposits with the FFA with terms of over 90 days, in the amount of KCHF 232,156. In 2014, that same amount was held in FFA deposits with terms of less than 90 days (see Note 10).

Non-current financial assets consist of the KCHF 14,533 long-term loan granted to SQNE, a simple partnership that is majority controlled by EPFL. A KCHF 6,331 valuation allowance was recognised on this loan at 31 December 2015.

Other non-current financial assets consist of EPFL's KCHF 5,600 investment in CSEM SA, based in Neuchâtel.

16 | INVESTMENTS HELD

in thousand CHF	31.12.14	Purchase value	Adjustment value	31.12.15	Interest (in %)
SQIE, Société pour le Quartier de l'Innovation (Based in Ecublens)	2 172	2 172	- 728	1 444	95%
Total participations	2 172	2 172	- 728	1 444	

EPFL has had a 95% interest in SQIE, a simple partnership, since 2010. The value of this interest is measured using the equity method. The adjustment value recognised in 2015 results from the payment of EPFL's share of SQIE's net profit for 2014 (in proportion to EPFL's interest in SQIE) and the application of the equity method for SQIE's net profit for 2015.

EPFL's interest in SQNE is discussed under financial liabilities (Note 19).

17 | CO-FINANCING

in thousand CHF	31.12.14	31.12.15	Deviation
Purchase value			
As of 01.01.	68 883	71 693	2 810
Additions	2 810	16 190	13 380
As of 31.12.	71 693	87 883	16 190
Accumulated depreciation			
As of 01.01.	11 289	12 869	1 580
Depreciation and amortisation	1 580	2 476	896
As of 31.12.	12 869	15 345	2 476
Balance sheet value as of 31.12.	58 824	72 538	13 714

The increase in co-financing in 2015 reflects third-party funding received for two construction projects at EPFL: KCHF 9,190 for the UnderOneRoof building and KCHF 7,000 for MED.

18 | CURRENT LIABILITIES

in thousand CHF	31.12.14	31.12.15	Deviation
Trade payables	38 974	47 204	8 230
Liabilities to social insurance institutions	1 109	547	- 562
Other current liabilities	37 299	30 305	- 6 994
Total current liabilities	77 382	78 056	674

The increase in trade payables in 2015 can be attributed in part to a KCHF 18,000 payment to be made to a partner foundation.

The decrease in other current liabilities reflects a reduction in the liabilities as Leading House (LH), funds to be paid to third parties.

19 | FINANCIAL LIABILITIES

in thousand CHF	31.12.14	31.12.15	Deviation
Negative replacement values	-	354	354
Other financial liabilities	145	149	3
Total current financial liabilities	145	503	357
Other financial liabilities	13 734	19 760	6 027
Total non-current financial liabilities	13 734	19 760	6 027

The negative replacement values relate to currency hedging transactions (forward sales) carried out for projects with revenue in USD.

The increase in other non-current financial liabilities is due to a rise in the provision on EPFL's interest in SQNE (i.e., 90% of SQNE's loss in 2015).

20 | ACCRUED EXPENSES AND DEFERRED INCOME

in thousand CHF	31.12.14	31.12.15	Deviation
Other accrued expenses and deferred income	19 978	18 618	-1 360
Total Accrued expenses and deferred income	19 978	18 618	-1 360

21 | PROVISIONS

in thousand CHF	Holiday and overtime payments	Other long-term employee benefits	Litigations	Other provisions	Total
As of 01.01.2014	18 387	16 880	1 740	1 866	38 873
Creation (incl. increase)	-	1 453	-	-	1 453
Reversal	-1 404	-	-360	-1 866	-3 630
Appropriation	-	-	-	-	-
Increase of present value	-	-	-	-	-
As of 31.12.2014	16 983	18 334	1 380	-	36 696
of which short-term	16 983	-	-	-	16 983
of which long-term	-	18 334	1 380	-	19 714
As of 01.01.2015	16 983	18 334	1 380	-	36 696
Creation (incl. increase)	1 732	1 285	28	450	3 495
Reversal	-0	19	-1 020	-	-1 001
Appropriation	-	-	-	-	-
Increase of present value	-	-	-	-	-
As of 31.12.2015	18 715	19 638	388	450	39 191
of which short-term	18 715	-	28	450	19 193
of which long-term	-	19 638	360	-	19 998

The KCHF 19,638 of other long-term employee benefits at end-2015 relates to future jubilee benefits calculated under IPSAS 25.

A KCHF 1,020 provision for employment litigation was reversed in 2015. Other provisions include a KCHF 450 provision for IT costs.

22 | NET DEFINED BENEFIT LIABILITY

The pension fund that EPFL pays into, called Publica, has three pension plans for employees and a separate pension plan for professors. Employees are assigned to one of the three pension plans depending on their category. Under IPSAS 25, provisions are measured using a dynamic calculation of defined benefit obligations (DBO).

The regulatory coverage ratio, set forth in the Swiss Federal Act on BVV 2, for ETH Domain pension plans with Publica was 100.5% at end-2015 and 105.7% at end-2014. The coverage ratio calculated using the economic approach in IPSAS 25 was 72.7% at end-2015 and 81.3% at end-2014.

Net defined benefit liability

in thousand CHF	2014	2015
Present value of funded defined benefit obligation	- 1 968 525	- 2 103 302
Fair value of pension fund assets	1 580 938	1 560 987
Surplus/(Deficit)	- 387 587	- 542 315
Present value of unfunded defined benefit obligation	-	-
Net defined benefit liability	- 387 587	- 542 315

Changes in the net defined benefit liability from one year to the next reflect changes in actuarial assumptions, such as in the discount rate and capital gains and losses on pension assets.

Although this liability does not affect EPFL's pension-plan funding, changes in this line item from one year to the next give an indication of the macroeconomic climate and the potential medium- and long-term ramifications.

Pension costs

in thousand CHF	2014	2015
Current net service cost	60 771	71 026
Interest cost	24 576	15 286
Expected return on pension fund assets	- 43 862	- 46 965
Pension costs	41 485	39 347

Pension costs totalled KCHF 39,347 in 2015, down from KCHF 41,485 in 2014. Pension costs are expected to be KCHF 41,996 for 2016. Employer contributions are calculated as required by regulations, bearing in mind that the savings component is adjusted according to employees' age and consequently increases over time. Vested benefits are calculated so that the funding of defined benefit liabilities is spread evenly over the corresponding period of employment with EPFL, in accordance with IPSAS 25. That can lead to differences between employer contributions and the cost of vested benefits.

Change in present value of defined benefit obligation

in thousand CHF	2014	2015
Defined benefit obligation as of 01.01.	1 750 230	1 968 525
Current net service cost	-	-
Interest cost	60 771	71 026
Employee contributions	24 576	15 286
Net benefits paid	27 998	30 300
Liability gain (-) / loss (+) due to experience	- 65 962	- 66 446
Liability gain (-) / loss (+) due to assumption changes	1 016	19 224
Defined benefit obligation as of 31.12.	1 69 896	65 387
Obligation au titre des prestations définies au 31.12	1 968 525	2 103 302

Change of pension fund assets

in thousand CHF	2014	2015
Fair value of pension fund assets as of 01.01.	1 478 308	1 580 938
Employer contributions	53 601	56 733
Employee contributions	27 998	30 300
Net benefits paid	- 65 962	- 66 446
Expected return on pension fund assets	43 862	46 965
Actuarial gain (+)/loss (-) on pension fund assets	43 131	- 87 503
Fair value of plan assets as of 31.12.	1 580 938	1 560 987

Amounts directly recognised in equity

in thousand CHF	2014	2015
Liability gain (-)/loss (+) due to changes in assumptions	169 896	65 387
Liability gain (-)/loss (+) due to experience	1 016	19 224
Asset gain (-)/loss (+)	- 43 131	87 503
Total amount recognised in equity	127 781	172 114
Cumulative amount of (gain)/loss recognised in equity	127 781	299 895

Pension fund assets invested in asset category

in percentage	2014	2015
Liquidity	2.83 %	2.24 %
Shares	30.66 %	30.44 %
Bonds	57.58 %	58.21 %
Mortgages	0.52 %	0.46 %
Real estate	4.83 %	5.00 %
Commodities	3.58 %	3.65 %
Total	100.00 %	100.00 %

Actual return on pension fund assets

in thousand CHF	2014	2015
Expected return on plan assets	43 862	46 965
Actuarial gain (+)/loss (-) on plan assets	43 131	- 87 503
Actual return on plan assets	86 993	- 40 538

The expected return on plan assets is calculated based on the asset allocation used for ETH Domain pension plans.

Key assumptions and history of plan assets

The present value of defined benefit obligations is calculated every year by independent actuaries using the projected unit credit method and the following assumptions.

Key assumptions used to determine the defined benefit obligation at end of year and profit and loss charge for new financial year

in percentage	2014	2015
Discount rate	0.80 %	0.40 %
Underlying consumer price inflation	0.80 %	0.60 %
Rate of future compensation increases	1.15 %	0.90 %
Rate of pension increases	0.10 %	0.00 %
Expected rate of return on pension fund assets	3.00 %	2.75 %

Key assumptions used to determine profit and loss charge for current financial year

in percentage	2014	2015
Discount rate	1.45 %	0.80 %
Underlying consumer price inflation	0.70 %	0.80 %
Rate of future compensation increases	1.15 %	1.15 %
Rate of pension increases	0.10 %	0.10 %
Expected rate of return on pension fund assets	3.00 %	3.00 %

History of plan assets, DBO, surplus/(deficit) and experience gain/(loss)

in thousand CHF	2014	2015
Fair value of plan assets as of 31.12.	1 580 938	1 560 987
Present value of funded defined benefit obligation (DBO) as of 31.12.	- 1 968 525	- 2 103 302
Surplus (+)/deficit (-)	- 387 587	- 542 315
Experience gain (+)/loss (-) on plan assets	43 131	- 87 503
Experience gain (+)/loss (-) on DBO	- 1 016	- 19 224

23 | DEDICATED THIRD-PARTY FUNDS

in thousand CHF	31.12.2014	31.12.2015	Deviation
SNSF	173 786	180 694	6 908
CTI	25 310	17 797	- 7 513
FPS	129 004	111 075	- 17 928
Special federal funding of applied research	16 714	20 540	3 826
Industry-oriented research	15 346	18 684	3 338
Other project-oriented third-party funding	15 919	22 611	6 692
Donations and bequests	9 535	561	- 8 974
Total Dedicated third-party funds	385 614	371 963	- 13 650

Dedicated third-party funds are the unused portion of funding to be paid (revenue from non-exchange transactions). These line items consist of expected funding, CoC adjustment, accrual entries for overheads and reclassifications in current liabilities.

The decrease in EU Framework Programmes for Research and Innovation reflects the end of the 7th Framework Programme (FP7). This line item includes SERI's share of funding for the H2020 programme.

The reduction in donations and bequests is primarily due to a KCHF 10,000 payment in 2015 made to a foundation involved in the Campus Biotech project in Geneva.

24 | CONTINGENT LIABILITIES

2014 figures for this line item are not given because the financial liabilities could not be calculated retroactively.

in thousand CHF	2015
Warranties	500
Other	966 974
Total Contingent liabilities	967 474

The KCHF 500 warranty relates to a commitment to cover any duties charged by foreign customs offices in cross-border transactions. This warranty does not have a time limit.

Other contingent liabilities consist of several liabilities calculated for the duration of the following leases:

- SQNE (KCHF 524,625) - This amount covers the remaining liability on the lease as well as the purchase value of the buildings set forth in the lease agreement.
- SQIE (KCHF 309,415) - This amount covers the remaining liability on the lease as well as the purchase value of the buildings set forth in the lease agreement.
- Campus Biotech (KCHF 124,429) and refurbishing (KCHF 8,505) - This is a lease agreement between Campus Biotech Geneva Foundation, the University of Geneva and EPFL. The corresponding contingent liability is equal to half of the liability remaining until the lease expires.

25 | FINANCIAL COMMITMENTS

in thousand CHF	2015
Financial commitments ≤ 1 year	598
Financial commitments without well define deadline	8 976
Total Financial commitments	9 574

Financial commitments less than one year relate to the purchase of IT services. Financial commitments without a well-defined deadline relate to equipment orders.

26 | OPERATING LEASE

in thousand CHF	2015
Due dates	
Due within 1 year	–
Due within 1 to 5 years	1 647
Due after more than 5 years	71 311
Future minimum payments for non-cancellable operating lease as of 31.12.	72 958
Leasing expenses	
Minimum lease payments	3 590
Leasing payments of current period	3 590

EPFL has not taken out any operating leases to finance its equipment, machines or vehicles.

The following leases expire within one to five years:

- A lease with ECAL, in the amount of KCHF 548 and expiring on 01.08.2017.
- A lease for student housing, in the amount of KCHF 1,099 and expiring on 30.09.2019.

The following leases expire more than five years from now:

- A lease for the B1 building at Campus Biotech in Geneva, in the amount of KCHF 69,397 and expiring on 30.06.2043.
- A new lease for EPFL offices and laboratories on Rue des Jordils in Saint-Sulpice, in the amount of KCHF 1,914 and valid from 01.02.2016 to 31.01.2021.

27 | FOREIGN EXCHANGE DIFFERENCES

Foreign exchange differences result from the revaluation of receivables and liabilities arising from non-exchange transactions (IPSAS 23) in foreign currencies. They relate mainly to EU research programmes. Any income is offset by a corresponding expense entry.

28 | REMUNERATION OF KEY MANAGEMENT PERSONNEL

Remuneration of the five key members of EPFL management. No other remuneration is paid to them or members of their families, and they have not been granted any loans.

in thousand CHF	2015
Direction (5 FTE)	1 966



Reg. Nr. 1.16029.939.00125.002

Report of the Statutory Auditor

to the President of the Ecole Polytechnique Fédérale de Lausanne

Report of the Statutory Auditor on the Financial Statements

As statutory auditor, and in application of article 35*abis* of the Federal Act on the Federal Institutes of Technology (SR 414.110), we have audited the financial statements of the Ecole Polytechnique Fédérale de Lausanne (EPFL) which comprise the balance sheet, income statement, cash flow statement, statement of changes in equity and notes (Financial Report excluding the Foreword) for the year ended on 31 December 2015.

Responsibility of the Executive Board of the EPFL

The Executive Board of the EPFL is responsible for the preparation of the financial statements in accordance with the legal requirements (Ordinance concerning the ETH Domain, SR 414.110.3; Ordinance concerning the Accounting of the ETH Domain, SR 414.123; Accounting Manual for the ETH Domain which is based on the Ordinance, SR 414.123, especially Art. 4). This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Executive Board of the EPFL is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and the Swiss Auditing Standards. These standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor's consider the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit Opinion

In our opinion, the financial statements of the EPFL for the year ended on 31 December 2015 comply with legal requirements and the Accounting Manual for the ETH Domain. We recommend that the financial statements submitted to you be approved.

Report on Other Requirements

The Swiss Federal Audit Office is independent based on the Federal Auditing Act (SR 614.0) and there are no facts incompatible with its independence.

In accordance with the Federal Auditing Act and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of the financial statements according to the instructions of the ETH Board.

Berne, 4 March 2016

SWISS FEDERAL AUDIT OFFICE



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PROJECT: EPFL

LAYOUT & PRINTING: REPRO – PRINT CENTER EPFL

