
University of Wollongong

AUDIT OPINION

The audit of the financial reports of the University of Wollongong and its controlled entities for the year ended 31 December 2006 resulted in unqualified Independent Audit Reports, other than Illawarra Technology Corporation Limited.

Illawarra Technology Corporation Limited's financial report was qualified because the company measured its 'other financial assets' at fair value. In our opinion, these assets should have been measured at historical cost because fair value could not be reliably determined. Had the company measured these assets at historical cost, its non-current assets would have been reduced by \$3.2 million (\$2.1 million in 2005) and non-current liabilities would have been reduced by \$900,000 (\$600,000). Total equity and reserves would have been reduced by \$2.2 million (\$1.5 million). The audit report for 2005 was similarly qualified.

PERFORMANCE ISSUES

(Comparative performance data on universities appears in the 'Universities Overview' section earlier in this Volume. The information shown below is based on consolidated financial statements)

The University's current ratio (a measure of its financial liquidity) was 2.7 at 31 December 2006, up from the previous year's 2.1. It is above the State average of 1.4 and is close to the upper limit of the Commonwealth Department of Education, Science and Training (DEST) 'good practice' parameters. The University intends to use some of its surplus cash and investments to fund its 2007-2011 capital works program.

Australian Government grants as a percentage of operating revenue increased from 32.9 per cent in 2005 to 40.4 per cent in 2006. It is higher than the State's average of 38.7 per cent and continues to be within the DEST 'good practice' parameter. The increase was mainly due to grants received to construct the medical school and the global transnational crime prevention centre.

Employee benefits and on-costs as a percentage of operating revenue have remained steady at 51.1 per cent. At this level it is below the State's average of 54.4 per cent.

CONTROL ISSUES

We identified opportunities for improvement in internal controls. These were minor and we reported them to management.

COMPLIANCE ISSUES

We tested whether the University complied with the Australian Government's National Governance Protocols for Public Higher Education Institutions. The results of our testing were satisfactory.

OTHER ISSUES

Innovation Campus

The University is developing and constructing the Innovation Campus via a joint venture arrangement with a private sector firm. It anticipates the completed campus will include teaching facilities, research and development facilities, retail and services facilities, a hotel, student accommodation and residential accommodation. The University plans in the long term, to earn a positive financial return from its investment in the campus. When it becomes fully operational, the University believes the campus will:

- generate employment and promote economic growth in the Illawarra region
- promote and foster collaborative research and development initiatives, and
- integrate workplace and educational environments with social, retail, service and recreational facilities.

During 2006, the University commenced infrastructure works and construction of the central facilities building on the campus. The University has approved capital expenditure of \$78.0 million for four buildings for the campus.

The success of the Innovation Campus will depend on the ability of the University and its joint venture partner to attract investors and tenants to the campus. The University and its joint venture partner continue to pursue a number of opportunities in this regard. To date, the University has secured one major tenant and is negotiating with several other interested parties.

Future Capital Works

The University is planning significant capital works over the next five years. It plans to spend in excess of \$200 million on capital works, including the construction of the four buildings at the Innovation Campus. The University will fund its capital works program from a combination of internal funds, grants from the Australian Government and debt. The University is awaiting the Treasurer's approval before raising debt of up to \$85.0 million. It will use \$15.0 million to retire existing debt, leaving \$70.0 million in new borrowings available for the capital works program.

In February 2007, the Australian Government awarded the University \$4.6 million from its Voluntary Student Unionism Transition Fund. The University will use the grant to build a \$6.6 million multi-purpose indoor sports facility.

Medical School

During 2006, the University completed the medical school buildings on its Wollongong and Shoalhaven campuses. The buildings were completed on time and within budget. The final cost was \$13.9 million.

The first enrolments into the Graduate School of Medicine occurred in March 2007.

FINANCIAL INFORMATION

The consolidated financial information includes the financial reports of the University and the following controlled entities:

- Illawarra Technology Corporation Limited (consolidated)
- Wollongong UniCentre Limited (consolidated)
- The University of Wollongong Recreation and Aquatic Centre Limited, and
- Sydney Business School Pty Ltd.

Abridged Income Statements

Year ended 31 December	Consolidated		University	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Australian Government grants	141,418	107,536	141,418	107,536
Higher Education Contribution Scheme	49,652	46,748	49,652	46,748
Fees and charges	113,546	115,602	83,897	87,969
Other	45,739	56,655	23,754	29,184
Deferred superannuation - income	<u>(18,517)</u>	<u>1,993</u>	<u>(18,517)</u>	<u>1,993</u>
TOTAL REVENUE	<u>331,838</u>	<u>328,534</u>	<u>280,204</u>	<u>273,430</u>
Employee benefits and on-costs	178,891	166,862	150,331	137,862
Depreciation	25,540	22,235	23,551	20,224
Other	118,961	119,450	101,388	99,505
Deferred superannuation - expense	<u>(18,517)</u>	<u>1,993</u>	<u>(18,517)</u>	<u>1,993</u>
TOTAL EXPENSES	<u>304,875</u>	<u>310,540</u>	<u>256,753</u>	<u>259,584</u>
Income tax	(489)	(1,205)	(640)	(617)
Operating result from discontinued operations	<u>(2,494)</u>	<u>(715)</u>	<u>--</u>	<u>--</u>
OPERATING RESULT	<u>24,958</u>	<u>18,484</u>	<u>24,091</u>	<u>14,463</u>

The increase in Australian Government grants was mainly due to grant funding of \$20.0 million to construct the medical school buildings and the global transnational crime prevention centre. The University also received \$5.1 million from DEST's learning and teaching performance fund.

Other revenue decreased because of a reduction in consultancy and contract work, as well as a one-off \$3.0 million donation received in 2005 for the Graduate School of Medicine.

Employee benefits and on-costs increased primarily because of salary increases awarded to staff, and growth in staff numbers for the medical school and other research activities.

Deferred superannuation income and expense reflect movements in the actuarially assessed liability for employees who are members of the State Government's defined benefit superannuation plans. Because the Australian Government funds these movements, they do not impact the operating result.

Abridged Balance Sheets

At 31 December	Consolidated		University	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Current assets	<u>155,251</u>	137,838	<u>141,592</u>	124,360
Non-current assets	<u>527,301</u>	<u>543,707</u>	<u>516,986</u>	<u>532,842</u>
TOTAL ASSETS	<u>682,552</u>	681,545	<u>658,578</u>	657,202
Current liabilities	<u>79,147</u>	84,804	<u>64,639</u>	68,948
Non-current liabilities	<u>89,636</u>	<u>119,329</u>	<u>98,229</u>	<u>127,275</u>
TOTAL LIABILITIES	<u>168,783</u>	204,133	<u>162,868</u>	196,223
NET ASSETS	<u>513,769</u>	477,412	<u>495,710</u>	460,979

The increase in current assets was mainly due to higher cash and investment balances. The University's managed funds investment portfolio increased by \$10.6 million during the year.

The decrease in non current assets and non current liabilities was mainly due to a reduction in the University's defined superannuation liability following an actuarial reassessment.

UNIVERSITY ACTIVITIES

The University is constituted under the *University of Wollongong Act 1989*. It mainly:

- provides educational and research facilities of university standard, having particular regard to the needs of the Illawarra region
- provides courses of study across a range of fields and carries out research to meet community needs
- disseminates and increases knowledge, and
- confers degrees of Bachelor, Master and Doctor and awards diplomas and other certificates.

For further information on the University refer to www.uow.edu.au.

CONTROLLED ENTITIES

Illawarra Technology Corporation Limited (ITC)

ITC was established to support and add value to the strategic goals and objectives of the University. Its activities include marketing and recruiting for the University, delivering offshore and pre-university education, and providing international contract and consulting services.

ITC is a company limited by shares. It owns ITC Education Ltd, ITC (New Zealand) Limited (ITCNZ) and ITC Europe Ltd. ITC Europe Ltd has not been active since 2001. ITC created a new company, ITC (Middle East) Ltd on 3 April 2007.

Under its 2006-2008 Strategic Plan, the Board of ITC is continuing to position ITC and its controlled entities to achieve growth and profitability that represents an acceptable commercial rate of return.

ITC's summarised consolidated financial information is:

Year ended 31 December	2006 \$'000	2005 \$'000
Revenue	56,605	65,714
Expenses	55,407	64,346
Income tax expense/(revenue)	138	(588)
Profit	1,060	1,956
Net assets (at 31 December)	2,579	2,287

The Wollongong University College ceased operations from its Sydney location in September 2006, due to a decline in student numbers. It attributes this decline to the impact of changes in government regulations of the sector. The loss for the year on these discontinued operations was \$2.5 million (\$700,000 in 2005), comprising operating losses and one-off closure costs.

The decrease in revenue and related costs was due to the closure of the Sydney operations, as well as management's decision to change the focus of the international projects group, which resulted in reduced project wins in the short term.

ITCNZ, which provides education activities in New Zealand, recorded a significant loss of \$NZ 1.1 million in 2006 (\$NZ 226,297). At 31 December 2006, ITCNZ had retained losses and negative equity. Management advises the losses were due to continued weakening in the international student market in New Zealand, although this is now showing signs of recovery. Management have initiated actions to make ITCNZ more financially viable. The company signed a non binding agreement in February 2007 to acquire the business of another education provider in New Zealand, to take advantage of future opportunities in the sector. Management anticipates completion of the sale within the next six months. ITC has committed it will continue to provide financial support to ITCNZ as and when required, to ensure it can pay its debts.

Wollongong UniCentre Limited

This company, limited by guarantee, aims to complement the academic activities of the University by providing relevant products, services and facilities to meet the diverse social and cultural needs of the University population. In November 2004, the Board established a wholly owned subsidiary, UniCentre Conferences and Functions Pty Limited, to provide conference and function services.

Wollongong UniCentre Limited's summarised consolidated financial information is:

Year ended 31 December	2006 \$'000	2005 \$'000
Revenue	14,999	16,221
Expenses	14,160	15,346
Income tax	13	--
Profit	826	875
Net assets (at 31 December)	9,107	8,281

The decrease in revenue was due to the company introducing lower compulsory service fees, as a measure of goodwill in the lead up to voluntary student unionism. The reduction in expenses was due to less salary related expenses following a number of restructures in 2005, as well as an inventory write down of \$319,000 in 2005.

The company's long term viability will depend on its ability to attract members in an environment of voluntary student unionism. Whereas membership was previously compulsory, from 1 July 2006 students can choose to become a member of the company. The company has implemented several strategies to address this issue and its impact on membership fee revenue.

University of Wollongong Recreation and Aquatic Centre Limited

This company, limited by guarantee, principally provides aquatic and recreational facilities to the University community and the general public.

Year ended 31 December	2006 \$'000	2005 \$'000
Revenue	3,392	6,043
Expenses	2,917	3,278
Income tax	--	--
Profit	475	2,765
Net assets (at 31 December)	6,375	5,900

The decrease in revenue and net profit for 2006 is due to the University of Wollongong in 2005 assuming responsibility for the company's outstanding loans of \$2.7 million, which was recognised as revenue.

The company's long term viability will depend on its ability to attract members in an environment of voluntary student unionism. The company has implemented several strategies to address this matter, and at this stage believes it will report a small loss in 2007 and 2008.

Sydney Business School Pty Ltd

This company was established in 2005. It was created to protect the name 'Sydney Business School', which the University uses to provide educational activities. The company did not trade during the year and the University does not expect it to trade in the future.

OTHER BODY ASSOCIATED WITH THE UNIVERSITY

Enikos Pty Limited

This company was established in 2004 to commercialise multi-media software products invented within the University of Wollongong and the Co-operative Research Centre for Smart Internet Technology. In September 2006, the company issued preference shares and as a result, the University's ownership interest in the company was reduced to less than 20 per cent. The change in share ownership structure and company operating rules means the University no longer controls the company for financial reporting purposes.