
Macquarie University

AUDIT OPINION

The audits of the University and its controlled entities' financial reports for the year ended 31 December 2008 resulted in unqualified Independent Auditor's Reports for ten (including the parent) entities in the group.

We are completing the audits of the remaining 22 controlled entities and have not yet issued Independent Auditor's Reports for:

- Australian Proteome Analysis Facility Limited
- Macquarie University Medical Research Foundation Limited
- Macquarie University Medical Research Trust
- Macquarie University Private Hospital Trust
- Macquarie University Property Investment Company No. 2 Pty Limited
- Macquarie University Property Investment Company Pty Limited
- Macquarie University Property Investment Trust
- MU Private Hospital Pty Limited
- MUPIT Sub-Trust No. 1
- MUPIT Sub-Trust No. 2
- MUPIT Sub-Trust No. 3
- MUPIT Sub-Trust No. 4
- MUPH Clinic Pty Limited
- MUPH Clinic Sub-Trust
- MUPH Hospital Pty Limited
- MUPH Hospital Sub-Trust
- MUPI Holding Trust No. 1
- MUPI Holding Trust No. 2
- MUPI Holding Trust No. 3
- MUPI Holding Trust No. 4
- MUPI Holding Trust No. 5
- MUPI Holding Trust No. 6.

Unless otherwise stated, the following commentary relates to the consolidated entity.

KEY ISSUES

Controlled entities

We recommend the University review its corporate strategy to help ensure its corporate structure aligns with that strategy.

The University had 30 controlled entities at 31 December 2008 (29 at 31 December 2007). The drivers for creating so many controlled entities, whilst not in conflict with the University's strategy, were not the primary strategic objective. Nineteen of these entities were created in 2007 as part of the private hospital and clinic transaction.

The existence of so many controlled entities increases compliance costs and governance risks. While some of these entities may be dormant corporate trustees, they are still required to prepare and have audited a financial report. Each entity must also implement and maintain an effective compliance framework to help ensure it complies with legislative requirements which apply to its operations.

We understand the University will deregister Macquarie University Medical Research Foundation Limited and dissolve Macquarie University Medical Research Trust during 2009. The University established these entities in 2007.

Impact of the global financial crisis

The global financial crisis and volatility in financial markets has the potential to significantly impact the group's operations and may result in:

- increased borrowings to fund operating and capital expenditure
- deferral or significant changes to the scope of capital works programs
- reduced spending on research grants, scholarships and prizes.

The University has advised that it does not believe the fall in the value of its investments due to the global financial crisis will impact its operations or capital works programs.

However, despite an increase in total revenue, the group achieved a lower surplus of \$26.1 million for 2008 compared to a surplus of \$54.4 million in 2007, due in part to the global financial crisis and volatility in financial markets. The impact of investment activities on the operating result was to:

- expense unrealised losses of \$16.9 million, representing the fall below cost in the value of equity investments
- recognise gains of \$3.6 million realised on the sale of investments during the year
- recognise an increase of \$1.5 million in investment income earned during the year

Another significant impact of the global financial crisis has been on superannuation investment earnings and benefit valuations. Liabilities for superannuation increased from \$125 million in 2007 to \$282 million in 2008. The Australian Government funds the majority of these liabilities which has minimised the impact on the operating result.

The University will need to refinance its borrowings for the construction of the private hospital and clinic in early 2011. The University is actively managing the refinancing risks within its control, none of which have crystallised at the moment.

Private Hospital and Clinic

The University is, in conjunction with Dalcross Holdings Pty Limited, constructing a 208 bed private hospital and clinic on its campus. The University expects the facilities to open in early 2010.

The University has a comprehensive reporting structure in place to manage the finance and other project risks. The project is largely debt funded which creates the financing risks mentioned above. Other project risks include operator failure, buildings not being well suited to their purpose, buildings being delivered late and/or over budget and reputational risks.

The Australian School of Advanced Medicine at Macquarie University is the first medical school in Australia to be linked to a private teaching hospital on a university campus. It will offer advanced sub-specialty training for doctors, particularly in surgery, and is currently accepting enrolments for Masters and PhD programs.

The estimated construction cost of these buildings is \$115 million (\$112 million in 2007). The value of work in progress at year end is \$75.9 million (\$9.4 million).

PERFORMANCE INFORMATION

(Comparative performance data on all 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 2.3 at 31 December 2008, down from the previous year's ratio of 2.4. At this level it is still significantly higher than the State average of 1.5 (1.6 at 31 December 2007) and within the Australian Government's Department of Education, Employment and Workplace Relations (DEEWR) 'good practice' parameter of 1.5 to 3.0. Over time, the University's financial strategy has been to maintain a higher current ratio.

Australian Government grants as a percentage of operating revenue for the year increased slightly from 26.2 per cent in 2007 to 26.4 per cent in 2008. This is again significantly lower than the State average of 41.2 per cent (38.6 per cent in 2007) and represents the lowest level of reliance on Australian Government grants of all universities. It is also well below DEEWR's 'good practice' parameter of no more than 50 per cent. Enrolments at the University include a large number of fee paying students which contributes to a lower percentage of Australian Government grant revenue compared with total operating revenue.

Employee benefits and on-costs as a percentage of operating revenue increased from 51.7 per cent in 2007 to 53.4 per cent in 2008. This is again lower than the State average of 55.3 per cent (54.2 per cent) and within the DEEWR 'good practice' parameter of 50 per cent to 70 per cent.

Fees and charges as a percentage of operating revenue increased to 45.3 per cent (43.0 per cent in 2007). This represents the highest level of reliance on fees and charges of all universities and is significantly higher than the State average of 25.9 per cent (25.2 per cent). The increase in fees and charges was largely due to an increase in revenue from overseas students, which increased from \$120 million in 2007 to \$148 million in 2008.

OTHER INFORMATION

We identified opportunities for improvement to accounting and internal control procedures and will report them to management.

Backlog maintenance

The University estimates its backlog maintenance program will cost \$25.0 million at 31 December 2008. The University's backlog maintenance has increased slightly over the past three years, as demonstrated in the table below. The University advises that it has significantly increased its 2009 maintenance budget to reduce the backlog.

Year ended 31 December	Estimate		
	2008 \$'000	2007 \$'000	2006 \$'000
Backlog maintenance	25,000	24,480	23,275

Excessive Annual Leave balances

We recommend the University review the effectiveness of its existing policies for managing excessive annual leave balances.

At 31 December 2008, 221 University employees accrued more than 40 days of annual leave entitlements (176 employees at 31 December 2007). This represents more than ten per cent of all employees (nine per cent). The accumulation of excessive annual leave entitlements results in increased financial cost to the University because these entitlements are paid out at higher salary rates in the future and may have occupational health and safety implications.

FINANCIAL INFORMATION

The consolidated financial information includes the financial reports of the University and its controlled entities.

Abridged Income Statements

Year ended 31 December	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Australian Government grants	140,581	121,439	140,523	121,439
Higher Education Contribution Scheme	63,966	56,186	63,966	56,186
Fees and charges	241,126	198,846	210,110	187,690
Other	86,565	86,341	60,994	56,477
Deferred income - superannuation	148,502	(23,566)	148,502	(23,566)
TOTAL REVENUE	680,740	439,246	624,095	398,226
Employee benefits and on-costs	284,385	239,355	242,576	211,977
Depreciation	29,184	27,125	27,492	26,477
Other	192,433	141,886	186,494	145,755
Deferred expense - superannuation	148,502	(23,566)	148,502	(23,566)
TOTAL EXPENSES	654,504	384,800	605,064	360,643
SURPLUS	26,236	54,446	19,031	37,583

The increase in Australian Government grants was largely due to the University receiving \$11.9 million under the Better Universities Renewal Funding program. The increase in fees and charges was due to higher enrolments of fee paying overseas students.

Higher salary increments awarded to staff and an increase in the actuarially assessed liability for employees in the Professorial Superannuation Scheme resulted in an increase in employee benefits and on-costs.

The increase in other expenses was partly due to the previously mentioned impairment loss on investments, as well as an increase in scholarships and grants expenditure.

Deferred income and deferred 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		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Current assets	228,753	221,728	191,737	190,767
Non-current assets	1,401,841	1,158,256	1,332,093	1,157,662
TOTAL ASSETS	1,630,594	1,379,984	1,523,830	1,348,429
Current liabilities	123,436	111,700	102,188	99,849
Non-current liabilities	360,181	142,993	314,830	156,232
TOTAL LIABILITIES	483,617	254,693	417,018	256,081
NET ASSETS	1,146,977	1,125,291	1,106,812	1,092,348

Non-current assets and non-current liabilities increased largely due to an increase in the deferred State Government's defined superannuation liability of \$149 million.

UNIVERSITY ACTIVITIES

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

- provides educational facilities at university standard
- establishes facilities to provide courses of study, gives instruction to and examines external students and provides courses of study or instruction at such levels of attainment as the University's Council considers appropriate to meet the special requirements of industry, commerce, or any other section of the community
- disseminates knowledge and promotes scholarship
- confers degrees of Bachelor, Master and Doctor and awards diplomas and other certificates.

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

CONTROLLED ENTITIES

Macquarie Graduate School of Management Pty Limited

Year ended 31 December	2008 \$'000	2007 \$'000
Revenue	29,490	27,291
Expenses	24,614	25,536
Profit	4,876	1,755
Net assets (at 31 December)	9,014	4,138

The increase in revenue and profit was largely due to an increase in student numbers and course fees. The company promotes management education and conducts educational programs and research in management. For further information on the company, refer to www.mgsm.edu.au.

Access Macquarie Limited

Year ended 31 December	Consolidated		Parent	
	2008 \$'000	2008 \$'000	2008 \$'000	2007 \$'000
Revenue	30,431	29,896		15,339
Expenses	28,595	28,273		15,315
Income tax expense	64	--		--
Profit	1,772	1,623		24
Net assets (at 31 December)	5,587	5,438		3,815

During the year, Access Macquarie Limited invested in Risk Frontiers Group Pty Limited. Risk Frontiers Group Pty Limited's controlled entity is Risk Frontiers Flood (Australia) Pty Limited. Risk Frontiers Flood (Australia) Pty Limited provides a Global Information System-based methodology to estimate mainstream flood risk data.

The increase in revenue and expenses was due the University transferring its Centre for Macquarie English (CME) to the company. CME offers a range of English programs. The company is the University's commercial development company. For further information on the company, refer to www.accessmq.com.au.

Macquarie University Property Investment Trust

Year ended 31 December	Consolidated		Parent	
	2008 \$'000	2007* \$'000	2008 \$'000	2007* \$'000
Revenue	2,555	63	1,338	--
Expenses	1,933	110	710	72
Income tax expense	--	--	--	--
Profit/(loss)	622	(47)	629	(72)
Net assets (at 31 December)	26,444	26,452	16,500	16,427

* For the period 2 July 2007 to 31 December 2007.

Revenue increased largely due to the Trust contracting for the construction of works of approximately \$998,000 on behalf of other parties and management fees of \$1.2 million associated with the construction of the private hospital and clinic. Expenses increased due to construction costs of approximately \$998,000 and management costs associated with the construction of the private hospital and clinic.

The following controlled entities have not been reported on separately as they are not considered material by their size or the nature of their operations to the consolidated entity.

Entity Name	Website
Australian Proteome Analysis Facility Limited	www.proteome.org.au
CMBF Limited	*
LAMS Foundation Limited	*
LAMS International Pty Limited	www.lamsinternational.com
Macquarie University Medical Research Foundation Limited	*
Macquarie University Medical Research Trust	*
Macquarie University Private Hospital Trust	*
Macquarie University Property Investment Company No. 2 Pty Limited	*
Macquarie University Property Investment Company Pty Limited	*
MU Private Hospital Pty Limited	*
MUPIT Sub-Trust No. 1	*
MUPIT Sub-Trust No. 2	*
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MUPH Clinic Pty Limited	*
MUPH Clinic Sub-Trust	*
MUPH Hospital Pty Limited	*
MUPH Hospital Sub-Trust	*
MUPI Holding Trust No. 1	*
MUPI Holding Trust No. 2	*
MUPI Holding Trust No. 3	*
MUPI Holding Trust No. 4	*
MUPI Holding Trust No. 5	*
MUPI Holding Trust No. 6	*
Risk Frontiers Flood (Australia) Pty Limited	www.riskfrontiers.com
Risk Frontiers Group Pty Limited	*
U@MQ Limited	www.uatmq.com.au

* These entities do not have websites

OTHER BODIES ASSOCIATED WITH THE UNIVERSITY

The following bodies associated with the University have not been reported on separately as they are not considered material by their size or the nature of their operations.

Entity Name
Macquarie University Professorial Superannuation Scheme
Sydney Educational Broadcasting Limited