
The University of Sydney

AUDIT OPINION

The completed audits of the University and its continuing controlled entities' financial statements, for the year ended 31 December 2009 resulted in unqualified Independent Auditor's Reports.

The audits of two controlled entities are incomplete. Further details on the University's controlled entities appear later in this comment.

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

KEY ISSUES

Impact of the global financial crisis

Last year, the global financial crisis and volatility in financial markets significantly impacted the University's investment values. This year, the financial markets improved and the value of investments increased by six per cent (\$50.0 million), from \$877 million to \$927 million at 31 December 2009.

The University recorded an operating surplus of \$69.1 million in 2009, compared to an operating loss of \$167 million in 2008. The major contributor to the loss was an impairment expense of \$211 million, representing the decline in the value of equity investments. This year, the impairment expense is \$8.5 million, which is primarily due to the value of some equity investments remaining below cost for a prolonged period.

Last year the global financial crisis also significantly impacted superannuation investment earnings and benefit valuations. As the economic conditions improved in 2009, superannuation liabilities decreased from \$797 million in 2008 to \$680 million in 2009.

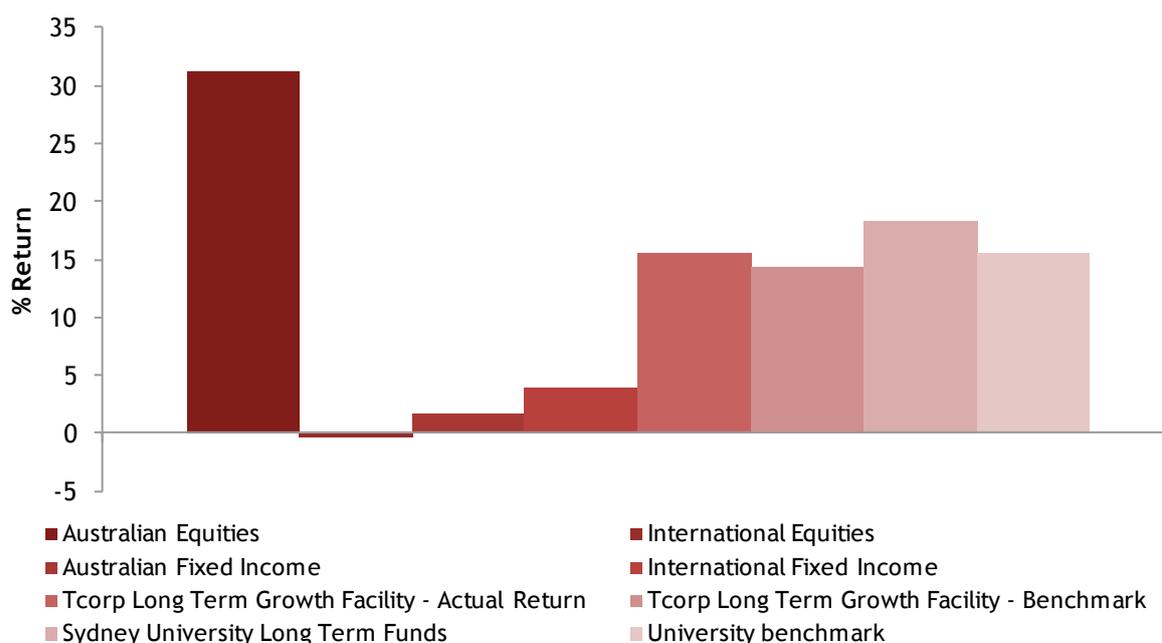
Investment Performance

The University's long term investment portfolio performed 2.7 per cent better than its performance benchmark. Equity returns improved significantly, while fixed income investments provided smaller returns than last year. Better portfolio returns were achieved in 2009 by tilting the portfolio asset allocation towards traditional growth assets (equity) and away from defensive assets (fixed income).

The University's investment funds are divided into short term and long term portfolios. As at 31 December 2009, \$830 million of a total \$927 million in financial assets (excluding receivables) were in long term funds. The long term funds have an investment time horizon of more than seven years and comprise mainly bequest and endowment funds. Short term funds mainly comprise operational working capital and capital development funds and have a time horizon of less than one year.

The graph below contrasts the University's long term investment portfolio performance against key asset sector movements and the University's performance benchmark.

Asset Sector and Portfolio Performance - 2009



Capital Expenditure Program

Capital expenditure in 2009 totalled \$151 million. During the year, the University completed its major capital project, Campus 2010, at a total cost of \$270 million. Significant works for the future include the development of the Centre of Obesity, Diabetes and Cardiovascular Disease (\$385 million), the Centre for Sustainable Land Futures at Camden and the Clinical Education Centre at Concord Clinical School.

The University's capital works program for 2010 totals \$169 million and is designed to:

- improve its infrastructure and address backlog maintenance
- provide suitable accommodation for students and staff
- replace outdated facilities with modern teaching and research facilities
- develop a proactive asset development program.

The University is seeking to fund this program through government grants, operating surpluses and borrowings.

Maintenance expenditure in 2009 was \$53.6 million (\$50.4 million in 2008), an increase of 6.3 per cent. This has contributed to a decline in backlog maintenance from \$500 million in 2008 to \$411 million in the current year.

Ageing of Academic Staff

I recommend the University review the effectiveness of its policies in managing its ageing workforce.

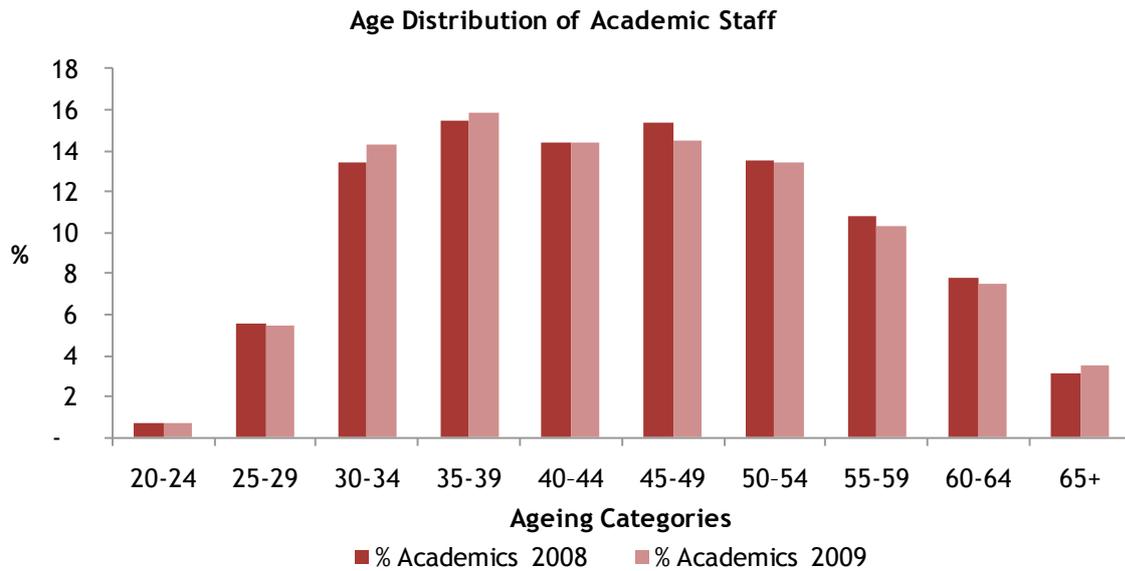
The University faces challenges from the potential loss of a large number of retiring academic staff as supported by the following University statistics:

- 22 per cent are aged 55 years and over
- 35 per cent are aged 50 years and over.

As at 31 December Age Group	2009		2008	
	No. of Academics	%	No. of Academics	%
20 - 49	1,965	65	1,857	65
50 - 54	406	13	386	13
55 - 59	311	10	310	11
60 - 64	227	8	222	8
65+	107	4	89	3
Total	3,016	100	2,864	100

Source: Information provided by Sydney University (Unaudited)

The graph below further demonstrates the age structure of academics.

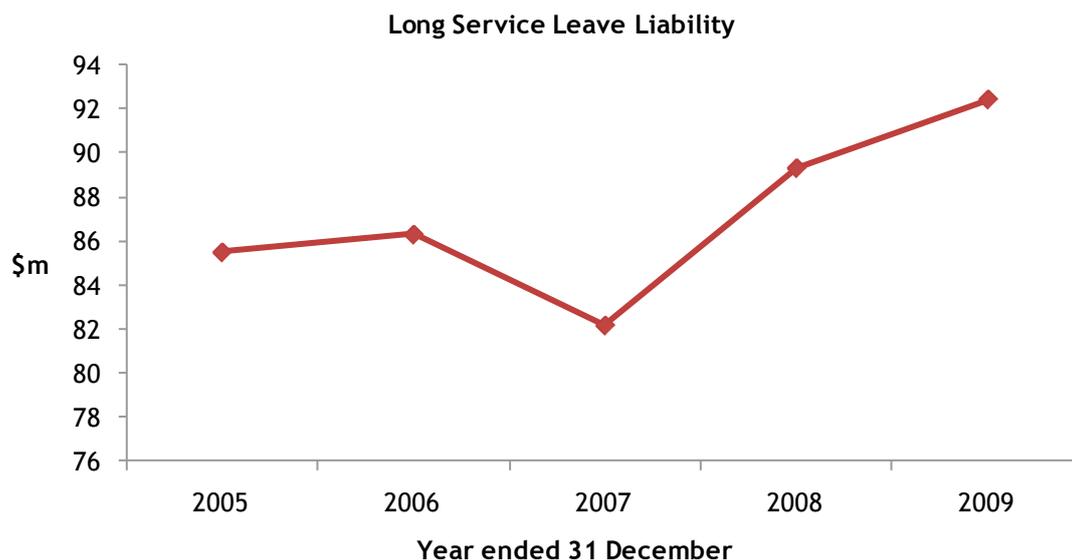


Source: Information provided by Sydney University (Unaudited)

To ensure an adequate supply of academic staff in the future, the University should actively monitor its workforce age profile and have strategies in place to develop, attract and retain staff whose skills are aligned with the strategic direction of the University.

Long Service Leave Liability

Increasing long service leave liabilities create funding challenges for the University. Long service leave liabilities have increased by 8.1 per cent over the past five years to \$92.4 million in 2009 (\$85.5 million in 2005).



Source: University of Sydney Audited Financial Statements

The increase in the liability from 2007 to 2008 resulted from a growth in entitlements plus the impact of a reduced Government bond rate used as the discount factor in calculating the present value of the liability. The reduced Government bond rate resulted from the global financial crisis.

Although the University has strong cash flows, it will need to ensure it has an adequate plan to fund these liabilities. This will be compounded as other liabilities arise from the pending retirement of a significant portion of its ageing workforce.

Employment of Contractors

I recommend the University create and maintain a single record of all contractors engaged by it.

The University should also periodically review the roles and responsibilities of all its contractors to ensure:

- its reliance on contractors is not excessive
- use of a contractor instead of a permanent employee is appropriate
- contractors do not become de facto employees by virtue of being with the University for an extended period of time
- use of a contractor continues to represent good value for money.

The University does not maintain a single, complete and detailed listing of all contractors it has engaged during the year. It uses a decentralised approach to engage and record contractors.

The University was unable to provide the following information as at 31 December 2009:

- the cost of contractors engaged
- the number of contractors engaged
- the period of service of contractors engaged.

The retention of contract employees for extended periods may result in additional costs to the University. The University should review its practices relating to contract employees to ensure they are appropriate to achieve desired outcomes and comply with employment related legislation.

The University has advised that it centralised the recruitment of contractors in early 2010 and that other planned initiatives will further centralise contractor management.

Excessive Annual Leave Balances (Repeat Issue)

I recommend the University establish individual staff plans to reduce excessive leave balances within an acceptable timeframe.

Out of its total workforce of 7,077 people, 1,575 people (22 per cent) had annual leave balances in excess of the maximum thresholds allowed under the University's leave policy. This breach of policy results in additional costs as remuneration levels increase over time and can lead to workforce health declining because staff are not taking sufficient breaks from work.

While the overall number of staff with annual leave balances in excess of the maximum threshold reduced this year by 21, the number of academic staff with leave balances in excess of 60 days has increased by 20 to 199. The University's leave policy for academic staff allows a maximum balance of 20 days annual leave.

The current measures to reduce leave balances, particularly those at the high end of the excessive leave range (i.e. >60 days), need to continue. Leave plans that reduce balances to acceptable levels within policy limits and agreed timeframes should be implemented.

University Superannuation

In 2006, the University identified an underpayment of past employer superannuation contributions for some current and past employees. The University has determined the full financial impact of the underpayments and identified the individuals affected. The initial estimate of the underpayment to the UniSuper scheme of \$7.5 million has been provided for in previous financial statements.

The liability as at 31 December 2009 has reduced to \$3.6 million and the University has advised that the issue has been resolved in March 2010.

Valuation of Heritage Assets

Last year I recommended the University undertake a comprehensive valuation of its Macleay Museum collection assets, as the last comprehensive valuation was performed over ten years ago. Accounting standards require non-current assets to be valued as frequently as required to ensure the assets are disclosed at fair value. This matter has been resolved, with the University on schedule with its plan to comprehensively value the Macleay museum over two years.

PERFORMANCE INFORMATION

(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 0.7 at 31 December 2009, an increase on the previous year's ratio of 0.5. At this level, it is still below the State average of 1.4 (1.5 at 31 December 2008) and below the Australian Government's Department of Education, Employment and Workplace Relations (DEEWR) 'good practice' parameter 1.5 to 3.0. However, the University has non-current available for sale investments, a significant amount of which could be realised at short notice.

Australian Government grants, as a percentage of operating revenue, remained steady at 43.7 per cent in 2009. It is now higher than the State average of 41.6 per cent (41.2 per cent in 2008) but still within the DEEWR 'good practice' parameter of no more than 50 per cent.

Employee Benefits and on-costs, as a percentage of operating revenue, decreased from 59.0 per cent in 2008 to 57.2 per cent in 2009. This is above the State average of 53.4 per cent (55.9 per cent) but within the DEEWR 'good practice' parameter of 50 per cent to 70 per cent.

Higher education contributions, as a percentage of total revenue, decreased from 10.9 per cent in 2008 to 10.1 per cent in 2009. This represents the equal lowest contributions of all universities and is significantly below the State average of 14.5 per cent (14.8 per cent).

The University's operating surplus for the year was \$69.1 million, or 5.0 per cent of total revenue (negative 13.0 per cent). This is well below the State average of 8.1 per cent (negative 1.4 per cent).

FINANCIAL INFORMATION

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

Abridged Statement of Comprehensive Income

Year ended 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Australian Government grants	609,854	564,514	609,854	564,514
Higher Education Contribution Scheme	140,856	141,339	140,856	141,339
Fees and charges	321,901	291,480	321,861	291,480
Other	322,443	293,531	319,712	293,411
TOTAL REVENUE	1,395,054	1,290,864	1,392,283	1,290,744
Employee benefits and on-costs	797,378	761,926	793,908	760,609
Depreciation and amortisation	62,631	52,465	62,468	52,453
Other	457,448	433,346	456,577	432,615
Impairment of available-for-sale assets	8,448	210,520	8,448	210,520
TOTAL EXPENSES	1,325,905	1,458,257	1,321,401	1,456,197
SURPLUS/(DEFICIT)	69,149	(167,393)	70,882	(165,453)
OTHER COMPREHENSIVE INCOME:				
Change in fair value of available for sale financial assets	60,478	18,638	60,478	18,638
Gain on revaluation of land and buildings	8,618	26,357	8,618	26,357
Other gains/(losses)	(6,771)	7,189	(6,775)	7,070
TOTAL OTHER COMPREHENSIVE INCOME	62,325	52,184	62,321	52,065
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	131,474	(115,209)	133,203	(113,388)

Australian Government Grants increased by 8 per cent in line with the increase in student numbers. Fees and charges increased by \$30.4 million primarily due to an increase in fee paying overseas students.

Employee benefits and on-cost expenses increased by 5 per cent due to increased staff numbers, salary increases, and increased costs associated with University funded superannuation benefits.

The impairment expense of \$8.4 million is significantly lower than the prior year expense of \$211 million. This is primarily due to the recovery in the value of equity investments mentioned earlier.

Abridged Statement of Financial Position

At 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Current assets	211,692	131,189	216,375	133,192
Non-current assets	4,065,918	4,083,766	4,051,908	4,070,798
TOTAL ASSETS	4,277,610	4,214,955	4,268,283	4,203,990
Current liabilities	347,793	301,852	347,677	301,795
Non-current liabilities	699,988	814,749	699,952	814,745
TOTAL LIABILITIES	1,047,781	1,116,601	1,047,629	1,116,540
NET ASSETS	3,229,829	3,098,354	3,220,654	3,087,450

Current assets increased by \$80.5 million primarily due to increases in cash and investments.

The increase of \$45.9 million in current liabilities primarily relates to the University entering into a new financing arrangement. The liability for this short term loan as at 31 December 2009 was \$71.2 million (\$31.3 million).

Non-current liabilities decreased by \$115 million mainly due to a decrease in superannuation liabilities resulting from improved financial markets.

Prior to 2009 the University recognised a receivable from the Commonwealth for unfunded deferred liabilities relating to the SASS, SSS and SANCS superannuation schemes (\$773 million as at 31 December 2008). In February 2010, it was identified that the \$23.0 million liability for the SANCS scheme was not covered by the Superannuation Supplementation Scheme registered by the Commonwealth. As a result the related receivable of \$23.0 million has been reversed as at 1 January 2008.

UNIVERSITY ACTIVITIES

The University of Sydney is established by the *University of Sydney Act 1989*. The University creates, preserves, transmits and applies knowledge through teaching, research, creative work and other forms of scholarship.

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

CONTROLLED ENTITIES

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
Bandwidth Foundry International Pty Ltd*
Institute for Magnetic Resonance Research
Sport Knowledge Australia Pty Limited^
Sydney Talent Pty Limited
SydneyLearning Pty Limited
The Bosch Institute
The Sydney Institutes of Health and Medical Research
The Warren Centre for Advanced Engineering Limited
Ucom Sixteen Pty Limited
Wayahead Pty Limited
Wentworth Annexe Limited

* Controlled entity was purchased during 2009.

^ The University acquired the remaining shares in Sport Knowledge Australia Pty Ltd on 11 June 2008. Previously this entity was an associate of the University. The previous audit of Sport Knowledge Australia Pty Limited for the year ended 30 June 2008, conducted by a private sector auditor, is incomplete. Our audit for the period to 31 December 2008 and 2009 cannot progress until the prior year audit is complete.

Two companies controlled by the University were deregistered during the year. They comprised Ucom Sixteen Pty Limited (deregistered 21 January 2009) and Institute for Magnetic Resonance Research (deregistered 14 November 2009). The Sydney Institutes of Health and Medical Research became an associate on 18 May 2009.

Audit opinions on the financial statements for Sport Knowledge Australia Pty Limited and Bandwidth Foundry International Pty Ltd have not yet been issued. The Bandwidth Foundry International Pty Ltd audit has been delayed pending the resolution of a number of issues.

Investment in Subsidiaries

I recommend that the University review the financial arrangements it has with its controlled entities to satisfy itself that an appropriate financial structure is in place to support their ongoing operations.

The following controlled entities reported net operating losses for the financial year ended 31 December 2009 (31 December 2008):

- The Warren Centre for the Advanced Engineering Limited - loss \$675,944 (surplus \$109,167)
- Sydney Learning Pty Limited - loss \$40,389 (nil)
- Sydney Talent Pty Limited - loss \$3.0 million (loss \$936,978)
- Bandwidth Foundry International Pty Ltd - unaudited loss \$88,449 (not available).

The University has provided financial guarantees to Sydney Learning Pty Limited, Sydney Talent Pty Limited, Sports Knowledge Australia Pty Limited, Bandwidth Foundry International Pty Ltd and The Warren Centre for Advanced Engineering Limited.

Write-Off of Loans to Sport Knowledge Australia Pty Ltd

Sport Knowledge Australia Pty Ltd (SKA) was established as an International Centre of Excellence in Sport, Science and Technology by way of an \$8.0 million grant from the DEEWR. It commenced operations at Sydney Olympic Park in January 2005.

SKA was initially jointly owned by the University of Sydney, the University of Technology Sydney and the Sydney Olympic Park Authority. The University of Sydney acquired 100 per cent ownership of SKA in June 2008.

SKA has consistently made losses and has been unable to generate forecast revenues. As a result the University has had to fund its operations since August 2008 by way of loans to the company.

On 26 October 2009, the SKA Board approved to wind the company up and cease operations immediately. The University approved the write off of \$1.8 million in loans to SKA.

OTHER BODIES ASSOCIATED WITH THE UNIVERSITY

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

For further financial and other information on these entities we have listed the entities' websites.

Entity Name	Website
United States Studies Centre Limited	ussc.edu.au
University of Sydney Professorial Superannuation System	*

* This entity does not have a website