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Introduction

A New Term of Parliament

The recent election sees many new members in the New South Wales Parliament.

In democratic societies, parliaments and auditors-general have a special relationship. Parliaments have created the position of Auditor-General to assist it hold the executive arm of Government accountable for the way it exercises the powers delegated to it. Only Auditors-General and their supporting audit offices report regularly and directly to Parliament on the operations of all Government agencies.

Because of this special relationship, I thought it appropriate to explain in this first report in the new parliamentary term, some important aspects of the audit role in the New South Wales public sector.

It is important that Members of Parliament understand this role and have confidence in the way we carry it out.

The Role of the Auditor-General and the Audit Office

There are important similarities and differences between auditing in the private and public sectors.

The key similarities include:

- public sector and private sector auditors use the same basic methodologies and independent auditing standards
- auditors are not responsible for the financial statements of the entities they audit, but for providing a level of assurance as to their accuracy
- auditors are expected to be fully independent of the management of the entities they audit.

The key differences are more complex but no less important.

Firstly, because most public entities provide services rather than make profits, their financial statements give only limited information about their performance. That is why Auditors-General usually have a wider mandate than their private sector counterparts. They are frequently given the additional role - as in New South Wales - of reporting on performance, probity and waste.

Secondly, public sector governance arrangements are different to those in the private sector. Private sector auditors report to company boards and/or their audit committees on behalf of the shareholders. While many public sector entities may have boards and all report in some way to a Minister, Parliament has over-arching responsibility. Hence, we in the Audit Office see Parliament as our principal 'client', while still recognising our client obligations to boards, Ministers and departmental heads.

Because of this dual reporting obligation, it is important that Members of Parliament understand what our audits involve.

For this purpose I have included in this volume of my Report to Parliament a letter to Parliament setting out our role, how we report our findings and what Parliament can expect of us. This is what is known in the audit profession as an 'engagement letter'; the contract between the auditor and the client's governing body.

Confidence in the Public Sector Auditor

Both in Australia and overseas, questions about the roles and responsibilities of boards, management, auditors and regulators have been raised.

It is not my intention here to debate these issues generally. My intention is to explain specifically how many of the issues are not relevant in the case of public sector auditors (particularly the Audit Office of New South Wales) or, if they are relevant, are already satisfactorily addressed.

Firstly, some argue that company management, rather than the board of directors or shareholders, has had too great a say in selecting and appointing auditors. Because Parliament legislates to make the Auditor-General the auditor of all government entities, this does not arise in the public sector.

And while the executive arm of government nominates an individual as Auditor-General, Parliament's Public Accounts Committee has the right of veto.

Secondly, it is argued that the selection of company auditors is based too heavily on the fee quoted, and that this compromises audit quality.

Again this issue clearly does not arise in the public sector.

Thirdly, it is argued that auditors may be compromised in carrying out their audits fearlessly and independently because their firms often rely on other revenue earned from providing non-audit services to the company.

While the public sector audit may cover wider issues than the private sector audit, audit offices in Australia do not provide consultancy or advisory services to their clients, other than in a minor, incidental way. Because no revenue is earned from non-audit services there is no opportunity for compromise.

While the Auditor-General is the permanent auditor of all public sector entities, the individual appointed to the position only serves one seven-year term. He or she is then prohibited from working anywhere in the New South Wales public sector, except with the specific approval of the Governor. This is a far more onerous restriction than is mooted in the private sector.

The New South Wales Audit Office rotates its senior staff on a basis that is consistent with auditors in the private sector.

Auditors-General report far more widely to parliaments than the private sector.

Conclusion

Parliament and the public should have every confidence in the ability of the Auditor-General and the Audit Office to continue to deliver high quality, independent audit services.



The Honourable Speaker and
Members of the Legislative Assembly

The Honourable President and
Members of the Legislative Council

SERVICES PROVIDED BY THE AUDIT OFFICE

In our system of government, Parliament is supreme - all authority for governmental activity ultimately stems from Parliament. Government agencies are therefore accountable to Parliament for their use of the resources and powers conferred by Parliament.

As part of its accountability arrangements, Parliament seeks assurance from an independent source, the Auditor-General, on key aspects of government performance and reporting.

The purpose of this letter is to help Parliament understand the Audit Office's role following an election or changes to Audit Office services.

With the help of my Office and contract audit agents, I will continue to help Parliament hold the government accountable for its use of public resources. I will provide independent assurance that government agencies are performing, and accounting for their performance, in accordance with Parliament's expectations.

MEETING PARLIAMENT'S EXPECTATIONS

Legislation provides for me to:

- audit the Treasurer's Public Accounts and Total State Sector Accounts and express an opinion on the financial statements
- audit the accounts of all NSW public sector agencies and express an opinion on their financial statements. My office conducts over 400 of these audits each year on general government sector agencies, statutory bodies, State owned corporations, universities and companies
- examine allegations of serious and substantial waste of public money under the *Public Interest Disclosures Act 1994*
- conduct performance audits examining the effectiveness, efficiency and economy of an agency's operations, or an issue across a number of agencies
- provide audit or audit-related services to Parliament, the Treasurer and Ministers at their request.

Independence of the Auditor General

Under the *Public Finance and Audit Act 1983* (PF&A Act), I have full discretion over the engagement process and may report findings to Parliament. This allows me to conduct all engagements at arm's length and in the public interest.

The PF&A Act sets out stringent requirements for the removal of the Auditor-General, giving Parliament confidence I will act independently. The legislative requirements recognise the primary role of Parliament and that the Auditor-General is outside the Government's influence. The PF&A Act only allows the Auditor-General to provide particular audit and audit related services at the request of Parliament, the Treasurer or a Minister.

The legislative arrangements mean that my Office and I are not influenced by factors such as personal reward, the desire to increase market share, the risk of existing engagements not being renewed, and the desire to promote, or benefit from providing non-assurance services. This helps ensure all work is planned, conducted and reported with complete honesty and objectivity.

Audits of Financial Statements

My Office undertakes its audits of financial statements in accordance with legislative requirements (including the PF&A Act and the *Corporations Act 2001*) and Australian Auditing and Assurance Standards.

The main purpose of an audit is to add credibility to financial statements through an independent audit opinion, which provides users of the financial statements with *reasonable* assurance they are free from *material* misstatement and comply with legislation and applicable accounting standards. It does *not*:

- guarantee absolute accuracy of financial statements
- express a view on the adequacy of an organisation's systems or the efficiency and effectiveness of its operations
- guarantee an organisation's future viability.

An audit of financial statements combines systems checks and examination of a sample of transactions for all items considered material or high risk in nature to the financial statements. These items, if materially misstated as a result of error or fraud, could adversely affect the decision-making process of users of financial statements. An audit does *not* examine every transaction of an organisation as this would be prohibitively expensive and time-consuming. Because of this and the inherent limitations of any internal control, there is an unavoidable risk some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with Australian Auditing and Assurance Standards.

It is also important to understand that the organisation's management is responsible for:

- maintaining adequate accounting records and preparing the financial statements
- maintaining a system of internal controls to prevent or detect errors or irregularities
- providing written confirmation of representations made to me during the audit
- informing me of facts that may affect the audit of the financial statements
- providing me with unrestricted access to information and agency staff.

I recognise that, in the public sector, Parliament's expectations will not be met by audit opinions on financial statements alone. Firstly, most public sector agencies are not established purely for financial (profit-making) reasons. They exist to provide services to the public and their financial statements only provide limited information about these services.

Secondly, Parliament and the public have higher expectations of probity and proper conduct in public sector agencies.

Accordingly, when conducting audits of financial statements, my Office has regard to:

- agency performance
- wastage of public resources
- lack of probity or financial prudence in managing public resources
- agencies' compliance with legislative requirements and government policies and procedures.

Performance Audits

My performance audits examine whether agencies achieve what they set out to do, and whether they apply their resources economically, efficiently and within the law. A performance audit may cover a whole agency or one or more of its activities. It may also cover a common activity across several agencies.

Performance audits are exhaustive reviews, which only cover a few topics each year. They are performed in compliance with legislation and applicable Australian Auditing and Assurance Standards.

REPORTING

I convey the results of my audits in reports to various 'stakeholders'.

Audits of Financial Statements

Auditor-General's Report to Parliament

Auditor-General's Reports to Parliament present my findings from the audits of financial statements of government agencies. These reports comment on high-level issues and on matters other than financial issues, reflecting the broader interests of Parliament. Minor matters are reported only where they are symptomatic of a larger problem or have not been addressed by the agency after I have raised them in previous years. I may also report on matters that arise from or relate to my audit or other functions.

Reports are issued throughout each year and cover the majority of Government agencies and the Total State Sector.

Independent Auditor's Report to Parliament

The Independent Auditor's Report expresses my opinion on an agency's financial statements and is included in the agency's annual report. Annual reports are required by legislation to be presented to Parliament by the responsible Minister within five months of the agency's financial year-end.

The Independent Auditor's Report tells the reader whether the financial statements comply with the PF&A Act (and other statutory requirements), applicable Australian Accounting Standards and other mandatory professional reporting requirements. A 'modification' in the Report means the agency's financial statements do not comply with these requirements. Most Independent Auditor's Reports are 'unmodified'.

I issue the Independent Auditor's Report no later than 10 weeks after receiving the financial statements.

Statutory Audit Reports to Boards and Ministers

The Statutory Audit Report presents the results of the audit and any significant matters. It is issued to the Treasurer, the Minister, and the head of the agency at the same time as the Independent Auditor's Report.

Letters to Those Charged with Governance Who Do Not Receive the Statutory Audit Report

I send similar information to that contained in the Statutory Audit Report to other persons who are also considered to be charged with governance of an agency.

Client Service Reports to Agencies

The Client Service Report is a summary of audit outcomes, usually addressed to the head of the agency and/or the agency's audit committee. This is issued to all agencies, normally just before the Independent Auditor's Report and Statutory Audit Report are issued.

Management Letters to Agencies

A more detailed report is issued to heads of agencies and/or audit committees on matters identified during the audit and may include value adding recommendations for operational improvements. These matters are in addition to any 'modification' in the Independent Auditor's Report.

Performance Audit Reports

A report on each performance audit is presented to Parliament, the Premier, the Treasurer and the relevant Minister and agency head.

Procedural Fairness

My draft reports are checked with relevant agency staff to ensure factual accuracy before they are issued.

I also seek to ensure 'procedural fairness' or 'natural justice' by inviting agency heads to submit a comment on my audit findings for inclusion in my reports to Parliament. In respect of performance audits, agencies are given 28 days to respond to reports and any responses received are included in the reports to Parliament.

AUDIT FEES

Agencies are charged for the audits of their financial statements. The fee is based on time incurred and direct out-of-pocket expenses plus goods and services tax, where applicable. Any additional inspections or examinations are subject to additional fees.

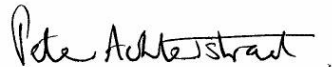
The costs of preparing Auditor-General's Reports to Parliament are recovered from the Treasury. A contribution from the Treasury covers the cost of performance audits.

To check our efficiency, I benchmark our costs against other Australian Audit Offices and private sector accounting firms, to the extent that information is available.

QUALITY

Under section 48A of the PF&A Act, the Public Accounts Committee appoints a person to review the Audit Office at least once every three years. The review examines the auditing practices and standards of the Auditor-General. The last review was completed in August 2009. The next review is expected in 2012.

The Audit Office's financial and performance audit services are independently accredited as meeting the requirements of International Quality Standard ISO 9001. This accreditation ensures we provide stakeholders with the best possible professional services.



Peter Achterstraat
Auditor-General



Section One

Special Review

Corporate Governance - Strategic Early Warning System

Corporate Governance – Strategic Early Warning System

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NSW Auditor-General's Report
Volume Two 2011

CORPORATE GOVERNANCE –
STRATEGIC EARLY WARNING
SYSTEM

This presents a revised version of the Audit Office's 17 key governance components, first published in 2009.

Good corporate governance promotes public confidence in Government.

This paper presents a revised version of the Audit Office's 17 key governance components, first published in 2009. The 17 components were based on the ASX 'Corporate Governance Principles and Recommendations', the Audit Office of New South Wales 'On Board' and the Australian National Audit Office 'Public Sector Governance – Better Practice Guide'.

In my 2009 report, I found that most agencies and universities had many of the 17 key governance components. However, there were gaps in:

- key stakeholder communication
- continuous disclosure of performance
- management sign-offs on the adequacy of internal controls
- managing compliance with laws and Government directions
- fraud control.

Since 2009, I have conducted two further governance surveys - one on 'Fraud Control' and the other on 'Internal Audit and Risk Management'.

Why Revisit Governance?

Governance is as important today as it was when I reported on it in 2009. Government agencies that are governed well outperform others.¹

Good governance is those high-level processes and behaviours that ensure an agency **performs** by achieving its intended purpose, and **conforms** by complying with all relevant laws, codes and directions and meets community expectations of probity, accountability and transparency.

Governance should be enduring, not just something done from time to time.

Simply put – Good corporate governance promotes public confidence in Government and its agencies. The better governed agencies are, the better they will perform and the more satisfied the public will be.

Well governed agencies will encounter a public more willing for its public sector to explore opportunities to improve or add to its services. Prices paid by the taxpayer for services or capital provided by the private sector and NGOs will be more favourable for a public sector that is well governed.

Sound corporate governance is about identifying and addressing emerging risks and opportunities. It is paramount to service delivery and the efficient use of taxpayers' money.

Recommendations

I recommend large government agencies and universities:

- review their governance frameworks against my revised 17 points of governance
- improve their risk management processes
- focus on improving their fraud prevention and detection systems. Specifically, they need to improve their fraud risk assessments, employee and consumer awareness programs and detection systems
- continue to work on their continuous disclosure and key stakeholder management.

Governance as an Early Warning Signal

Public sector governance is about shining a light on what agencies and government are doing and encourages agencies to better meet their obligations to the taxpayer and public.

¹ Brown, R. and Gorgens, T. March 2009, *Corporate Governance and Financial Performance in an Australian Context*, Australian Government Treasury Working Paper 2009-02

Corporate Governance Lighthouse

(based on ASX 'Corporate Governance Principles and Recommendations, and Audit Office of New South Wales governance concepts)



Governance is there to shine a light. Sometimes it's a warning, sometimes it's there to attract attention, and sometimes it's there to guide.

The lighthouse is anchored on the rock, no matter where it is built. Sometimes the lighthouse is built in other areas as the weather and conditions change – same lighthouse – same lighthouse keeper – always anchored on the rock.

The lighthouse is there to shine a light. The purpose of the light is often varied. Sometimes it's a warning, sometimes it's there to attract attention, and sometimes it's there to guide.

Key stakeholder management is deliberately on top of the lighthouse. Through key stakeholders, agencies should 'shine a light' on who they are, how they operate, what they are doing and how well they are doing it. Government agencies must be open and transparent, act with integrity and be accountable to the public they serve.

Clear
accountability and
delegations are
essential.

Strong agency
governance
requires a well
defined set of key
committees.

Revised 17 Points of Public Sector Governance

In light of developments in governance and my recent reviews of fraud control, internal audit and risk management, I have amended my 17 points of governance to better reflect changing public sector expectations. I have:

- included a new component 'Clear Accountability and Delegations' under the heading 'Management and Oversight'
- changed 'Structure of the Board to add Value' to now read 'Structure to add Value' to better reflect the diversity of structures in the public sector. I have added a component 'Is there a well defined set of key committees responsible for high level direction and control'. And consolidated the original components to read 'All Board Members should have an appropriate range of board experience and the Chairperson and Majority of Members should be Independent of Management'
- included a new component 'Diversity policy' under 'Promote ethical and responsible decision making'.

Clear Accountability and Delegations - a fundamental component of public sector governance

Clear accountability and delegations are essential. Without it, the people that make up the many institutions in the public sector will be unclear on what they are to do (including what authority they have), for whom, when and to what level of performance.

This is particularly important as many public sector agencies are moving to a more devolved way of operating with increased responsibilities at the local community level - be it a school, a police station or local hospital.

The Government, boards, CEOs and management must work together to establish what will be controlled centrally and what will be devolved. There are risks and opportunities in both approaches. They need to be understood and managed.

Structure to Add Value

The public sector has a diverse range of structures designed to meet the varied needs of the public it serves. Strong agency governance requires a well defined set of key committees responsible for high-level direction and control. Many agencies will only need two governance committees – an Executive Management Committee and an Audit and Risk Committee to provide independent assurance. Others with a Board structure or large and complex operations may need more. A word of caution – make sure they are essential and they are performing.

Diversity Policy

This is a new component and has been included to mirror a similar addition to the ASX Corporate Governance Principles and Recommendations. This focus is on ensuring gender diversity throughout organisations and on externally reporting progress.

Sound Risk Management is Essential

Many New South Wales Government agencies risk management practices are ineffective.

My November 2010 report on Internal Audit and Risk Management Readiness Survey found that of the six core capability requirements, risk management rated the lowest. Thirty six per cent of NSW public sector agencies rated their risk management practices as ineffective. This clearly needs to be addressed.

Proper risk management will provide early warning to coming events allowing an agency to turn some risks into opportunities and to manage others before they present a threat to their service delivery. If a disaster occurs agencies will be prepared and able to look after their staff and the public and resume service delivery as soon as possible.

Fraud Control

In my May 2010 review of fraud control I found that large New South Wales Government agencies and universities are better at investigating fraud than detecting and preventing it. Improvements were needed in fraud risk assessments, employee awareness programs, consumer and community awareness programs, and detection systems.

Revised 17 Points of Governance

Lay solid foundations for management and oversight - (accountability and leadership)

1. Strategic and business plans exist and are provided to key stakeholders

- A Results and Services Plan (RSP), Statement of Business Intent(SBI), Statement of Corporate Intent(SCI) or equivalent exists?
- Is it signed-off by the CEO?
- Is it signed-off by the Board (where one exists)?
- Has it been provided to The Treasury and the relevant Minister?

2. Regular reporting against plans to CEO, Board and Minister

- Are written quarterly status reports based on the RSP, SCI or SBI provided to the CEO?
- Are reports signed-off by the CEO and presented to the applicable stakeholders such as, the Board (where one exists), the relevant Minister, shareholders and The Treasury?

3. Clear Accountability and Delegations

- Do all staff know what they are to do (including what authority they have), for whom, when and to what level of performance?
- Are delegations documented and regularly reviewed?

Structure to add value - (accountability)

4. Is there a well defined set of key committees responsible for high level direction and control?

For agencies with Boards, members should have an appropriate range of board experience and the Chairperson and Majority of Members should be independent of management.

Board Member experience:

- Does the Board members experience and competence meet legislative requirements?
- Where legislative requirements are not specific, does the Board have industry, financial and legal experience?

A chairperson or member is independent of management if they:

- are not currently employed by the organisation
- have not held a senior management position at the organisation in the last three years.

Promote ethical and responsible decision-making - (integrity and stewardship)	
5. Code of conduct exists	<ul style="list-style-type: none"> Is the code of conduct documented and signed by the CEO and Board (where one exists)? Is the code current—has it been reviewed in the past five years or within one year of a significant restructure that changed the nature of the agency's business? Has the code of conduct has been distributed and is it easily available to all staff, e.g. available on the intranet?
6. Fraud and corruption control program exists	<ul style="list-style-type: none"> Is there a documented fraud and corruption control policy that is signed by the CEO and Board (where one exists)? Is the policy current—has it been reviewed in the past five years or within one year of a significant restructure that changed the nature of the agency's business? Is there a documented approach or plan to controlling fraud and corruption exposures?
7. Compliance management (procedures are in place to ensure that the agency complies with all relevant laws and government directions)	<ul style="list-style-type: none"> Is there a documented compliance policy that is signed by the CEO and Board (where one exists)—sometimes this may be part of an entities code of conduct? Is there a documented approach or plan that covers how compliance is identified, monitored and reported? Have compliance obligations been identified?
8. Diversity policy	<ul style="list-style-type: none"> Is there a policy outlining objectives concerning gender diversity? Is the proportion of women employees published in the annual report?
Safeguard integrity in financial reporting - (stewardship)	
9. Audit and Risk Committee exists	<ul style="list-style-type: none"> Is there an audit and risk committee that includes three or more members? Is there an independent chair and majority of independent members? Has the committee's performance been evaluated?
10. Internal and external audit exists	<ul style="list-style-type: none"> Does an external audit function exist? Is there an approved internal audit annual plan which is based on addressing recognised risks? Is there evidence that internal audits has been completed, reported and followed-up in the previous year?

11. CEO and CFO sign-off of financial report
<ul style="list-style-type: none"> Has the management representation letter been signed by the CEO and CFO and forwarded to the Audit Office? Where a Board exists, has the CEO and CFO provided a similar representation?
Make timely and balanced disclosure - (integrity and transparency/openness)
12. Annual Report published on time
<ul style="list-style-type: none"> Has the annual report been forwarded to the relevant Minister on time (four months after year-end?) Has the annual report been tabled in Parliament on time (within one month of receipt by Minister)? Is the annual report published on the agency's website (Annual Report law requires it to be tabled as soon as practicable)?
13. A continuous disclosure policy exists and is publicly available on the agency's website
<ul style="list-style-type: none"> Is there a documented continuous disclosure policy that is signed by the CEO and Board (where one exists)? Has the policy been reviewed in the past five years or within one year of a significant restructure that changed the nature of the agency's business? Is the policy published on the agency's website?
Executive remunerated fairly and responsibly - (accountability)
14. Executive performance evaluation based on strategic and business plan outcomes
<ul style="list-style-type: none"> Is the CEO's performance evaluation based on achievement of a RSP, SCI, SBI or equivalent? Are the CEO's direct reports' performance evaluation based on achievement of RSP, SCI, SBI or equivalent?
Recognise and manage risk - (accountability)
15. Risk management program in place
<ul style="list-style-type: none"> Is there a documented risk management policy and has it been signed by the CEO and Board (where one exists)? Has the policy been reviewed in the past five years or within one year of a significant restructure that changed the nature of the agency's business? Is there is a documented approach or plan to controlling risk at the strategic, operational and project levels? Does the agency have a shared understanding of its risk appetite?

Public sector
governance is
about how
Parliament, the
Government,
boards, CEOs and
management
work together.

16. CEO and management sign-off on adequacy of internal controls

- Has the management representation letter been signed by the CEO?
- Has senior management provided the CEO with a sign-off on the operation of internal controls to support the CEO's sign-off?
- Has a signed statement on the adequacy of an agency's internal controls been published in the agency's annual report?

Key stakeholder management - (transparency/openness)

17. Key stakeholder communication plan exists

- Have the agency's key stakeholders been identified?
- Is there a documented approach or plan to communicating with these stakeholders?
- Has the plan been reviewed in the past five years, or within one year of a significant restructure, that changed the nature of the agency's business?

Key Public Sector Governance Challenges

Public sector governance is about how Parliament, the Government, boards, CEOs and management work together on behalf of taxpayers, consumers of government services and the general public.

Some public challenges include:

- unlike the shareholder in a company, the citizen cannot sell up and sever his or her relationship with government. Therefore, citizens demand a high level of transparency and performance
- public sector agencies do not always have a profit motive
- public sector has greater variety of organisational forms than the private sector
- very complex legal framework for public sector boards.

Despite these public sector challenges, public and private sector governance have common themes:

- understanding and fulfilling a purpose
- identifying and responding to stakeholders needs and expectations
- being transparent, accountable and behaving ethically.



Section Two - Overview

Universities Overview

Universities Overview

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UNIVERSITIES OVERVIEW

Universities need to fund over \$2.0 billion of capital works and back log maintenance programs.

Ten universities, established under State legislation, provide higher education in New South Wales:

- Charles Sturt University (CSU)
- Macquarie University (MU)
- Southern Cross University (SCU)
- The University of Sydney (TUS)
- University of New England (UNE)
- University of New South Wales (UNSW)
- University of Newcastle (UN)
- University of Technology, Sydney (UTS)
- University of Western Sydney (UWS)
- University of Wollongong (UW).

Audit Opinion

The audits of all ten universities' 2010 financial statements resulted in unqualified Independent Auditor's Reports, as was the case in 2009.

Key Issues

Universities face financial and reputational challenges, including:

- funding of significant capital works and back log maintenance programs, exceeding \$2.0 billion
- governance, financial and reputational risks associated with their diverse and complex business operations and arrangements
- challenges associated with an ageing workforce
- funding of significant employee entitlement obligations, including superannuation (\$3.2 billion), long service leave (\$464 million) and annual leave (\$233 million)
- reducing reliance on Australian Government funding
- reliance on revenue from overseas students.

This report focuses on these issues and includes observations arising from my audits of the universities' financial statements.

Capital Programs and Asset Management

Universities fund their capital works programs through operational cash flows, investments, grants and borrowings.

Capital Works

Capital works spending in 2010 across all ten universities totalled \$1,015 million (\$874 million in 2009). Macquarie University incurred the largest spend (\$333.5 million) on its capital works program in 2010. The table below shows the capital spend by each university for the last three years and the budgeted spend for 2011 and 2012.

University Year ended 31 December	Budget			Actual	
	2012 \$m	2011 \$m	2010 \$m	2009 \$m	2008 \$m
Charles Sturt	30.0	115.0	52.9	106.7	88.3
Macquarie	134.5	129.1	333.5	164.6	145.1
Southern Cross	38.3	54.5	9.6	33.4	11.9
Sydney	396.5	220.8	97.6	151.4	221.0
New England	25.3	30.0	20.3	12.7	20.4
New South Wales	156.5	218.1	126.0	138.8	87.4
Newcastle	108.9	102.3	55.9	35.0	31.3
Technology, Sydney	222.7	197.4	108.1	54.1	44.7
Western Sydney	109.2	152.9	108.2	108.6	74.8
Wollongong	88.2	116.5	103.2	68.5	69.4
Total	1,310.1	1,336.6	1,015.3	873.8	794.3

Source: Data provided by respective universities (audited). Budget figures (unaudited).

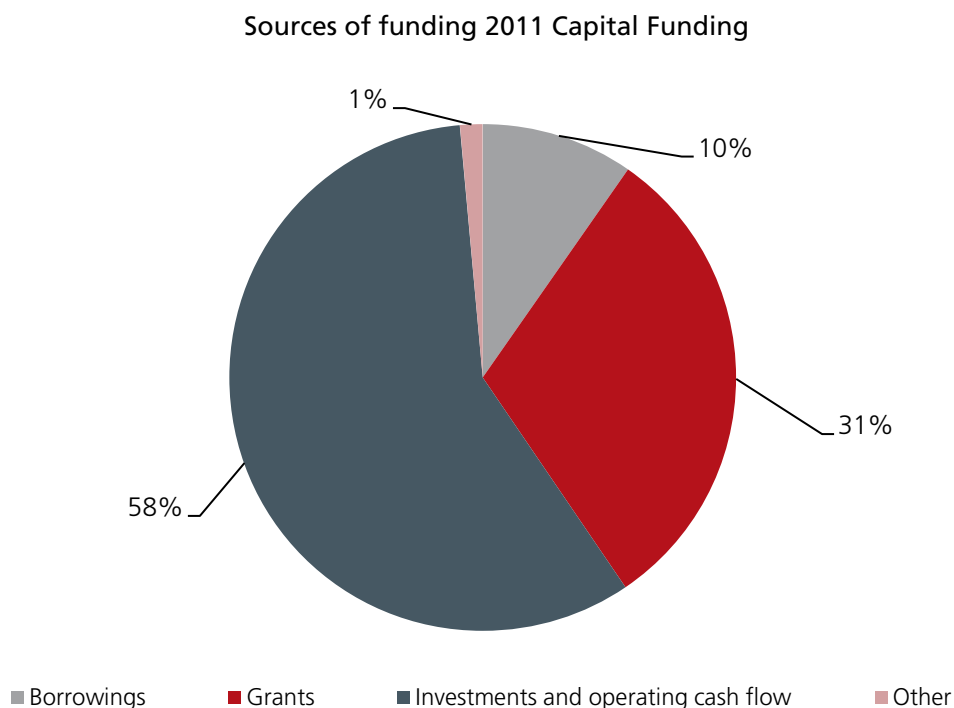
Please refer to the individual university comments for more detailed commentary on their capital works programs.

Most universities have significant capital works programs planned for the next two years, which are primarily designed to:

- improve infrastructure and address backlog maintenance
- provide suitable accommodation for students and staff
- replace outdated facilities with modern teaching and research facilities.

Capital works spending across all ten universities increased 16 per cent to \$1,015 million.

The sources of funding for the 2011 combined capital works program is shown in the chart below.



Source: Data provided by respective Universities (unaudited).

Asset maintenance

The extent of backlog maintenance for all universities remains significant, and at 31 December 2010 totalled \$782 million.

Year ended 31 December	2010	2009	2008
Backlog maintenance (\$m)	782	832	894
Actual maintenance expenditure (\$m)	151	154	150
Total Property, Plant and Equipment values at 31 December (\$b)	9.5	8.6	8.6
Actual maintenance expenditure/PPE values (%)	1.6	1.8	1.7
Depreciation expense (\$m)	405	337	289

Source: All data except for backlog maintenance sourced from universities' financial statements (audited). Backlog maintenance was supplied by universities (unaudited).

Backlog maintenance ranged from a low of \$1.3 million at Charles Sturt University (nil at Southern Cross University) to an estimated \$385 million (\$411 million) at The University of Sydney. Further details on backlog maintenance are included in the individual university comments.

Reporting on Asset Management

In 2009, I recommended each university include asset management performance reporting in their annual reports. Four universities have adopted this recommendation. Of the other six, three are reviewing their reporting processes, two believe other existing reporting mechanisms are sufficient and one believes no action is required.

University Governance

Governance Considerations

In 2009, I recommended each University review the governance arrangements for all controlled entities to ensure risk exposures are adequately understood, and effectively monitored and managed. All universities have reviewed these arrangements and taken steps to address governance issues they have identified as part of their ongoing commitment to improving governance.

Governance arrangements for controlled entities vary significantly, particularly in the areas of university representation on the Boards of controlled entities and oversight of internal and external audit by university audit committees.

Universities have the ultimate responsibility for their controlled entities and are therefore exposed to and responsible for the risks associated with the operations of those entities. These exposures may result in financial losses and reputational damage to universities. For example, universities may:

- become responsible for a controlled entity's liabilities should that entity experience financial difficulties
- suffer reputational damage if a controlled entity, operating overseas in the name of a university, is prosecuted for not complying with local legislation.

Risk exposures increase with the:

- complexity of universities' business arrangements
- location of business arrangements
- extent of transactions in foreign currencies
- need for universities to guarantee debts of controlled entities
- quality of operational staff.

To effectively manage and mitigate these risk exposures, it is essential for universities to have effective corporate governance frameworks in place to oversight controlled entities. Universities need to be actively involved in monitoring their controlled entities by:

- having appropriate university Senate/Council representation on the governing boards of controlled entities
- requiring controlled entities to regularly report to the university on their operating results; financial performance; risk and fraud management; strategies and outcomes; and compliance with legislation. Copies of internal and external audit reports should be reviewed by the University's audit committee.

Complexity of Universities' Business Arrangements

The New South Wales university sector is complex. At 31 December 2010, the universities conducted businesses in Australia and overseas through 97 controlled entities, nine joint ventures and 63 co-operative research centres (CRCs).

The associated governance, financial and reputational risks and compliance costs are significant and I have previously recommended universities rationalise and, where possible, reduce the number of controlled entities.

At 31 December 2010, universities were involved in the following business arrangements.

University	Total Number of Business Arrangements	Number of Controlled Entities	Number of Joint Ventures	Number of Cooperative Research Centres*
Charles Sturt	3	3	--	--
Macquarie	24	20	--	4
Southern Cross	16	4	5	7
Sydney	19	7	--	12
New England	15	7	--	8
New South Wales	30	21	--	9
Newcastle	15	6	--	9
Technology, Sydney	14	5	4	5
Western Sydney	14	13	--	1
Wollongong	19	11	--	8
Total	169	97	9	63

Source: Data obtained from respective Universities (unaudited)

Key: includes CRCs where a university has core or supporting participant role.

The *Public Finance and Audit Act, 1983* requires each controlled entity to prepare financial statements every year and have them audited, regardless of the size and nature of their operations. As a result, each entity is also required to implement and maintain an effective compliance framework to help ensure it complies with all legislative requirements that apply to its operations. The number of entities controlled by each university at 31 December were:

University	At 31 December	Incorporated in Australia				Incorporated Overseas				
		Trend	2010	2009	2008	2007	Trend	2010	2009	2008
Charles Sturt	↓	3	5	6	8	~	--	--	--	--
Macquarie	↓	20	34	30	29	~	--	--	--	--
Southern Cross	↑	4	3	3	3	~	--	--	--	--
Sydney	↓	7	8	10	8	~	--	--	--	--
New England	↓	7	8	6	7	~	--	--	--	--
New South Wales	↓	13	15	21	21	↓	8	10	10	11
Newcastle	↓	5	6	8	8	~	1	1	1	1
Technology, Sydney	~	3	3	3	4	↓	2	3	3	4
Western Sydney	~	13	13	14	12	~	--	--	--	--
Wollongong	↑	10	9	9	8	↓	1	3	3	3
Total	↓	85	104	110	108	↓	12	17	17	19

Source: Data obtained from respective Universities (unaudited)

Key: ↑ Trend upwards, ↓ Trend downwards, ~ No trend.

Four universities have incorporated controlled entities operating overseas in Singapore, India, Thailand, the USA, Hong Kong, Vietnam, China, Malaysia and the United Arab Emirates.

In 2010, Macquarie University significantly reduced the number of its controlled entities from 34 to 20, while New South Wales University reduced the number of its controlled entities from 25 to 21.

Audit Opinions on Controlled Entities

I issued six qualified Independent Auditor's Reports in 2010, down from nine that I qualified in 2009. At the time of this report audits were incomplete for 16 entities' 2010 financial statements and 10 entities' 2009 financial statements. Details are:

University	Number of Controlled Entities		Number of Qualified Opinions		Number of Incomplete Audits	
	2010	2009	2010	2009	2010	2009
Charles Sturt	3	5	1	1	--	--
Macquarie	20	34	--	--	1	3
Southern Cross	4	3	--	--	--	--
Sydney	7	8	--	--	5	2
New England	7	8	1	1	--	--
New South Wales	21	25	1	3	9	1
Newcastle	6	7	1	1	1	--
Technology, Sydney	5	6	--	--	--	1
Western Sydney	13	13	2	2	--	--
Wollongong	11	12	--	1	--	3
Total	97	121	6	9	16	10

One quarter of academic staff are aged 55 years or over, creating a potential loss of skills as staff retire.

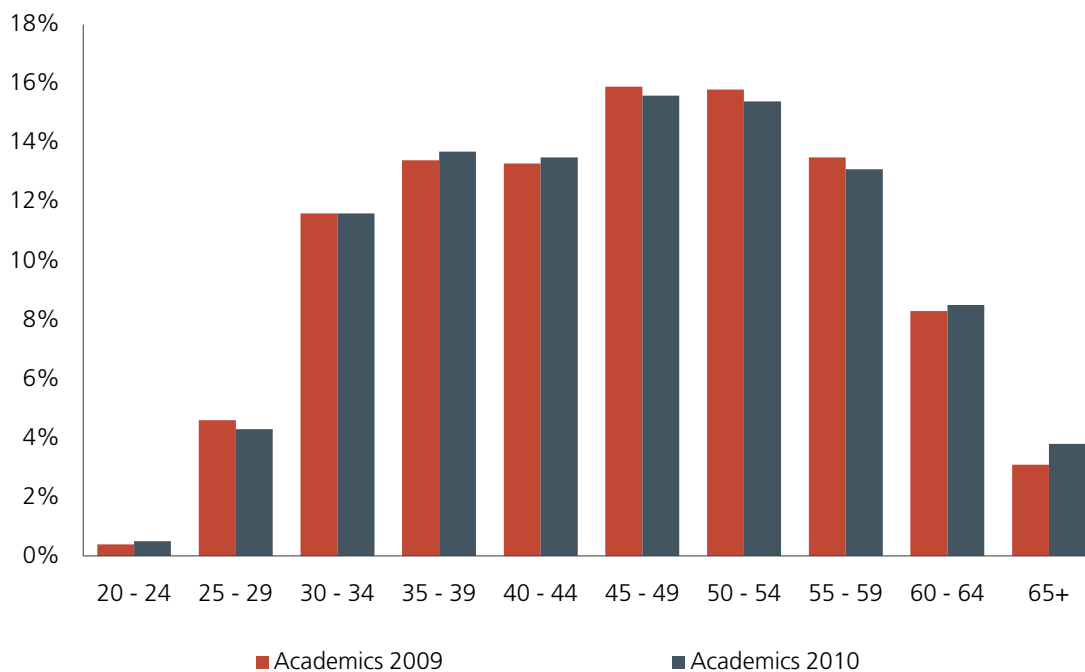
Ageing of Academic Staff

Last year, I recommended each university develop and implement effective policies to address and manage the ageing academic work force. I understand that generally this is occurring through human resource strategies, succession planning and knowledge sharing initiatives. I encourage all universities to continue to ensure they have appropriate strategies and policies in place to address this issue.

One quarter of the academics employed by New South Wales universities were aged 55 years or older at 31 December 2010, and 41.0 per cent were 50 years or older. This is a significant proportion of total academic staff, many of whom are likely to retire within the next 10 to 15 years, potentially resulting in a significant loss of academic skills.

The age profile of academic staff for all New South Wales universities is shown below:

Age Distribution of Academic Staff in NSW Universities Ageing Categories



Source: Information provided by the respective NSW universities, including lecturers and tutors (unaudited).

31 December Age Group	2010		2009	
	No. of Academics	%	No. of Academics	%
20 - 24	54	0.5	49	0.4
25 - 29	501	4.3	525	4.6
30 - 34	1,368	11.6	1,316	11.6
35 - 39	1,608	13.7	1,525	13.5
40 - 44	1,585	13.5	1,511	13.3
45 - 49	1,831	15.6	1,805	15.9
50 - 54	1,818	15.4	1,789	15.8
55 - 59	1,541	13.1	1,528	13.5
60 - 64	1,001	8.5	943	8.3
65+	447	3.8	352	3.1
Total	11,754	100	11,343	100

Source: Information provided by the respective NSW universities (unaudited).

The age profile of academic staff for each New South Wales university is shown below:

31 December 2010 Age Group	CSU %	MU %	SCU %	TUS %	UNE %	UNSW %	UN %	UTS %	UWS %	UW %
20–24	--	--	--	1	--	--	--	--	--	2
25–29	2	5	1	5	2	6	4	4	2	5
30–34	8	11	7	13	4	15	11	10	9	13
35–39	15	13	9	16	9	16	13	12	10	12
40–44	14	14	12	15	10	14	14	12	13	13
45–49	15	16	19	14	18	15	15	17	16	16
50–54	17	17	22	13	20	13	16	16	19	14
55–59	17	12	17	10	19	11	16	15	15	14
60–64	8	9	11	8	12	7	9	10	11	7
65+	4	3	2	5	6	3	2	4	5	4
Total	100	100	100	100	100	100	100	100	100	100
Total 50+	46	41	52	36	57	34	43	45	50	39
Total 55+	29	24	30	23	37	21	27	29	31	25

Source: Information provided by the respective NSW universities (unaudited)

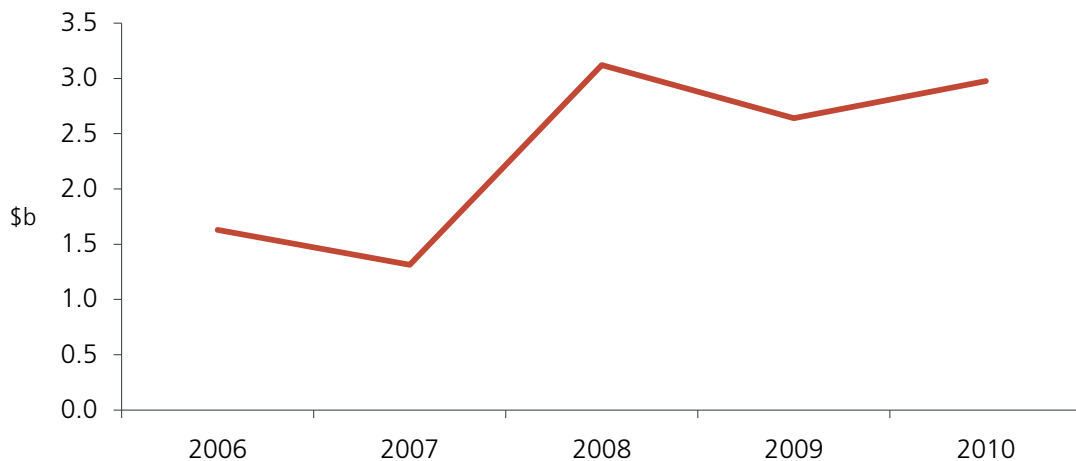
Funding of Employee Entitlements

Superannuation Liabilities Funded by the Australian Government

Last year, I recommended the Vice Chancellors of all universities collaborate and approach the Australian Government to negotiate an agreement to fund staff superannuation obligations. The New South Wales Vice-Chancellors' Committee considered my recommendation and Australian Government documentation. The Committee concluded that existing funding arrangements were sufficient.

Liabilities for defined benefit superannuation schemes across all universities increased from \$2.6 billion to \$3.0 billion at 31 December 2010, an increase of \$338 million (\$500 million decrease).

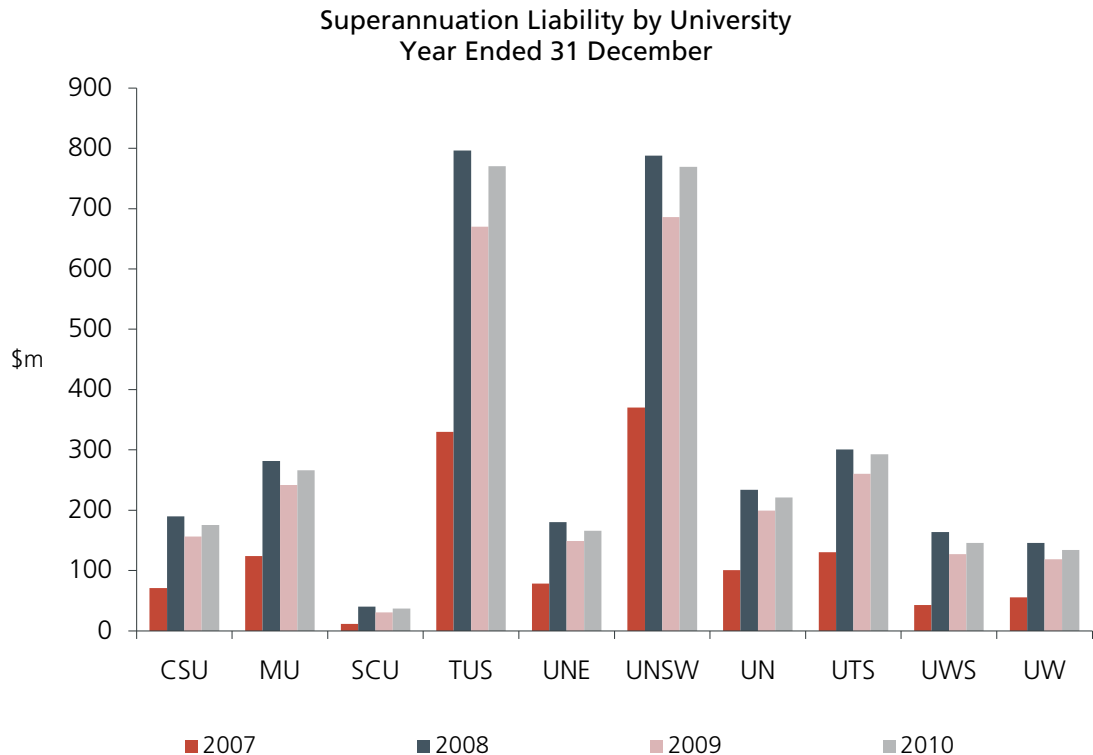
Superannuation Liability for all Universities
Year Ended 31 December



Source: University financial statements (Audited)

The Australian Government has agreed to fund universities' superannuation liabilities, but formal funding agreements are not in place. These liabilities totalled \$2.8 billion at 31 December 2010.

At 31 December 2010, 51.7 per cent (51.4 per cent) of superannuation liabilities were attributable to the University of New South Wales and The University of Sydney.



Source: University financial statements (audited).

Although there are no formal funding agreements in place, the Australian Government will fund the majority of these liabilities, which minimises the impact on universities' operating results. The ageing work force will drive the requirement for increased superannuation payments by the superannuation schemes. Consequently, universities will require higher levels of funding from the Australian Government to meet their obligations to these schemes.

The Australian Government owes New South Wales universities \$2.8 billion (\$2.5 billion) for superannuation obligations at 31 December 2010.

Superannuation Liabilities Not Funded by the Australian Government

The total superannuation liability not funded by the Australian Government for all universities was \$174 million (\$155 million) at 31 December 2010. All universities, particularly those with the greatest unfunded liabilities, will need to ensure they have sufficient future cash flows to meet these obligations as they fall due.

Excessive Annual Leave

I recommend universities with high levels of excess annual leave examine the trends in those levels over the last 5 to 10 years. Where significant increases in leave entitlements have occurred over that time, universities should investigate the drivers of the increases so they can address any underlying issues.

Last year, I recommended each university review the effectiveness of its policies for managing excessive annual leave balances. It is pleasing to note that some universities have achieved reductions to these balances during 2010.

Managing excessive annual leave balances remains a challenge for universities. During 2010, the University of New South Wales was the most successful in reducing leave balances.

Managing excessive annual leave balances is a challenge across the New South Wales public sector as it is for most universities. At 31 December 2010, 2,021 employees (2,506) or 7.2 per cent (8.7 per cent) of all staff had accrued more than 40 days annual leave. Liabilities for excessive annual leave generally increase over time as salary rates increase, which negatively impacts costs and cash flow requirements. The health and welfare of staff can also be adversely affected if they do not take sufficient leave. The table below shows the number of staff with more than 40 days accrued annual leave at 31 December.

University	Academic				General			
	Trend	2010	2009	2008	Trend	2010	2009	2008
Charles Sturt	↓	77	86	77	↑	115	85	106
Macquarie	↓	162	177	186	↓	43	45	35
Southern Cross	↓	35	46	37	↓	22	44	64
Sydney	↓	364	420	401	↓	176	265	275
New England	↑	72	62	48	↑	76	71	67
New South Wales	↓	313	507	414	↓	86	254	317
Newcastle	↓	21	22	31	↑	47	39	60
Technology, Sydney	~	105	105	118	↑	65	53	87
Western Sydney	↑	52	47	62	↓	52	61	88
Wollongong	~	10	10	10	↑	128	107	118
Total	↓	1,211	1,482	1,384	↓	810	1,024	1,217

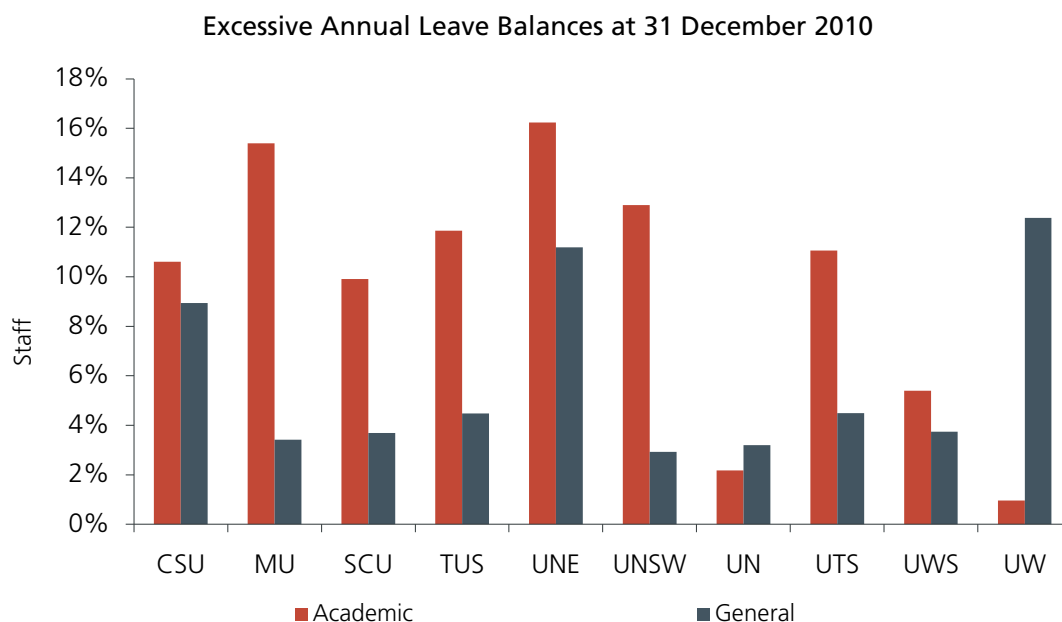
Source: Information provided by respective universities (unaudited).

Key: ↑ Trend upwards, ↓ Trend downwards, ~ No trend

The total number of academic staff with excessive leave balances decreased to 10.1 per cent from 12.4 per cent. For general staff the decrease was 20.9 per cent (15.6 per cent).

At the University of New England, general staff accrue 25 days of annual leave per year and may not be directed to take leave unless they have accrued more than 50 days. If 50 days is used as the threshold, 41 (33) general staff at the University would have accrued excessive leave balances at 31 December 2010.

The graph below illustrates the percentage of academic and general staff with annual leave balances exceeding 40 days at each university.



Source: Data provided by the respective universities (unaudited)

Long Service Leave Liability

Significant long service leave liabilities create further funding challenges for universities. The long service leave liability for New South Wales universities has increased by 21.7 per cent over the past five years to \$464 million in 2010. Although the universities have strong cash flows, they will need to ensure they have plans to fund these liabilities, which generally increase over time with increases in employee remuneration levels. This will be compounded as other liabilities arise from the pending retirement of a significant portion of the ageing workforce.

The table below provides details of the long service leave liability of each New South Wales University over the past five years.

University	Trend	2010 \$m	2009 \$m	2008 \$m	2007 \$m	2006 \$m
Charles Sturt	↑	23.0	22.7	22.5	21.0	19.9
Macquarie	↓	35.5	35.8	36.3	32.3	34.3
Southern Cross	↑	12.8	12.3	11.5	9.4	9.0
Sydney	↑	98.5	92.4	89.3	82.2	86.3
New England	↑	20.7	20.6	21.6	19.4	19.5
New South Wales	↑	105.6	98.9	104.6	90.7	83.7
Newcastle	↑	42.7	39.1	39.9	35.2	32.6
Technology, Sydney	↑	44.9	39.9	39.0	37.1	36.7
Western Sydney	↑	40.9	39.4	37.2	33.7	32.6
Wollongong	↑	39.7	35.3	32.6	28.6	26.8
Total	↑	464.3	436.4	434.5	389.6	381.4

Source: Universities financial statements (audited).

Key: ↑Trend upwards, ↓ Trend downwards, ~ No trend

The University of Wollongong recorded a 12.5 per cent increase in its long service leave liability, the greatest increase, while Macquarie University reported a reduction of 0.9 per cent.

Employment of Contract Employees

Last year I recommended each university:

- create and maintain a single register of all contract employees
- periodically review the roles and responsibilities of all contract employees to ensure:
 - reliance on contractors is not excessive
 - use of contract employees instead of permanent employees is appropriate
 - contractors do not become de facto employees by virtue of being with the university for an extended period of time
 - use of contract employees continues to represent value for money.

In response to this recommendation I understand:

- two universities have implemented contract employee registers
- two universities have partially implemented registers
- two universities believe their use of contractors is not significant enough to warrant implementing the recommendation
- four universities have not implemented registers.

Performance Information

Financial Performance

The Australian Government's Department of Education, Employment and Workplace Relations (DEEWR) has identified benchmark indicators for the financial performance of universities. A February 2000 publication 'Benchmarking: A Manual for Australian Universities' details the benchmarks. These measures include liquidity, diversity of revenue, employee benefits and on-costs, and operating result. As the measures are now over ten years old, a review of their current relevance and appropriateness would be beneficial.

Only two universities (two in 2009) met the four Australian benchmarks for university financial performance.

At 31 December 2010, the liquidity of four universities was below and one university above the benchmark range compared to five at 31 December 2009. No university relied on Australian Government funding for more than 50 per cent of its operating revenue compared to one in the previous year. Eight universities achieved the benchmark for employee benefits and on-costs compared to nine in 2009. Eight universities recorded operating surpluses compared to all ten universities in 2009.

Two universities met the four Australian benchmarks for university financial performance in 2010 (two in 2009).

The following table shows each university's performance against the benchmarks at 31 December 2010.

University	DEEWR Benchmark Achieved			
	Liquidity – current ratio between 1.5 and 3.0	Australian Government grants not more than 50% of total operating revenue	Employee benefits & on-costs between 50% - 70% of total operating revenue	Positive operating result as percentage of total operating revenue
Charles Sturt	No	Yes	Yes	Yes
Macquarie	No	Yes	No	Yes
Southern Cross	Yes	Yes	Yes	No
Sydney	No	Yes	Yes	Yes
New England	Yes	Yes	Yes	No
New South Wales	Yes	Yes	Yes	Yes
Newcastle	Yes	Yes	Yes	Yes
Technology, Sydney	No	Yes	Yes	Yes
Western Sydney	No	Yes	Yes	Yes
Wollongong	Yes	Yes	No	Yes

The benchmark criteria and calculations are presented in the aggregated tables on pages 41 to 43.

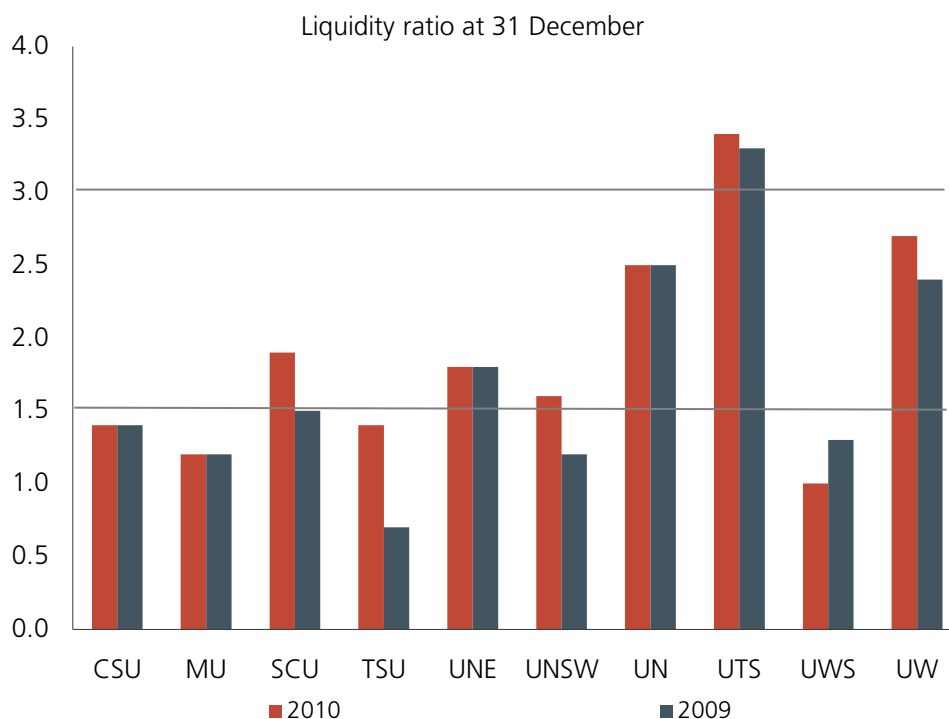
Liquidity

At 31 December 2010, five universities compared to six at 31 December 2009, did not meet the DEEWR liquidity benchmark. DEEWR considers a liquidity ratio of less than 1.5 to be below its general better practice guideline. The University of Western Sydney had the lowest current ratio of 1.0 in 2010. The University of Sydney has significant non-current investments which can be realised at short notice to fund obligations.

The University of Technology Sydney had the highest current ratio of 3.4, which exceeds DEEWR's upper benchmark range of 3.0.

DEEWR's benchmark current ratio is based on the traditional formula of current assets divided by current liabilities. The definition of current liabilities has changed significantly under Australian Accounting Standards since DEEWR's publication in 2000. Certain liabilities are now reported as current liabilities irrespective of when they are expected to be settled. As a result, I have excluded long service leave liabilities, which are expected to be settled more than 12 months after the reporting date, from current liabilities. The resulting ratio is more consistent with DEEWR's benchmark liquidity measure.

The graph below depicts all New South Wales universities' adjusted liquidity ratios for the last two years.



Source: University financial statements, as adjusted (audited)

Diversity of Revenue

One way universities reduce financial risks is by diversifying revenue sources. Each university's capacity to generate revenue depends on factors such as location, size, perceived standing and student profiles.

Year	2010	2009	2008	2007	2006
	\$m	\$m	\$m	\$m	\$m
Australian Government grants	2,657	2,518	2,303	1,957	1,823
Higher Education Contribution Scheme	973	875	829	738	679
Fees and charges					
- Student fees – Domestic	167	172	199	187	177
- Student fees – Overseas	1,275	1,112	928	794	728
- Consultancy and contracts	278	281	282	267	260
Total fees and charges	1,720	1,565	1,409	1,248	1,165
Other income					
- Investment income*	226	174	150	283	230
- Other*	1,019	918	894	856	805
Total other income	1,245	1,092	1,044	1,139	1,035
Total operating revenue	6,595	6,050	5,585	5,082	4,702

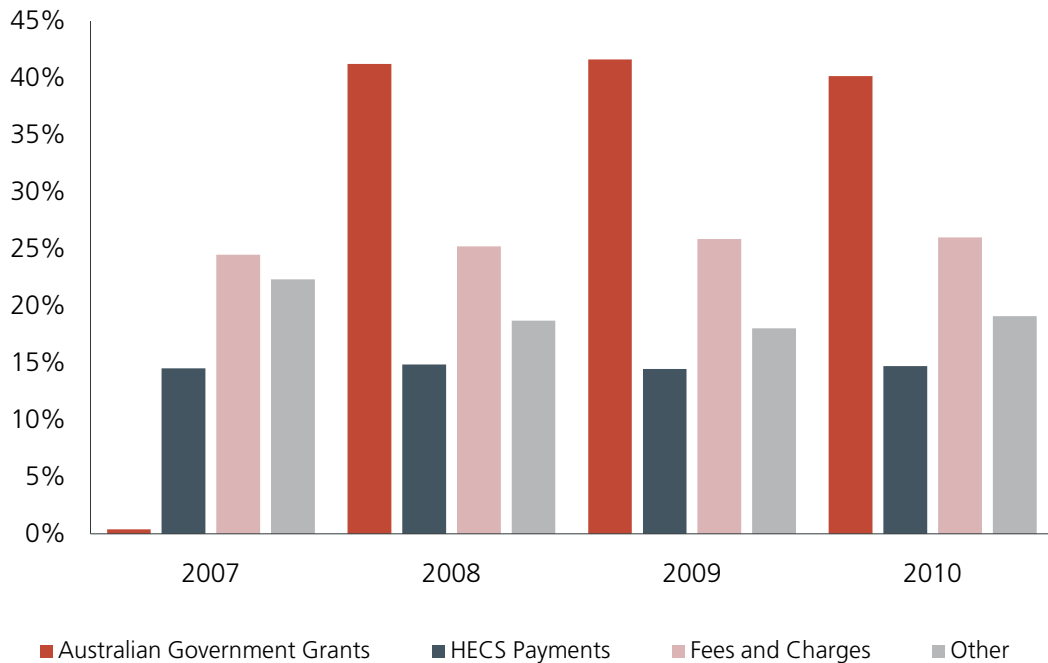
Source: University financial statements (audited)

* Gain/(loss) on sale of investments is included in 'Other'.

Revenue from overseas fee-paying students continued to be a significant revenue stream for universities, representing 19.3 per cent (18.4 per cent) of total revenue.

The breakdown of total universities' revenue is shown below:

Sources of Revenue 31 December



Source: University financial statements (audited)

Australian Government grants continued to be the main source of revenue for all universities accounting for 40.3 per cent (41.6 per cent) of total operating revenue in 2010.

The University of New England continues to be the most reliant on Australian Government grants at 48.3 per cent (50.9 per cent) of its total operating revenue whilst Macquarie University remains the least reliant at 26.5 per cent (25.5 per cent).

The ratio of HECS receipts to total operating revenue has remained fairly constant over the last four years at 14.8 per cent (14.5 per cent). The University of New South Wales continues to have the lowest ratio at 9.7 per cent (10.1 per cent). The highest ratio of 27.1 per cent (25.4 per cent) was again achieved by the University of Western Sydney.

Fees and charges are the second most significant source of revenue for universities. Fees and charges have increased by 47.6 per cent over the last five years. Macquarie University's largest source of revenue is again from fees and charges at 46.4 per cent (44.9 per cent) of its total operating revenue. The University of Western Sydney has the lowest percentage of revenue from fees and charges at 15.3 per cent (14.5 per cent).

Revenue from fee-paying overseas students for all universities has increased by 75.3 per cent over the last five years. Overseas students provide significantly higher financial returns to universities than domestic students. Revenue from overseas students represents 19.3 per cent of total operating revenue (18.4 per cent). For individual universities, revenue from fee-paying overseas students as a percentage of total operating revenue ranged from 5.3 per cent for Charles Sturt University to 31.3 per cent for Macquarie University.

Total operating revenue has increased by 40.1 per cent over the last five years. This is primarily due to the growth in Australian Government grants, which has increased by 45.7 per cent since 2006. DEEWR expects Australian Government grants to be not much more than 50.0 per cent of operating revenue. All universities achieved this expectation.

Since 2006, there has been a 6.9 per cent increase in consultancy and contracts revenue. In the same period, other income increased by 27.0 per cent and investment income decreased by 1.7 per cent.

Student numbers

During 2009, full time equivalent (FTE) students in New South Wales universities increased by 13,843 (or 6.5 per cent) to 226,719. FTE overseas students increased by 5,061 (or 10.4 per cent) to 53,842 in 2009. At 31 December 2009, overseas students now represented 23.7 per cent (22.9 per cent) of all enrolled students.

The dissection of students by university is shown in the table below.

University	Overseas Students			Domestic Students				
	Trend	2009 FTE	2008 FTE	2007 FTE	Trend	2009 FTE	2008 FTE	2007 FTE
Charles Sturt	↑	3,011	2,585	2,724	↑	15,792	15,169	15,673
Macquarie	↑	9,337	8,422	7,828	↑	15,545	14,058	13,579
Southern Cross	↑	2,616	2,521	2,103	↑	7,547	6,872	6,902
Sydney	↑	9,270	8,579	7,733	↑	29,553	28,586	28,399
New England	↑	752	587	635	↑	8,311	8,298	8,305
New South Wales	↑	8,966	7,955	7,042	↑	24,879	24,374	23,362
Newcastle	↑	3,854	3,441	3,059	↑	18,076	16,616	15,720
Technology, Sydney	↑	5,928	5,484	5,953	↑	18,048	17,404	16,848
Western Sydney	↑	2,971	2,753	2,520	↑	23,092	21,764	21,454
Wollongong	↑	7,137	6,454	5,775	↑	12,034	10,954	10,576
Total	↑	53,842	48,781	45,372	↑	172,877	164,095	160,818

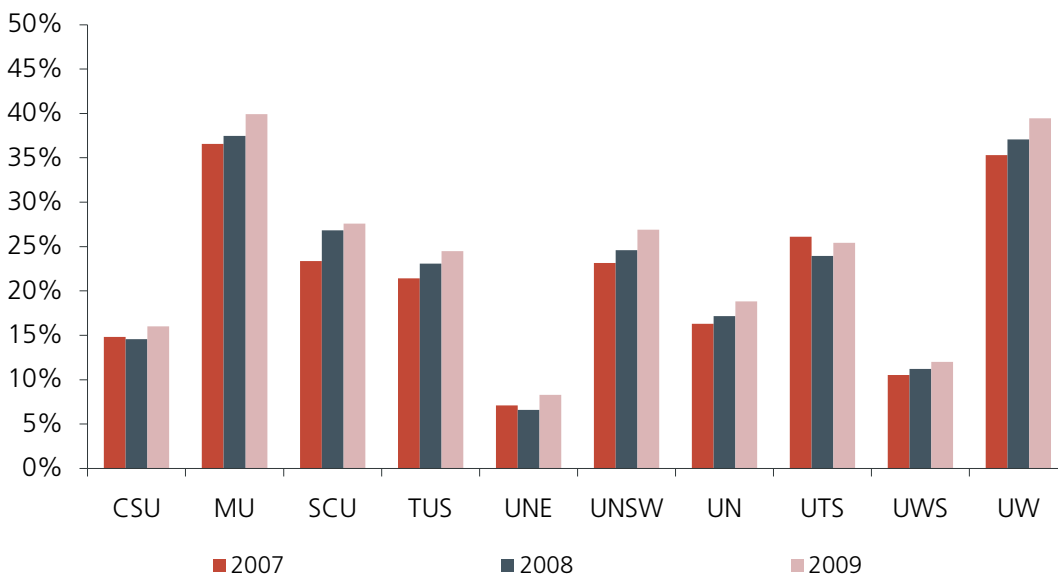
Source: 2010 Australian Government Department of Education, Employment and Workplace Relations published statistics for 2007-2009.

Key: ↑ Trending upwards, ↓ Trending downwards, ~ No trend.

The University of New England recorded the highest growth in overseas student enrolments in 2009, increasing by 28.1 per cent. All universities demonstrated upward trends in overseas student numbers.

The percentage of overseas students in universities over the last three years is shown in the graph below.

**Overseas Students vs Total Students
Year ended 31 December**

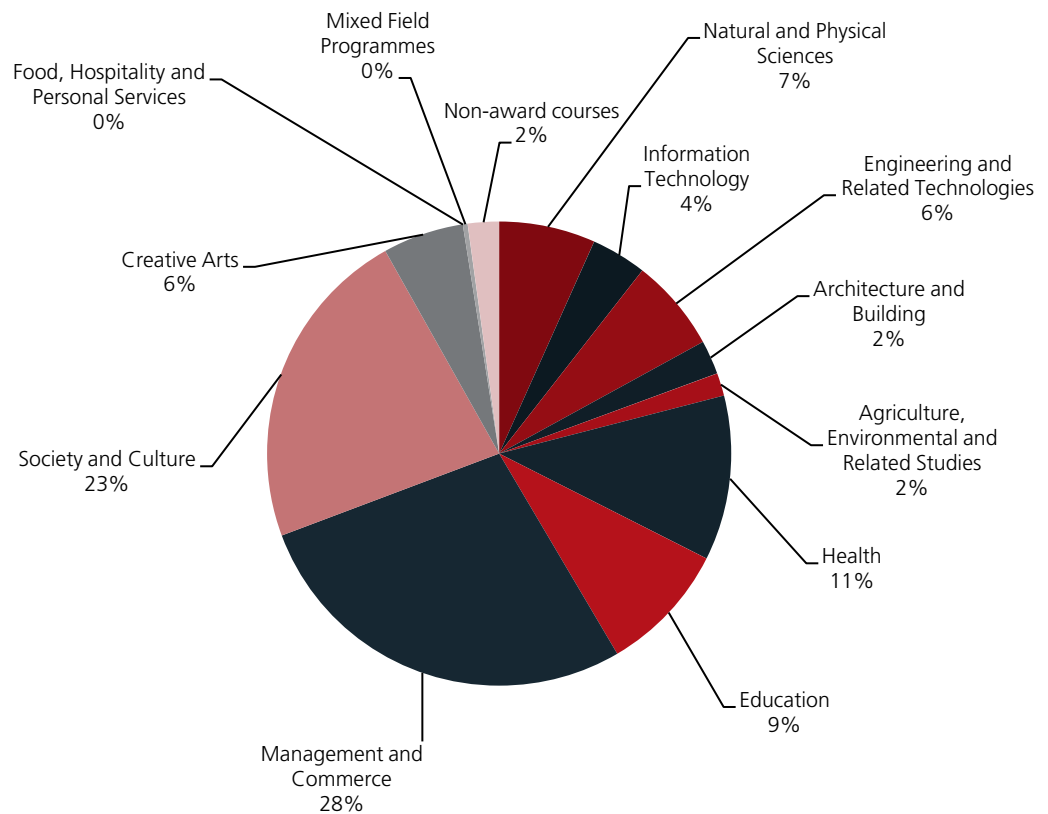


Source: Department of Education, Employment and Workplace Relations: Publications – 'Higher Education Statistics Collection'.

Over the three years to 31 December, Macquarie University has had the highest percentage of overseas students. In 2009, 39.9 per cent of its total students were from overseas (37.5 per cent). The University of New England continued to have the lowest percentage at 8.3 per cent (6.6 per cent).

The chart below shows the breakdown of the total number of students enrolled in New South Wales universities split by course category for 2009.

2009 Breakdown of Student Numbers by Course Category



Source: Department of Education, Employment and Workplace Relations: Publications – 'Higher Education Statistics Collection'.

Management and Commerce (27.7 per cent), Society and Culture (22.6 per cent) and Health (11.5 per cent) account for the highest proportion of all enrolled students. Over the past three years total students enrolled in New South Wales universities has increased, however, the percentage of students enrolled for each course category has remained steady.

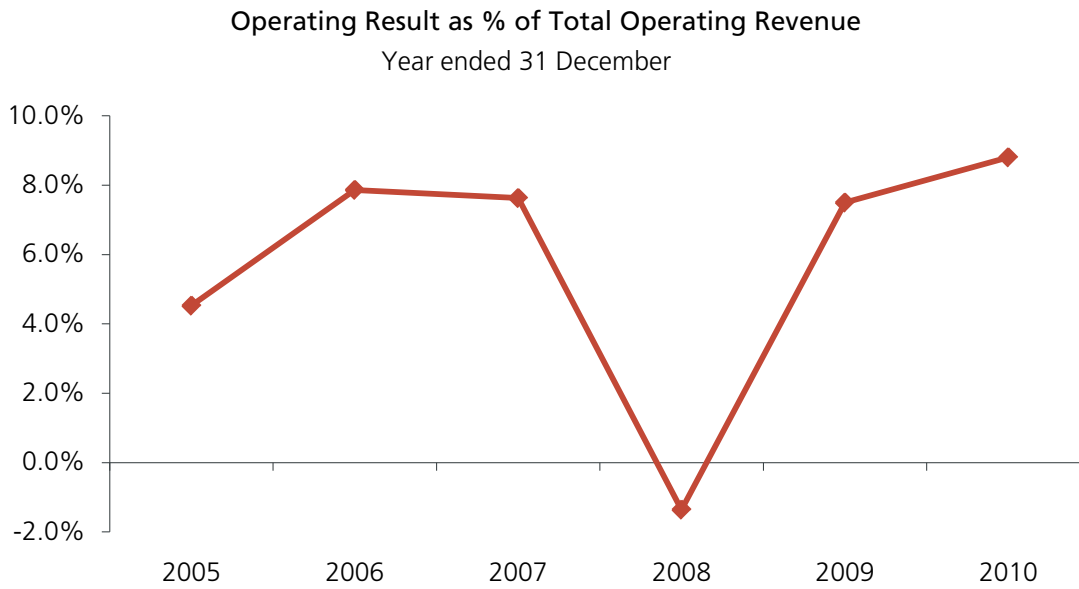
Operating Result

Although universities are not-for-profit organisations, DEEWR considers the operating result a useful measure of financial performance. Apart from exceptional years, DEEWR believes universities should achieve an operating surplus, which provides a reasonable safety margin. The graph below shows 2008 as an exceptional year due to the global financial crisis.

In 2010, New South Wales universities recorded a combined surplus of \$582 million (\$459 million). The University of New South Wales recorded the highest operating surplus of \$145 million in 2010. The University of New England recorded the lowest operating result in 2010, a deficit of \$2.2 million.

Eight (all ten in 2009) universities reported operating surpluses in 2010.

The graph below illustrates the trend in the combined operating result for all universities as a percentage of total operating revenues over the past six years.



Source: University financial statements (audited).

Operating result as a percentage of total revenue for individual universities ranged from 1.0 per cent negative for the University of New England (positive 1.3 per cent for Southern Cross) to 18.3 per cent positive for the University of Wollongong (11.9 per cent positive for the University of Technology, Sydney).

Student to Academic Ratio

At the date of preparing this Report, DEEWR statistics for 2010 were not available. The latest available statistics are for 2009 and show that the New South Wales universities' student to academic ratio of 28.5 in 2009 was the fifth highest of any jurisdiction in Australia (27.0 and third highest in 2008). Some universities are concerned this ratio is misleading as it includes students enrolled with partner organisations, but excludes the teaching staff of those organisations. The information in this report should be considered in this context.

The ratio of students to academics (excluding staff not involved in teaching) is one indicator of education quality. From a student perspective, the lower the ratio the better. However, from a financial viewpoint, a lower ratio generally translates into higher total salaries and related costs and adversely impacts financial performance benchmarks.

New South Wales universities recorded a combined operating surplus of \$582 million compared to \$459 million last year.

The University of New South Wales recorded the highest operating surplus of \$145 million, while the University of New England recorded the lowest with a deficit of \$2 million.

Statistics for 2009 show the ratio increased from 2008 for all jurisdictions.

Jurisdiction	Number of Universities	EFT	FTE	Trend	Student : Academic Ratio		
		Students	Academics		2009	2008	2007
Australian Capital Territory	2	21,333	975	↑	21.9	20.8	20.5
New South Wales	10	226,720	7,955	↑	28.5	27.0	26.1
Northern Territory	1	4,348	146	↑	29.8	15.1	22.4
Queensland	7	135,762	4,748	↑	28.6	26.9	26.5
South Australia	3	54,916	2,040	↑	26.9	25.1	25.1
Tasmania	1	15,173	719	↑	21.1	19.4	24.5
Victoria	8	211,333	6,971	↑	30.0	29.0	28.3
Western Australia	4	78,129	2,640	↑	29.6	27.5	26.8

Source: Australian Government Department of Education, Employment and Workplace Relations.

Key: ↑ Trending upwards, ↓ Trending downwards, ~ No trend

Aggregated Results of Operations, Financial Positions and Performance Indicators

The aggregated tables on pages 41 to 43 give the consolidated results of operations, financial positions and performance indicators for the universities.

As in previous years we have eliminated deferred income and deferred expenses for superannuation from the tables.

As mentioned previously, Australian Accounting Standards require entities to report certain liabilities as current liabilities irrespective of when they are expected to be settled. As a result we have excluded long service leave liabilities expected to be settled more than 12 months after the reporting date for the purposes of calculating current ratios.

Other Information

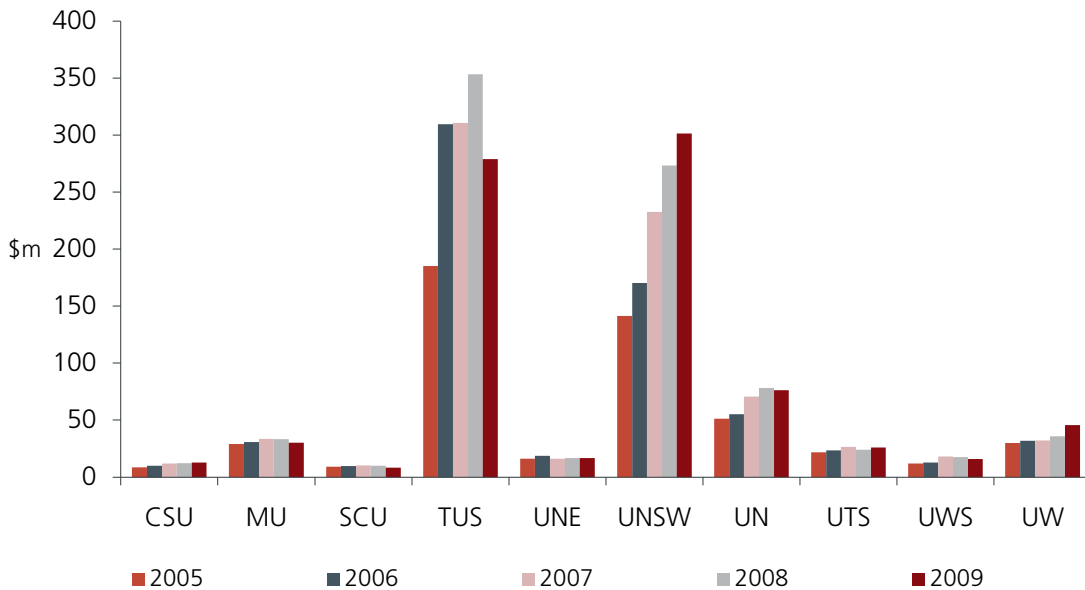
Our audits highlighted opportunities for universities to improve internal controls. These opportunities have either been or will shortly be communicated to university management. The more significant items are included in individual university comments appearing later.

Research Income

Each year New South Wales universities provide the Department of Innovation, Industry, Science and Research with research income data. The data is used in assessing university research performance. Research performance drives the allocation of Australian Government Research Block Grants. These grants reward the success of universities in obtaining non-government grants and support further research.

The graph below illustrates the total research income received by New South Wales universities over the past five years. Research income data for 2010 is unavailable.

Total Research Income by NSW University

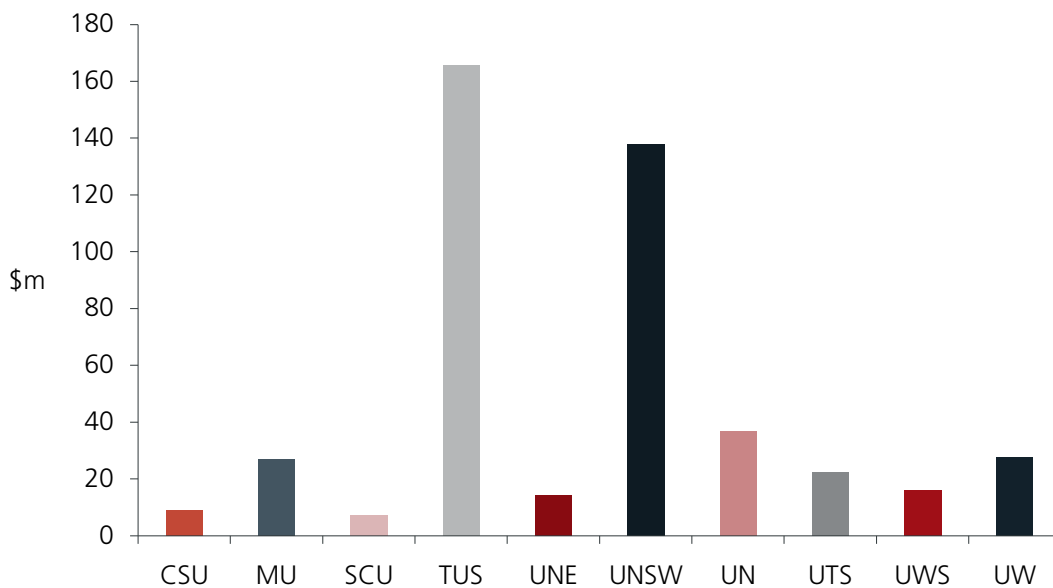


Source: Department of Innovation, Industry, Science & Research publications

Research income received by New South Wales universities has increased by 61.0 per cent over the past five years to \$813 million in 2009, a decrease of \$41.8 million over the previous year. Despite the decrease, the proportion of total research income allocated to New South Wales universities is consistent with previous years. The University of New South Wales and the University of Sydney continue to be the top two recipients, receiving 37.1 per cent and 34.3 per cent of total research grants respectively. Most of this income came from Australian competitive grants and industry and other funding for research.

In 2011, \$1.5 billion will be provided to eligible Australian higher education providers in the form of block grants. The graph below illustrates the total research grant allocated to each New South Wales University.

Total Research Grant Allocation for NSW Universities - 2011

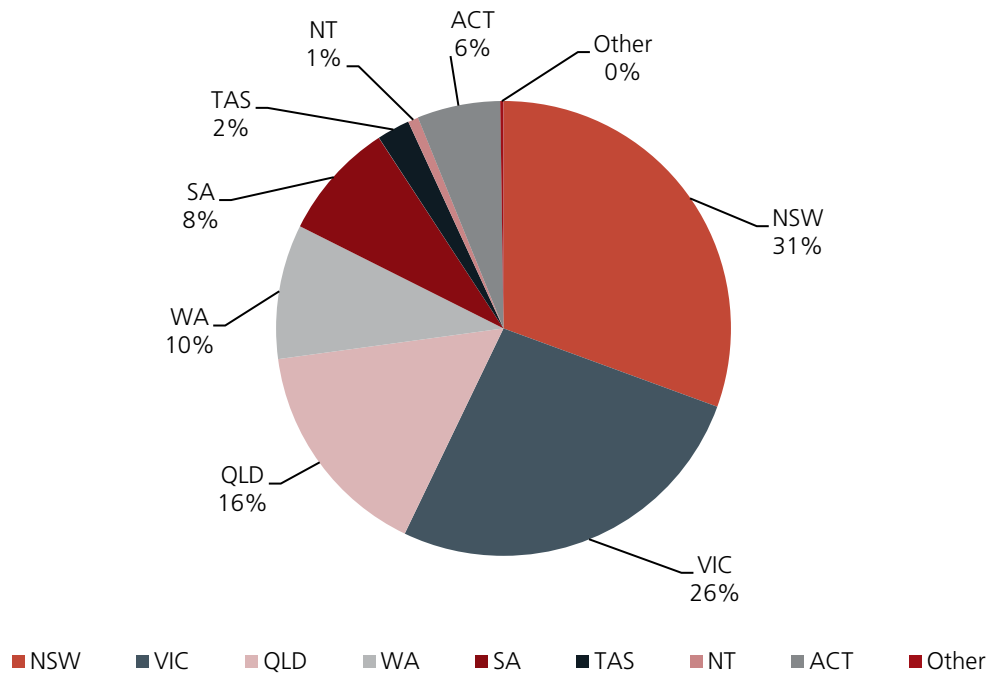


Source: Department of Innovation, Industry, Science and Research publications.

The University of Sydney and the University of New South Wales expect to receive \$166 million and \$138 million respectively in 2011.

The graph below illustrates total research grants allocated to the universities in each state within Australia. New South Wales receives the highest allocation of 30.6 per cent, while Victoria receives the second highest allocation of 26.5 per cent.

2011 Research Grant Allocation - By State



University Information

University	Charles Sturt		Macquarie		Southern Cross		Sydney	
	2010 \$m	2009 \$m	2010 \$m	2009 \$m	2010 \$m	2009 \$m	2010 \$m	2009 \$m
Abridged Statement of Comprehensive Income (year ended 31 December)								
Total revenue	358.0	333.0	686.8	583.2	167.0	164.1	1,503.0	1,395.1
Total expenses	342.0	305.5	610.6	527.5	167.9	161.8	1,390.9	1,334.8
Outside equity interest/other	--	--	--	--	--	--	--	(0.4)
Surplus/(deficit)	16.0	27.5	76.2	55.7	(0.9)	2.3	112.1	59.9
Other comprehensive income/expense***	(23.5)	44.5	49.1	52.7	--	--	(26.0)	71.6
Total comprehensive income/expense	(7.5)	72.0	125.3	108.4	(0.9)	2.3	86.1	131.5
Abridged Statement of Financial Position (at 31 December)								
Total assets	927.9	910.9	2,046.9	1,747.0	271.6	269.5	4,384.3	4,277.6
Total liabilities	272.5	246.8	686.8	511.0	74.2	71.3	1,068.3	1,047.8
Net assets	655.4	664.1	1,360.1	1,236.0	197.4	198.2	3,316.0	3,229.8
Performance Indicators (at 31 December)								
Current ratio (a)	1.4*	1.4*	1.2*	0.9*	1.9	1.5	1.4*	0.7*
Australian Government grants as a % of total revenue (b)	43.5	46.7	26.5	25.5	47.9	44.5	42.7	43.7
HECS as a % of total revenue (b)	21.7	19.3	13.2	13.7	22.2	22.4	10.9	10.1
Fees and charges as a % of total revenue (b)	15.9	15.3	46.4	44.9	13.8	15.6	23.1	23.1
Employee Benefits and on-costs as a % of total revenue (c)	56.7	59.3	48.9*	50.6	61.6	55.9	56.4	57.8
Operating result as % of total revenue (d)	4.5	8.3	11.1	9.5	(0.5)*	1.3	7.5	4.3
Student numbers FTE**	na	18,803	na	24,882	na	10,163	na	38,823
Students per academic**	na	34.7	na	35.8	na	34.3	na	22.3

Key: All data except 'Student numbers' and 'Students per academic' are based on financial statements (audited).

Performance indicators as per DEEWR's manual for Australian Universities' are:

- a Current Ratio – an indicator of liquidity. Good practice is a ratio of more than 1.5 to less than three.
- b Diversity of Revenue – Universities should have three or four major income sources with none below five per cent and preferably all above 15 per cent. Reliance on Australian Government funding should be decreasing, preferably to not much more than 50 per cent.
- c Employee Benefits and on-costs as a percentage of Total Revenue – Good practice is between 50 and 70 per cent.
- d Operating Result as a percentage of Total Operating Revenue – Should be positive with a safety margin.
- * Represents performance outside benchmark.
- ** DEEWR publications Higher Education Statistics Collection. Academics are 'Teaching' and 'Teaching and Research'.
- *** Other Comprehensive Income/Expense excludes deferred superannuation actuarial gains/losses. For consistency in reporting of University results, actuarial gains/losses have been reflected on a net basis in employee related expenses. This rolls up into the Total Expenses line item. Revenue and Expenses excludes the impact of Deferred Government Superannuation.
- na Not available.

University	New England		New South Wales		Newcastle		Technology, Sydney	
	2010 \$m	2009 \$m	2010 \$m	2009 \$m	2010 \$m	2009 \$m	2010 \$m	2009 \$m
Abridged Statement of Comprehensive Income (year ended 31 December)								
Total revenue	221.0	218.5	1,420.3	1,251.9	546.2	522.4	584.0	564.6
Total expenses	223.2	208.7	1,274.8	1,177.4	509.5	476.9	550.6	497.6
Outside equity interest/other	--	--	(0.3)	(0.1)	(0.1)	(0.1)	--	--
Surplus/(deficit)	(2.2)	9.8	145.2	74.4	36.6	45.4	33.4	67.0
Other comprehensive income/expense***	0.2	(1.0)	17.3	90.1	16.6	78.6	36.2	30.1
Total comprehensive income/expense	(2.0)	8.8	162.5	164.5	53.2	124.0	69.6	97.1
Abridged Statement of Financial Position (at 31 December)								
Total assets	463.7	453.4	2,838.1	2,618.3	1,275.1	1,189.8	1,636.6	1,514.4
Total liabilities	218.2	206.8	1,181.5	1,122.2	346.0	313.8	476.4	423.8
Net assets	245.5	246.6	1,656.6	1,496.1	929.1	876.0	1,160.2	1,090.6
Performance Indicators (at 31 December)								
Current ratio (a)	1.8	1.8	1.6	1.2*	2.5	2.5	3.4*	3.3*
Australian Government grants as a % of total revenue (b)	48.3	50.9	41.7	44.0	42.3	44.9	31.0	34.9
HECS as a % of total revenue (b)	20.2	19.3	9.7	10.1	17.5	17.0	16.5	17.0
Fees and charges as a % of total revenue (b)	18.5	15.6	32.3	32.0	16.6	18.4	35.2	33.1
Employee Benefits and on-costs as a % of total revenue (c)	61.3	57.8	50.1	51.9	55.7	52.0	56.4	52.7
Operating result as % of total revenue (d)	(1.0)*	4.5	10.1	5.8	6.7	8.7	5.7	11.9
Student numbers FTE **	na	9,063	na	33,845	na	21,930	na	23,976
Students per academic**	na	23.7	na	27.8	na	32.8	na	32.2

Key: All data except 'Student numbers' and 'Students per academic' are based on financial statements (audited).

Performance indicators as per DEEWR's manual for Australian Universities' are:

- e Current Ratio – an indicator of liquidity. Good practice is a ratio of more than 1.5 to less than three.
- f Diversity of Revenue – Universities should have three or four major income sources with none below five per cent and preferably all above 15 per cent. Reliance on Australian Government funding should be decreasing, preferably to not much more than 50 per cent.
- g Employee Benefits and on-costs as a percentage of Total Revenue – Good practice is between 50 and 70 per cent.
- h Operating Result as a percentage of Total Operating Revenue – Should be positive with a safety margin.

* Represents performance outside benchmark.

** DEEWR publications Higher Education Statistics Collection. Academics are 'Teaching' and 'Teaching and Research'.

*** Other Comprehensive Income/Expense excludes deferred superannuation actuarial gains/losses. For consistency in reporting of University results, actuarial gains/losses have been reflected on a net basis in employee related expenses. This rolls up into the Total Expenses line item. Revenue and Expenses excludes the impact of Deferred Government Superannuation.

na Not available.

University	Western Sydney		Wollongong		Total	
	2010 \$m	2009 \$m	2010 \$m	2009 \$m	2010 \$m	2009 \$m
Abridged Statement of Comprehensive Income (year ended 31 December)						
Total revenue	562.3	535.1	548.1	481.2	6,596.7	6,049.1
Total expenses	497.3	474.3	446.6	423.6	6,013.4	5,588.1
Outside equity interest/other	--	--	(1.0)	(1.2)	(1.4)	(1.8)
Surplus/(deficit)	65.0	60.8	100.5	56.4	581.9	459.2
Other comprehensive income/expense***	240.1	5.6	(1.1)	8.4	308.9	380.6
Total comprehensive income/expense	305.1	66.4	99.4	64.8	890.8	839.8
Abridged Statement of Financial Position (at 31 December)						
Total assets	1,530.2	1,208.4	1,048.1	899.8	16,422.5	15,089.1
Total liabilities	274.1	257.4	350.0	301.1	4,948.0	4,502.0
Net assets	1,256.1	951.0	698.1	598.7	11,474.5	10,587.1
Performance Indicators (at 31 December)						
Current ratio (a)	1.0*	1.3*	2.7	2.4	1.8	1.4*
Australian Government grants as a % of total revenue (b)	46.1	47.5	41.3	37.9	40.3	41.6
HECS as a % of total revenue (b)	27.1	25.4	14.3	13.3	14.8	14.5
Fees and charges as a % of total revenue (b)	15.3	14.5	32.3	34.5	27.4	26.8
Employee Benefits and on-costs as a % of total revenue (c)	54.9	53.5	47.5*	49.5*	53.6	53.9
Operating result as a % of total revenue (d)	11.6	11.4	18.3	11.7	8.8	7.5
Student numbers FTE**	na	26,064	na	19,171	na	226,720
Students per academic**	na	29.3	na	29.3	na	28.5

Key: All data except 'Student numbers' and 'Students per academic' are based on financial statements (audited).

Performance indicators as per DEEWR's manual for Australian Universities' are:

- i Current Ratio – an indicator of liquidity. Good practice is a ratio of more than 1.5 to less than three.
- j Diversity of Revenue – Universities should have three or four major income sources with none below five per cent and preferably all above 15 per cent. Reliance on Australian Government funding should be decreasing, preferably to not much more than 50 per cent.
- k Employee Benefits and on-costs as a percentage of Total Revenue – Good practice is between 50 and 70 per cent.
- l Operating Result as a percentage of Total Operating Revenue – Should be positive with a safety margin.

* Represents performance outside benchmark.

** DEEWR publications Higher Education Statistics Collection. Academics are 'Teaching' and 'Teaching and Research'.

*** Other Comprehensive Income/Expense excludes deferred superannuation actuarial gains/losses. For consistency in reporting of University results, actuarial gains/losses have been reflected on a net basis in employee related expenses. This rolls up into the Total Expenses line item. Revenue and Expenses excludes the impact of Deferred Government Superannuation.

na Not available.

Section Three

Commentary on Universities and Government Agencies

-
- Charles Sturt University
 - Macquarie University
 - Southern Cross University
 - The University of Sydney
 - University of New England
 - University of New South Wales
 - University of Newcastle
 - University of Technology, Sydney
 - University of Western Sydney
 - University of Wollongong
 - Hunter Region Sporting Venues Authority
 - Gosford Water Supply Authority
 - Parramatta Stadium Trust

The University required an independent expert to value its investments in collateralised debt obligations, \$12.6 million and floating rate notes, \$19.8 million.

The quality of the financial statements submitted for audit improved in 2010. However, significant adjustments were still required.

The Ontario campus may be exposed to significant tax and other compliance risks.

Audit Opinion

The audits of the University and its controlled entities' financial statements, except for the Charles Sturt Foundation Trust, resulted in unqualified Independent Auditor's Reports for the year ended 31 December 2010.

I was unable to express an opinion as to whether the Charles Sturt Foundation Trust had recorded all revenues received from donations and fundraising sources in its financial statements. This is common for entities with these sources of revenue, as it is impracticable for them to maintain effective systems of internal control over the receipt of such revenues until their initial entry in the financial records. My audit report for 2009 was similarly qualified.

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

Key Issues

Fair value of investments

I recommend the University review how it values its unquoted investments to ensure appropriate market values are determined.

At 31 December 2010, the University had unquoted investments in collateralised debt obligations and floating rate notes valued at \$12.6 million and \$19.8 million respectively. The University initially valued these investments using information received from its brokers and issuers, which did not meet the requirements of the Australian Accounting Standards. The University subsequently obtained an independent expert's valuation to support the market values recognised in its financial statements.

Financial Statements

I recommend the University improve its quality control procedures over the preparation of its financial statements and supporting documentation.

The quality of the financial statements submitted for audit improved in 2010. However, significant adjustments were still required to ensure they complied with the requirements of the Australian Accounting Standards.

Overseas Operations

I recommend the University review its corporate strategy and the structure of its overseas operations to ensure it aligns with its corporate objectives.

The Ontario campus reported revenue of \$4.7 million (\$4.4 million in 2009). The self governing business unit established at this campus may be exposed to significant tax and other compliance risks, which could have financial or reputational implications for the University.

Other Information

I identified opportunities for improvements to accounting and internal control procedures and will report them to management.

Capital Expenditure Program

The University is mid-way through a \$270 million, five-year capital development plan, funded through operating surpluses, borrowings and investments. Capital expenditure totalled \$55.7 million with \$115 million budgeted for 2011.

During 2010, the University completed construction of dental clinics in Dubbo, Bathurst and Albury-Wodonga and other structures.

Maintenance expenditure of \$15.2 million (\$4.3 million) contributed to the decrease of backlog maintenance to \$1.3 million at 31 December 2010 (\$1.7 million).

Financial Information

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

Increased expenses of \$88.9 million were not matched by increased revenues, which rose by only \$77.3 million, resulting in the operating surplus declining by \$11.5 million.

Abridged Statements of Comprehensive Income

Year ended 31 December	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Australian Government grants	155,906	155,502	155,906	155,502
Higher Education Contribution Scheme	77,701	64,210	77,701	64,210
Fees and charges	56,922	50,905	56,922	50,905
Other	67,490	62,429	65,838	59,563
Deferred income – superannuation	18,777	(33,579)	18,777	(33,579)
Total Revenue	376,796	299,467	375,144	296,601
Employee benefits and on-costs	203,042	194,618	202,724	193,762
Depreciation	26,394	23,370	26,389	23,370
Other	112,597	87,545	110,896	87,376
Deferred expense – superannuation	18,777	(33,579)	18,777	(33,579)
Total Expenses	360,810	271,954	358,786	270,929
Surplus	15,986	27,513	16,358	25,672
Other Comprehensive Income				
(Loss)/Gain on revaluation of land and buildings	(22,341)	29,731	(22,341)	29,731
Fair value (losses)/gains on available for sale financial assets	(752)	14,867	(616)	13,563
Exchange losses on translation of foreign operations	(394)	(115)	(394)	(115)
Total Other Comprehensive (Expense)/Income	(23,487)	44,483	(23,351)	43,179
Total Comprehensive (Expense)/Income	(7,501)	71,996	(6,993)	68,851

The increase in Higher Education Contribution Scheme (HECS) revenue was largely due to an 18.0 per cent increase in HECS students during the year.

The increase in fees and charges reflects a \$2.3 million rise in fees from overseas fee paying students and \$1.8 million in student accommodation charges.

Deferred income and deferred expense reflect movements in the actuarially assessed employee superannuation liability and fund assets for employees who are members of the State Government's defined benefit superannuation plans.

Employee benefits and on costs increased due to award increases of 2.0 per cent from 19 March 2010 and 3.0 per cent from 17 September 2010.

The increase in other expenses was largely due to:

- higher repairs and maintenance expenditure of \$10.9 million
- an increase in scholarship expense by \$7.9 million.

Abridged Statements of Financial Position

At 31 December	Consolidated		Parent	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Current assets	63,631	54,509	61,901	52,275
Non-current assets	864,265	856,352	858,204	850,016
Total Assets	927,896	910,861	920,105	902,291
Current liabilities	62,867	56,424	62,512	56,960
Non-current liabilities	209,588	190,357	209,337	190,081
Total Liabilities	272,455	246,781	271,849	247,041
Net Assets	655,441	664,080	648,256	655,250

The increase in current assets reflects the University's decision to hold short term investments.

Current liabilities increased mainly due to the timing of payments to creditors.

The movement in non-current liabilities is due to the increase in the superannuation liability. The liability is largely funded by the Australian Government and this receivable is reflected in the increase in non-current assets.

University Activities

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

- provides educational and research facilities of university standard
- disseminates and increases knowledge and promotes scholarship
- provides distance education for students within New South Wales and elsewhere
- confers degrees of Bachelor, Master and Doctor and awards diplomas and other certificates
- develops governance, admission policies, financial arrangements and quality assurance processes that are significant to ensure the integrity of the University's academic programs
- exercises commercial functions for the University's benefit.

For further information on the University, refer to www.csu.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	Website
Charles Sturt University Foundation Trust	www.csu.edu.au/special/foundation
Charles Sturt Foundation Limited	www.csu.edu.au/special/foundation
Charles Sturt Services Limited	*
Charles Sturt Campus Services Limited	*
Western Research Institute Limited**	www.wri.org.au

* This entity does not have a website.

** The University does not control this entity from 1 July 2010.

Audit Opinion

The audits of the University and the consolidated entity's financial statements for the year ended 31 December 2010 resulted in an unqualified Independent Auditor's Report.

The audits of all controlled entities are complete, except for one. The completed audits all resulted in unqualified Independent Auditor's Reports. 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

Macquarie University Hospital and Clinic

As a start up operation, there is a risk that the projected revenue from higher patient numbers may not be realised. This may impact the collectability of loans of \$31.6 million made by the University to the hospital's operator. The University is closely monitoring the progress in the hospital's operations and remains confident they will be repaid based on projected increases in patient numbers and revenue. The loans are interest bearing and repayable after five years. The hospital's operator is a controlled entity of the University.

The hospital admitted its first patient on 15 June 2010 and is in the start up phase of the business. The hospital incurred a loss of \$27.5 million and a net asset deficiency of the same amount in 2009-10. During the year, the University advanced \$31.6 million to the hospital's operator, MUH Operations No. 2 Limited (Company), to help ensure the Company met its debts. The University Council has resolved to make further funds available to the Company, if needed, to enable it to meet its obligations.

The University developed the hospital and clinic on its Ryde campus. The hospital investment is a key component to the University's strategy to be among the top eight research universities in Australia and among the top 200 in the world. The hospital's objectives are to deliver training, medical research and quality patient care in select specialty areas. It will also accommodate the Australian School of Advanced Medicine. The medical school will deliver postgraduate programs in specialty and sub-specialty fields and work in partnership with the Royal Australasian College of Surgeons.

Controlled entities

The University's future compliance costs will be lower with fewer controlled entities.

The University has made significant progress in reducing the number of its controlled entities. Last year I recommended the University review its corporate strategy to help ensure its corporate structure aligns with that strategy.

By 31 December 2010, the University had terminated 14 trusts and commenced deregistration of one corporate trustee to simplify the Group's corporate structure. The University had 20 controlled entities at 31 December 2010 compared with 34 at 31 December 2009.

The restructure resulted in the transfer of \$307 million of trust assets to the University and eliminated loans of \$282 million between the University and the trusts.

Other Information

Capital Funding

The University estimates it will require approximately \$295 million over the next three years to fund the cost of its capital works program. The University currently has the financial capacity to fund its future capital works program.

Projected revenue for the University's hospital may not be realised. This may impact the collectability of loans of \$31.6 million to the hospital's operator.

The University has made significant progress in reducing the number of its controlled entities.

In December 2010, the University received an Aa2 credit rating from Moody's Investors Service (Moody's), the same rating as in the prior year. Moody's believes this rating reflects the University's sound performance, positive liquidity level and strong market position. Moody's analysis also incorporated a large, but manageable, increase in the University's debt to re-finance existing borrowings and to fund its capital works program.

Major Projects

The University is building a new Learning and Research Centre which will represent a new generation of library design. Construction started in October 2008 for an estimated cost of \$90.8 million and reached practical completion in March 2011. The first stage of the library was opened in March 2011, allowing access to 572 seats on levels 3 and 4. Full operation of the library will occur in August 2011. It will have nearly three times the old library's seating capacity with 2,500 seats and over double the collection space.

Cochlear Limited, a global player in implantable hearing solutions, moved its headquarters and principal manufacturing facilities into accommodation on the University campus in October 2010. The University purchased the building for \$114 million and is leasing it to Cochlear Limited.

The University is building the Australian Hearing Hub, which will enhance research, education and training capacity in hearing and speech sciences through collaboration. Construction has commenced for an estimated cost of \$114 million. The project's target completion date is late 2012.

Backlog maintenance

The University estimates its backlog maintenance program will cost \$29.0 million at 31 December 2010. The University's backlog maintenance has increased over the past three years, as demonstrated in the table below. The University advised that its maintenance budget is developed from a combination of needs i.e. statutory compliance; continued equipment reliability and customer requirements, and compared with previous year's spending. The budget included servicing for statutory and essential service requirements to maintain compliance, planned maintenance requirements for installed equipment and an estimate for breakdown and call out maintenance.

Year ended 31 December	Estimate		
	2010 \$'000	2009 \$'000	2008 \$'000
Backlog maintenance	29,030	30,800	22,031

Source: Macquarie University (unaudited).

Whilst backlog maintenance has increased over time, the University believes it is low compared with the value of its buildings and plant and equipment of over \$900 million.

Internal Controls

I identified opportunities for improvement to accounting and internal control procedures and will report them to management. These included:

- user accounts management
- network security
- firewall management.

Financial Information

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

Abridged Statements of Comprehensive Income

Year ended 31 December	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Australian Government grants	182,298	148,997	182,244	148,944
Higher Education Contribution Scheme	90,594	79,913	90,594	79,913
Fees and charges	318,881	261,933	279,147	233,199
Other	95,021	92,332	86,741	71,821
Total Revenue	686,794	583,175	638,726	533,877
Employee benefits and on-costs	335,071	295,354	279,540	258,272
Depreciation	39,063	29,573	34,689	28,162
Other	235,832	201,648	223,351	191,804
Deferred expense – superannuation	592	935	592	935
Total Expenses	610,558	527,510	538,172	479,173
Surplus	76,236	55,665	100,554	54,704
Other Comprehensive Income				
Revaluation of available for sale financial assets	173	27,151	173	27,151
Gain on revaluation of property, plant and equipment	50,032	21,171	50,032	21,171
Other losses	(20)	(250)	(20)	(250)
Actuarial gain (loss) from defined benefit superannuation plans	(1,089)	4,629	(1,089)	4,629
Total Other Comprehensive Income/(Expense)	49,096	52,701	49,096	52,701
Total Comprehensive Income	125,332	108,366	149,650	107,405

Australian Government grants increased mainly due to an increase in the cap for funding over enrolments from five per cent in the previous year to ten per cent this year together with new teaching and learning capital funding. Higher Education Contribution Scheme income increased due to a higher student load in Commonwealth Supported Places. The increase in fees and charges was mainly due to higher enrolments of fee paying overseas students.

Higher salary increments awarded to staff and the appointment of additional staff resulted in an increase in employee benefits and on-costs.

The University issued \$250 million of medium term notes to fund capital works. This is the first note issue by the University.

Abridged Statements of Financial Position

At 31 December	Consolidated		Parent	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Current assets	147,416	195,719	103,170	168,205
Non-current assets	1,899,482	1,551,273	1,921,792	1,424,555
Total Assets	2,046,898	1,746,992	2,024,962	1,592,760
Current liabilities	144,284	247,602	125,245	109,640
Non-current liabilities	542,524	263,384	541,143	274,196
Total Liabilities	686,808	510,986	666,388	383,836
Net Assets	1,360,090	1,236,006	1,358,574	1,208,924

Consolidated current assets declined as the University used its cash balances of approximately \$29.1 million to fund its working capital requirements. Receivables fell by \$9.6 million mainly due to lower amounts due from the Australian Government at year end.

Non-current assets increased as the University completed construction of the private hospital and clinic buildings at a total cost of \$209 million (excluding fit-out costs of approximately \$43.0 million), paid \$114 million for the Cochlear building and continued with the development of the new Learning and Research Centre.

A \$121 million loan for construction of the private hospital and clinic was repaid in September 2010, which reduced current liabilities at year end. At the same time, the University issued medium term notes to the value of \$250 million, which increased non-current liabilities at year end. The University used the funds raised from a note issue to repay the private hospital and clinic building construction loan, pay for the Cochlear building and contribute to other capital works. This is the first note issue by the University. The notes are unsecured and the University has provided negative pledge restricting rights to raise prior ranking indebtedness.

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
- operates a medical facility and other commercial activities.

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

Controlled Entities

Controlled Entities Late Submission of Financial Statements

Seven of Macquarie University's controlled entities did not submit financial statements within the statutory requirement of six weeks after year end. This is required by the *Public Finance and Audit Act 1983*.

Entity	Date Due	Date submitted
Lams International Pty Ltd	11 February 2011	1 March 2011
MU Private Hospital Pty Ltd	11 February 2011	21 February 2011
MU Property Investment Company Pty Ltd	11 February 2011	21 February 2011
MU Property Investment Company No 3 Pty Ltd	11 February 2011	21 February 2011
MU Property Investment Company No 2 Pty Ltd	11 February 2011	21 February 2011
MUPH Clinic Pty Ltd	11 February 2011	21 February 2011
MUPH Hospital Pty Ltd	11 February 2011	21 February 2011

The audit of Access Macquarie Limited is incomplete. The client is reconciling income and work in progress to help ensure profit for the year ended 31 December 2010 is fairly stated.

Macquarie Graduate School of Management Pty Limited

Year ended 31 December	2010 \$'000	2009 \$'000
Revenue	27,717	26,537
Expenses	24,361	23,395
Profit	3,356	3,142
Net assets (at 31 December)	15,513	12,157

The Company's revenue and profit has remained fairly stable over the past two years as have student numbers. MGSM provides business education to middle to senior executives, either through the MBA course and other postgraduate programs or corporate executive education programs. For further information on the company refer www.mgsm.edu.au.

U@MQ Limited

Year ended 31 December	2010 \$'000	2009 \$'000
Revenue	26,385	26,402
Expenses	27,189	26,870
Loss	804	468
Net assets (at 31 December)	9,461	10,265

Both revenue and expenses have remained stable over the past two years. The University provides financial support in the way of annual grants to the company. During 2009-10, the University provided grants of \$4.1 million (\$4.7 million in 2008-09). U@MQ Limited provides a range of services to students including food, beverage, retail services, childcare, sporting and social activities. For further information on the company, refer to www.campuslife.mq.edu.au.

MUH Operations No.2 Limited (Macquarie University Hospital and Clinic)

Year ended 31 December	2010	2009
	\$'000	\$'000
Revenue	13,767	--
Expenses	41,271	--
Loss	27,504	--
Net liabilities (at 31 December)	27,504	--

The hospital admitted its first patient on 15 June 2010. This is the first year of business activity. Refer to page 49 for discussion on the Macquarie University Hospital and Clinic

Other 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	Website
Access Macquarie Limited	www.accessmq.com.au
Australian Proteome Analysis Facility Limited	www.proteome.org.au
CMBF Limited	*
COH Property Trust	*
LAMS Foundation Limited	*
LAMS International Pty Ltd	www.lamsinternational.com
Macquarie University Medical Research Foundation Limited	*
Macquarie University Medical Research Foundation**	*
Macquarie University Private Hospital Trust**	*
Macquarie University Property Investment Company No. 2 Pty Limited	*
MU Property Investment Company No. 3 Pty Limited	*
Macquarie University Property Investment Company Pty Limited	*
MU Hospital Pty Limited	*
MUH Operations Pty Ltd	*
Macquarie University Property Investment Trust	*
MUPIT Sub-Trust No. 1**	*
MUPIT Sub-Trust No. 2**	*

Entity Name	Website
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**	*
Risk Frontiers Flood (Australia) Pty Ltd	www.riskfrontiers.com
Risk Frontiers Group Pty Ltd	www.riskfrontiers.com

* This entity does not have a website.

** Terminated at 31 December 2010.

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	Website
Macquarie University Professorial Superannuation Scheme	*
Sydney Educational Broadcasting Limited	www.2ser.com

* This entity does not have a website.

The University opened its Gold Coast Campus in February 2010.

Audit Opinion

The audits of the University and its controlled entities' financial statements for the year ended 31 December 2010 resulted in unqualified Independent Auditor's Reports.

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

Key Issues

Gold Coast Campus

The University opened its Gold Coast Campus in February 2010. The foundation building, costing \$20.0 million, represents the first phase of a campus master plan to serve this region of Australia. The construction costs were supported by a \$7.7 million contribution from the Australian Government.

In November 2009, the Minister for Infrastructure, Transport, Regional Development and Local Government approved the major development plan for a second building on the site. The building will comprise 10 storeys and house teaching, research and office facilities.

The University intends to borrow \$45.0 million to finance the construction.

Acquisition of National Marine Science Centre Pty Ltd

During May 2010, the University completed the \$4.6 million purchase of the remaining 50 per cent share in the National Marine Science Centre Pty Ltd from the other joint venture partner, the University of New England. The former New South Wales Minister for Education and Training approved the acquisition in November 2009 and the purchase is expected to increase the research capabilities of the University.

Other Information

Long Service Leave Liability

As shown in the Universities Overview section, long service leave liabilities have increased by 42.2 per cent over the past five years to \$12.8 million in 2010 (\$12.3 million in 2009).

The University has advised it holds adequate cash reserves to fully cover long service leave liabilities and has included a new 'direction to take leave' provision in the proposed Enterprise Bargaining Agreement, which will facilitate more effective management of long service leave.

Annual Leave Balances

As shown in the Universities Overview section, the University has identified and taken effective measures to reduce excessive annual leave balances since my recommendation last year. Employees with annual leave balances in excess of 40 days decreased 36.7 per cent from 90 employees at 31 December 2009 to 57 employees at 31 December 2010. Only three employees have leave balances exceeding 60 days.

Other Capital Works

Capital expenditure in 2010 totalled \$9.6 million (\$33.7 million). It included \$2.9 million for a new swimming pool and \$3.9 million for a Health and Wellbeing Clinic at the Lismore Campus.

As detailed in the Key Issues above, the University intends to borrow \$45.0 million to finance the construction of a second building at the Gold Coast Campus.

Internal Controls

I identified opportunities for improvements to accounting and internal control procedures and reported them to management.

Financial Information

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

Increases in expenses were not matched by increased revenues resulting in the University making an operating deficit of \$565,000 compared to a surplus of \$2.2 million last year.

Abridged Statements of Comprehensive Income

Year ended 31 December	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Australian government grants	80,043	72,962	80,016	72,962
Higher Education Contribution Scheme	37,093	36,764	37,093	36,764
Fees and charges	23,112	25,622	22,844	25,419
Other	26,768	28,716	33,570	28,441
Total Revenue	167,016	164,064	173,523	163,586
Employee benefits and on-costs	102,799	91,783	101,880	91,043
Depreciation and amortisation	7,687	6,090	7,539	6,083
Other	57,095	64,011	58,668	63,354
Total Expenses	167,581	161,884	168,087	160,480
(Deficit)/Surplus	(565)	2,180	5,436	3,106
Other Comprehensive Income				
Net actuarial gains/(losses) recognised in respect of defined benefit superannuation plans	(292)	144	(292)	144
Total Comprehensive (Expense)/Income	(857)	2,324	5,144	3,250

Note: 2009 figures will not agree to the figures reported in Volume 2 of the 2010 Auditor-General's Report, due to reclassification of prior year figures in the 2010 financial statements of the University.

Funding received from the Australian Government increased by 9.7 per cent due to a shift in enrolments across the clusters. Student numbers also increased from 6,541 in 2009 to 6,606 in 2010.

Fees and Charges decreased by 9.8 per cent due to a fall in the number of international post-graduate students and a decrease in fees relating to student accommodation. In August 2009, the University entered into a partnership with student accommodation provider Campus Living Villages for the ongoing management, refurbishment and expansion of its student accommodation in Lismore and Coffs Harbour.

Employee benefits and on-costs rose by 12.0 per cent due to a 4.0 per cent award increase and an increase in staff numbers from 856 in 2009 to 908 in 2010.

Abridged Statement of Financial Position

At 31 December	Consolidated		Parent	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Current assets	50,552	58,225	59,367	57,946
Non-current assets	221,047	211,314	212,114	204,928
Total Assets	271,599	269,539	271,481	262,874
Current liabilities	34,724	38,484	35,095	38,295
Non-current liabilities	39,475	32,798	39,448	32,785
Total Liabilities	74,199	71,282	74,543	71,080
Net Assets	197,400	198,257	196,938	191,794

Current assets decreased as term deposits of \$11.5 million were used to finance capital expenditure and the acquisition of the National Marine Science Centre Pty Ltd (\$4.6 million). Non-current assets increased by 4.6 per cent or \$9.7 million due to this acquisition and capital expenditure on other projects such as the Gold Coast Campus Foundation Building, Health and Wellbeing Clinic P Block extension and a new swimming pool at the Lismore campus.

Current liabilities decreased 9.8 per cent as the prior year included accrued liabilities relating to the construction of the Gold Coast Campus Foundation Building.

Non-current liabilities increased by 20.4 per cent largely due to a \$6.5 million increase in defined benefit superannuation liabilities from \$30.7 million in 2009 to \$37.2 million in 2010.

University Activities

The University is constituted under the *Southern Cross University Act 1993*. It mainly:

- provides educational facilities of university standard having particular regard to the needs of the north coast region of the State
- preserves, extends and disseminates knowledge through scholarships, research, creative works consultancy and internal and external teaching.

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

Controlled Entities

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

Entity Name	Website
Australian Plant DNA Bank Limited	www.dnabank.com.au
Biobank Pty Ltd	www.biobank.com
Norsearch Limited	www.norsearch.scu.edu.au
National Marine Science Centre Pty Ltd	www.nmsc.edu.au

Audit Opinion

The completed audits of the University and its continuing controlled entities' financial statements, for the year ended 31 December 2010, resulted in unqualified Independent Auditor's Reports.

The audit of one non-continuing, and one continuing, controlled entity are incomplete for the period ended 31 December 2009. Furthermore, the audit of four continuing entities and one non-continuing entity for the year ended 31 December 2010 are also incomplete. Further details on the University's controlled entities appear later in this comment.

The audit of the University's associate company, United State Studies Centre Limited, is complete and resulted in an unqualified Independent Auditor's Report.

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

Key Issues

Capital Expenditure Program

Capital expenditure in 2010 totalled \$98.0 million compared to budgeted expenditure of \$169 million and actual expenditure in 2009 of \$151 million. The University has advised the reduction in capital spending resulted from delays in commencing some significant projects. During the year, the University commenced work on smaller maintenance and IT projects. Significant future works include development of the Centre for Obesity, Diabetes and Cardiovascular Disease (total project cost \$385 million, target completion date December 2013), the Centre for Sustainable Land Futures at Camden (total project cost \$15 million, target completion date February 2012) and the Abercrombie Precinct project (total project cost \$250 million, still in planning stage).

The University's capital works program for 2011 totals \$221 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 2010 of \$53.6 million was steady when compared to the previous year (\$53.6 million in 2009). This contributed to the reduction in backlog maintenance from \$411 million to \$385 million.

Excessive Annual Leave Balances (Repeat Issue)

As shown in the Universities Overview section on excessive annual leave earlier in this volume the University has been active in reducing excessive leave balances since our recommendation last year. The University advised by 31 December 2010, the overall number of staff with annual leave balances in excess of the maximum threshold decreased by 197. The number of academic staff with leave balances in excess of 60 days decreased by 72 to 127. The University's leave policy for academic staff has changed and now allows a maximum balance of 40 days annual leave. The overall number of staff with annual leave balances in excess of the maximum thresholds under the University's policy is 7.7 per cent (540 staff out of a total workforce of 6,999 staff). 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.

The current measures to reduce leave balances, particularly those at the high end of the excessive leave range (i.e. >60 days), are continuing. The University has introduced a number of measures during 2011 to further reduce excessive leave liabilities. During 2010, most staff with excess annual leave balances developed and commenced implementing leave plans to reduce their annual leave balances to within the limits specified in the University's policy.

Of the University's total workforce, 540 or 7.7 per cent had annual leave balances exceeding maximum thresholds allowed under the University's leave policy.

The University is auctioning a donated Picasso painting. The London auction house has estimated a possible price range of \$14.0 million to \$18.0 million.

Donations

I recommend the University complete its current review of policies and controls over gifts and donations to identify, record and manage all gifts and donations received.

The University received donations and bequests to the value of \$44.2 million in 2010 (\$35.4 million in 2009). Overall, the University has policies and procedures in place to manage the risks associated with the solicitation, acceptance, recording and on-going administration of gifts received. However, the University lacks a central Office/Department or Committee with overall responsibility for gift management. Gifts are receipted and processed in different areas of the University, which can lead to inconsistencies in processing, recording and custody.

I understand the University is establishing a gift register to help the ongoing management of all gifts received. The gift register will act as a central repository containing all significant information/conditions associated with the gift or donation, and help ensure the University complies with any conditions. Non-compliance with significant conditions may have reputational consequences and affect the University's ability to attract donations in the future.

During 2010, the University received a Picasso painting, Australian Government bonds, other art works and jewellery from a donor. The University has arranged to sell the Picasso in London and the auction house has estimated a possible price range of \$14.0 million to \$18.0 million. The Picasso was not recorded as income in 2010 because the University was unable to establish a reliable valuation due to the variability in the limited market evidence available for works of this nature.

Employment of Contractors (Repeat Issue)

The University implemented a new centralised recruitment process for both permanent employees and contractors in January 2010. However, it does not maintain a single, complete and detailed listing of all contractors engaged during the year. It continues to use a decentralised approach to record and manage its contractors. However, the University has advised that it has increased controls over payments to contractors during 2010.

The University was unable to provide the following information as at 31 December 2010:

- 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 has advised it has an on-going review of contractor arrangements to optimise costs and controls, and it identifies and treats contractors, who are deemed employees, accordingly.

Strategic Plan

The University is introducing a new economic model to ensure greater transparency in resource and cost allocation and to support strategic decision making as part of its new strategic plan. It is also reviewing arrangements for the provision of administrative and professional services.

Performance Information

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

Investment Performance

The University's investment funds are divided into short term and long term portfolios. In previous years the global financial crisis and volatility in financial markets significantly impacted the University's investment values. This year the University recognised further impairment on certain investments of \$3.9 million, 54 per cent lower than the previous year (\$8.4 million).

Short Term Funds

Short term funds mainly comprise operational working capital and capital development funds. These funds, which have a time horizon of less than one year, are managed internally.

Over the 12 month period ended 31 December 2010, the return on the University's short term investment portfolio was 4.8 per cent which was in line with the portfolio's internal benchmark return (i.e. UBS Bank Bill Index) return of 4.7 per cent.

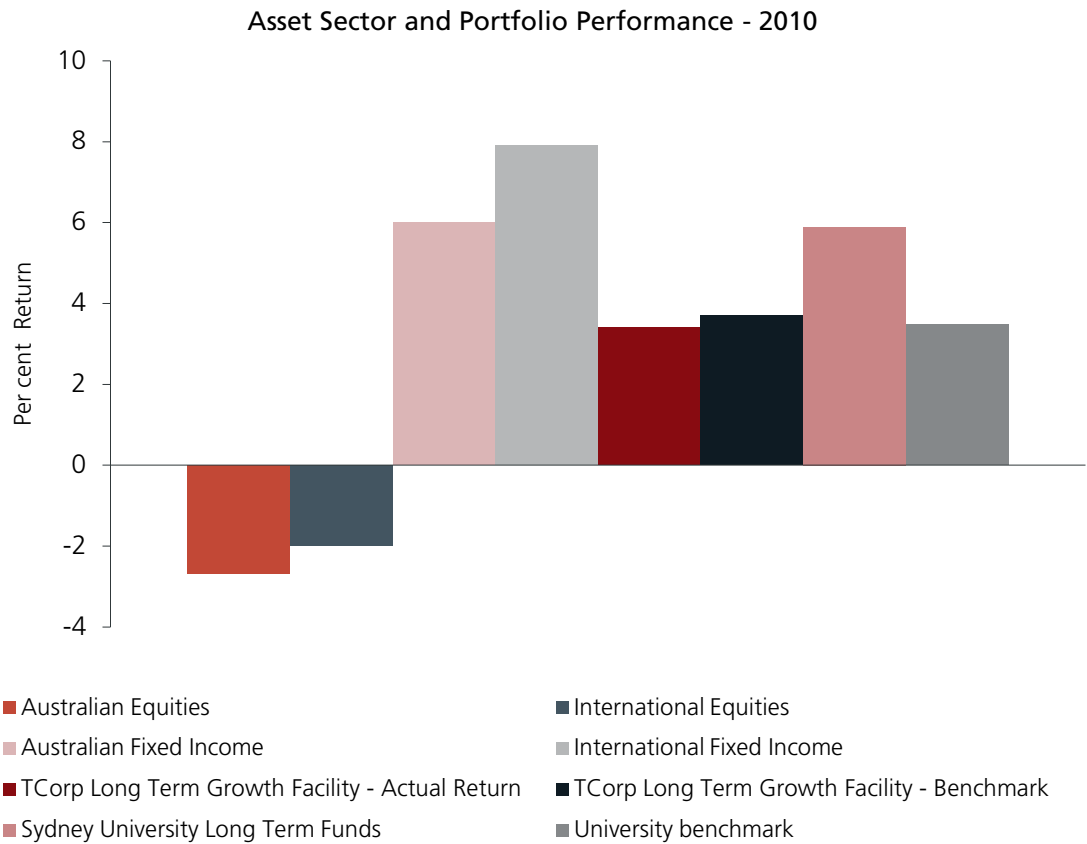
Long Term Funds

Long term funds, which comprise mainly bequest and endowments, are much larger than the short term funds. The long term funds have an investment time horizon of more than seven years and are invested in both defensive and growth assets. The debt asset component is managed internally by the Investment and Capital Management (ICM) team, whilst the management of the growth asset component is outsourced to sector specialist managers.

The University's long term investment portfolio outperformed the internal benchmark by 2.4 per cent (before fees) over the 12 months ended 31 December 2010 and was ahead of the NSW T-Corp Hour-Glass Long Term Facility by 1.7 per cent (after fees).

Notwithstanding this favourable outcome relative to the benchmark, the absolute long term investment portfolio return was only 5.9 per cent. This low absolute return primarily relates to the low annual return by the Australian Equity sector (particularly relative to 2009) and the International Equity sector.

The graph below contrasts the University's long term investment portfolio performance against key asset sector movements and the University's performance benchmark for 2010.



Financial Information

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

While the surplus increased significantly in 2010, total comprehensive income declined by \$45.5 million. The main reasons for the decline in 2010 were a \$12.8 million turnaround in defined benefit superannuation, from a \$9.3 million gain to a \$3.6 million loss, and reduced unrealised investment gains from \$52.0 million to \$1.3 million.

Abridged Statement of Comprehensive Income

Year ended 31 December	Consolidated		Parent	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Australian Government grants	642,012	609,854	642,012	609,854
Higher Education Contribution Scheme	163,082	140,856	163,082	140,856
Fees and charges	346,890	321,901	346,680	321,861
Other	351,098	322,443	353,864	319,712
Total Revenue	1,503,082	1,395,054	1,505,638	1,392,283
Employee benefits and on-costs	848,199	806,632	845,039	803,162
Depreciation and amortisation	70,466	62,631	70,103	62,468
Other	468,311	457,448	472,821	456,577
Impairment of available-for-sale assets	3,939	8,448	3,939	8,448
Total Expenses	1,390,915	1,335,159	1,391,902	1,330,655
Surplus	112,167	59,895	113,736	61,628
Other Comprehensive Income:				
Change in fair value of available for sale financial assets	1,307	52,030	1,307	52,030
Gain on revaluation of land and buildings, net of tax	9,939	8,618	9,939	8,618
Defined benefit actuarial gains/(losses)	(3,572)	9,254	(3,572)	9,254
Reserve transfer relating to associates and joint ventures, net of tax	--	4	--	--
Reserve transfer relating to impairment of available for sale assets	3,939	8,448	3,939	8,448
Realised (gains)/losses transferred from reserves	(37,627)	(6,775)	(37,627)	(6,775)
Total Other Comprehensive (Expense)/Income	(26,014)	71,579	(26,014)	71,575
Total Comprehensive Income	86,153	131,474	87,722	133,203

Australian Government Grants increased by 5.3 per cent in line with the increase in student numbers. Higher Education Contribution Scheme increased by 15.8 per cent mainly due to the yearly indexation and increase in the number of HECS students. Fees and charges increased by 7.8 per cent primarily due to an increase in income from fee paying overseas students.

Employee benefits and on-cost expenses increased by 5.2 per cent due to increased staff numbers, salary increases and increased costs associated with University funded superannuation benefits.

The impairment expense of \$3.9 million is significantly lower than the prior year expense of \$8.4 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	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Current assets	307,178	211,692	313,719	216,375
Non-current assets	4,077,120	4,065,918	4,068,705	4,051,908
Total Assets	4,384,298	4,277,610	4,382,424	4,268,283
Current liabilities	278,802	347,793	284,566	347,677
Non-current liabilities	789,514	699,988	789,482	699,952
Total Liabilities	1,068,316	1,047,781	1,074,048	1,047,629
Net Assets	3,315,982	3,229,829	3,308,376	3,220,654

Current assets increased by \$95.5 million primarily due to increases in cash and cash equivalents and available for sale financial assets.

The decrease of \$69.0 million in current liabilities primarily relates to the settlement of a short term loan of \$71.2 million in March 2010.

Non-current liabilities increased by \$89.5 million mainly due to an increase in superannuation liabilities. Most of the University's superannuation liabilities are funded by the Australian Government and this increase was offset by a corresponding increase in non-current receivables.

University Activities

The University 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	Audit Complete		Letter of Comfort	
	2010	2009	2010	2009
Bandwidth Foundry International Pty Ltd	No	No	Yes	Yes
Sport Knowledge Australia Pty Limited	No	No	Yes	Yes
Sydney Talent Pty Limited	No	Yes	Yes	Yes
SydneyLearning Pty Limited	No	Yes	Yes	Yes
The Bosch Institute	^	Yes	^	No
The Warren Centre for Advanced Engineering Limited	No	Yes	Yes	Yes
Wayahead Pty Limited	Yes	Yes	No	No
Wentworth Annexe Limited	Yes	Yes	No	No

^ The Bosch Institute was deregistered on 4 July 2010.

Financial Reporting

I recommend the University seek to improve processes to ensure the quality and timeliness of financial reporting by its controlled entities.

As shown in the table above the audits of five controlled entities' financial statements are incomplete. The reasons are:

- required information from third parties has not yet been provided
- information provided by the controlled entities was not sufficient for audit purposes.

Investment in Subsidiaries

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

The University's approach to managing its controlled entities is that each entity is wholly owned and at least one director on the board is a University employee.

The following controlled entities reported net operating losses:

- The Warren Centre for the Advanced Engineering Limited (audit opinion not yet issued for 2010) – loss \$305,007 (loss \$675,944)
- Bandwidth Foundry International Pty Ltd (audit opinion not yet issued for both 2010 and 2009) - loss \$180,892 (loss \$88,449).

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.

Loans Forgiveness

Sydney Talent Pty Limited was established to connect outstanding pre-graduates with work opportunities with leading employers. Since commencing operation in 2008, Sydney Talent has incurred losses resulting in a net debt to the University at 31 December 2010 of \$5.7 million.

During the year, the University reviewed the operations of Sydney Talent and its underlying business model. In September 2010, the University decided to restructure, downsize and integrate Sydney Talent's operations into the operations of the University. It also determined it was unlikely to recover the debt owed by Sydney Talent and fully impaired the receivable of \$5.7 million at 31 December 2010.

In 2010, the University forgave a further \$220,000 due from Sports Knowledge Australia Pty Ltd, after writing off \$1.8 million due from this company in 2009. Sports Knowledge Australia Pty Ltd is in the process of being wound up and this should be completed shortly.

Other Bodies associated with the University

The following body associated with the University, and audited by me, has not been reported on separately as it is not considered material by its size or the nature of its operations.

For further financial and other information on this entity we have listed its website.

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

* This entity does not have a website.

The percentage of academic staff over 50 increased to 57.0 per cent in 2010 and this continues to be a significant workforce planning issue for this regional University.

Audit Opinion

The audits of the University and the following controlled entities' financial statements for the year ended 31 December 2010 resulted in unqualified Audit Opinions, except for the UNE Foundation:

- Agricultural Business Research Institute
- Services UNE Ltd
- UNE Partnerships Pty Limited
- International Livestock Resources and Information Centre Ltd
- University of New England Sports Association
- Sport UNE Limited
- UNE Foundation Ltd (Trustee).

I issued a qualified Independent Auditor's Report for the UNE Foundation because I was unable to express an opinion as to whether the Trust had recorded all revenues received from donations and fundraising sources in its financial statements. This is common for entities with these sources of revenue, as it is impracticable for them to maintain effective systems of internal control over the receipt of such revenues until their initial entry in the financial records. My Independent Auditor's Report for 2009 was similarly qualified.

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

Key Issues

Ageing of Academic Staff (Repeat Issue)

I recommend the University further develop and implement effective policies to address and manage the ageing academic workforce.

Last year, I recommended the University review the effectiveness of its policies in managing its ageing workforce.

The University is facing challenges from the potential loss of retiring academic staff. The numbers of aged academic staff showed further increases in 2010 including:

- 36.7 (36.3) per cent are aged 55 years and over
- 57.0 (53.6) per cent are aged 50 years and over.

The University advised that it is addressing this issue in a number of ways, including through its Project 2012, which aims to enhance course offerings through flexible and online distance education. This is expected to provide an opportunity to recruit younger staff who may not necessarily reside in the New England region.

The University also advised that it does not presently have the financial resources to undertake extensive restructuring of either academic or general staff and is therefore unlikely to be able to significantly shift its profile in the short term.

Excessive Annual Leave Balances (Repeat Issue)

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

Last year, I recommended the University establish individual leave plans with employees to reduce leave balances within an acceptable timeframe. In 2010, the situation did not improve.

Academic staff accrue 20 days annual leave per annum and general staff accrue 25 days. The number of academic staff with annual leave balances in excess of 40 days has increased from 62 in 2009 to 72 in 2010. The number of general staff with leave balances in excess of 50 days has increased from 33 in 2009 to 41 in 2010.

The University needs to urgently revitalise and replace ageing infrastructure and address backlog maintenance of \$76.0 million.

In September 2010, the University implemented measures to address the increasing number of excessive annual leave balances. It has also recently advised that it has set targets for 2011 that aim to reduce the overall liability. These targets require all staff to take their current annual entitlement each year and those with more than two years entitlement to take a minimum of a further two weeks in 2011.

The University's employee agreements allow the University to direct staff to take annual leave where they have more than two years of accrued leave. The University is yet to formulate a longer term strategy to address this issue. However, the targets are included in the 2011 Business Plan and are required to be addressed by budget centre managers.

Capital Expenditure Program and Deferred Maintenance

Capital expenditure in 2010 totalled \$20.3 million (\$13.7 million), which included a \$5.0 million refurbishment of the Mary Wright College. Improvements in facilities at Sport UNE included \$5.7 million of additions comprising a new basketball court, gymnasium and office space.

The University expects capital expenditure to exceed \$30.0 million in 2011 as work progresses on additional facilities including:

- \$5.0 million on the Tablelands Clinical School and its associated GP Training Practice at Armidale Hospital
- \$5.0 million for building a new primary internet connection to the Australian Research and Education Network for all network services
- \$4.8 million for the construction of teaching and laboratory facilities for the new Pharmacy course
- \$3.0 million for improvements to the animal house facility to handle livestock, and
- \$2.2 million for the enhancement of fire protection and compliance within the residential college system. It is anticipated that the expenditure will total \$6.5 million over a three year period.

The University's capital works program for the period 2011 to 2015 totals \$120 million. The University is seeking to fund this program through government grants and operating surpluses, but remains significantly dependent upon Australian Government policy decisions for the higher education sector generally.

The University estimates its total deferred maintenance at \$76.0 million (\$75.8 million), most of which relates to residential colleges.

The University has no external borrowings but is evaluating several funding options for capital development and the pressing need to revitalise and replace ageing infrastructure. This may lead to possible borrowings in the future.

Other Information

During my audit of the University and its controlled entities I identified opportunities for improvement in internal controls and reported them to management.

Financial Information

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

The University's dependence on grant funding is higher than any other University in New South Wales. Total revenue in 2010 was slightly above the previous year, despite a reduction in capital grant revenue but was offset by higher salary costs, including some voluntary separations of staff.

During May 2010, the University sold its 50.0 per cent share in National Marine Science Centre Pty Ltd to the other joint venture partner, Southern Cross University for \$4.6 million. This investment had a book value of \$5.3 million in the consolidated accounts at 31 December 2009. The sale was made in line with the University's plan to redirect its strategic focus to its core strengths in regional and rural sciences.

Abridged Statement of Comprehensive Income

Year ended 31 December	Consolidated		Parent	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Australian Government grants	106,792	111,114	106,792	111,114
Higher Education Contribution Scheme	44,746	42,216	44,746	42,216
Fees and charges	40,841	39,182	35,064	34,127
Other	28,600	25,948	22,097	15,790
Total Revenue	220,979	218,460	208,699	203,247
Employee benefits and on costs	135,145	123,472	125,795	114,519
Depreciation and amortisation	13,690	13,216	12,861	12,345
Other	74,016	69,164	67,837	65,452
Deferred expense – superannuation	337	2,845	337	2,845
Total Expenses	223,188	208,697	206,830	195,161
(Deficit)/Surplus	(2,209)	9,763	1,869	8,086
Other Comprehensive Income				
Gain/(loss) on revaluation of property, plant and equipment	210	(156)	210	(138)
Other comprehensive income/(expense)	37	(840)	858	291
Total Comprehensive (Expense)/Income	(1,962)	8,767	2,937	8,239

The fall in income from grants was mainly due to the one-off impact of the Teaching and Learning Capital Fund grant of \$7.9 million in 2009.

Employee costs increased by \$11.7 million primarily due to a four per cent increase in salary rates from 1 July 2010.

Other expenses increased primarily due to increases in research activity, redevelopment of courseware and consultancies in relation to the IT network.

Abridged Statement of Financial Position

At 31 December	Consolidated		Parent	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Current assets	64,298	73,442	46,429	56,668
Non-current assets	399,373	379,961	390,819	365,631
Total Assets	463,671	453,403	437,248	422,299
Current liabilities	49,146	54,678	45,044	49,990
Non-current liabilities	169,024	152,085	168,854	151,896
Total Liabilities	218,170	206,763	213,898	201,886
Net Assets	245,501	246,640	223,350	220,413

- The decrease in current assets was largely due to a \$9.5 million fall in cash following lower levels of Australian Government grant funding in 2010.
- The increase in non-current assets and non-current liabilities was mainly due to a \$17.6 million increase in the net defined benefit superannuation liability.

University Activities

The University is constituted under the *University of New England Act 1993*. It:

- provides facilities for education and research at university standard
- disseminates and increases knowledge
- provides courses of study across a range of fields, and carries out research to meet community needs
- participates in public discourse
- confers degrees of Bachelor, Master and Doctor and awards diplomas and other certificates
- provides teaching and learning that engage with advanced knowledge and inquiry, and
- develops and provides cultural, sporting, professional, technical and vocational services to the community.

For further information on the University, refer to www.une.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	Website
Agricultural Business Research Institute	www.abri.com.au
International Livestock Resources and Information Centre Ltd	www.ilric.com
Services UNE Ltd	www.servicesune.com.au
UNE Partnerships Pty Limited	www.unepartnerships.edu.au
UNE Foundation Ltd	*
UNE Foundation	*
University of New England Sports Association	www.une.edu.au/sportune
Sport UNE Limited	www.une.edu.au/sportune

* This entity does not have a website.

The University is satisfied that its current strategies will adequately address issues from an ageing workforce.

Audit Opinions

The audits of the University and its controlled entities' financial statements for the year ended 31 December 2010 resulted in unqualified Independent Auditor's Reports for 12 entities (including the parent) and a qualified Independent Auditor's Report for one entity.

I was unable to express an opinion as to whether the University of New South Wales Foundation Trust had recorded all revenues received from donations and fundraising sources in its financial statements. This is common for entities with these sources of revenue, as it is impracticable for them to maintain effective systems of internal control over the receipt of such revenues until their initial entry in the financial records. My audit report for 2009 was similarly qualified.

At the time of finalising this report, the audits of nine controlled entities in the group were incomplete.

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

Other Information

Annual Leave Balances

Management is satisfactorily addressing employee excessive annual leave balances. The number of employees with an excess annual leave balance has decreased by 311 in 2010. Of 5,427 (5,206 in 2009) employees, 399 (7.4 per cent) at 31 December 2010 (710 and 13.6 per cent, at 31 December 2009), held annual leave balances in excess of the maximum thresholds allowed under the University's leave policy. Management implemented a new approach to managing employees with high leave balances, which it will continuously monitor.

Ageing of Academic Staff

Last year, I recommended the University review the effectiveness of its policies in managing its ageing workforce. Management believes it has taken appropriate action to address this matter through measures such as its Human Resource policies. The University believes a policy of flexibility with its workforce is essential in helping to reduce the impact of an ageing workforce. It also believes that elevating its research profile helps attract new academic staff. International staff recruitment has always been used in the tertiary education sector and will continue to be used by the University as required. The University's statistical review and benchmarking are ongoing, as are its policy development and review of best practice across the sector.

Complexity of the University's Business Arrangements

I recommend:

- the University complete the liquidation of AGSM Limited during 2011 (repeat)
- UNSW Global Pty Limited establishes policies and procedures to review the group's overseas operations, including representative offices, to ensure compliance with local laws and regulations (repeat).

At 31 December 2010, the University had one of the most complex business arrangements of all ten New South Wales' universities, with 21 controlled entities, and involvement in nine Cooperative Research Centres as a core or supporting participant.

The University has continued to review and rationalise the Group structure. Three controlled entities were deregistered and another became an Associate in 2010, reducing the number of controlled entities from 25 to 21 at 31 December 2010, and AGSM Limited is being liquidated. However, the liquidation process for AGSM Limited has been underway for nearly two years. Management has advised this is a complex matter, but expects the process to be completed in 2011. Management has also advised that the John Lewis and Pamela Lightfoot Trust will be liquidated in 2011.

The number of business arrangements in the group significantly increases reputational, governance and other risks for the University as well as compliance costs. During my audits of controlled entities, errors were identified as a result of non-compliance with local laws and regulations.

Internal Controls

I identified opportunities for improvements to accounting and internal control procedures and have reported them to management.

Financial Information

Management of Foreign Exchange and Interest Rate Risk Exposure

Last year, I reported that the University conducted a comprehensive analysis of foreign exchange exposures and approved a new approach to foreign exchange risk management. The policy and related processes and procedures were finalised and implemented by the University during 2010.

In 2009, a framework for monitoring, benchmarking and reporting interest rate risk was developed and implemented. However, further work was needed to enhance interest rate risk management through budgeting and reporting of interest income. The University completed this work during 2010.

Capital Expenditure Program

Capital expenditure in 2010 was \$126 million, a decrease of \$12.8 million on 2009. All major projects are currently work-in-progress.

The University's capital expenditure program is designed to:

- address its infrastructure needs and backlog maintenance, estimated at \$183 million at 31 December 2010 (\$223 million), for the parent only
- replace outdated facilities with modern teaching and research facilities.

In 2010, the University received the following key capital works funding:

- \$37.7 million under the Education Investment Fund for the Energy Technologies Building. This project is in progress and the total amount spent at 31 December 2010 was \$20.9 million. The estimated completion cost is \$124 million and practical completion date is February 2012
- a \$10.0 million grant from the Commonwealth Department of Health and Ageing for the Institute of Virology project. The project comprises the acquisition, refurbishment and construction of new health and medical research facilities for the Institute. The estimated completion cost is \$61.3 million with an expected completion date of December 2013.

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

Increases in revenue exceeded increases in expenses and resulted in a \$69.9 million improvement in the surplus this year.

Abridged Statements of Comprehensive Income

Year ended 31 December	Consolidated		Parent	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Australian Government grants	592,950	551,021	592,950	550,666
Higher Education Contribution Scheme	137,886	126,155	137,886	126,155
Fees and charges	458,255	400,361	373,342	315,369
Other	231,161	174,359	223,365	179,262
Total Revenue	1,420,252	1,251,896	1,327,543	1,171,452
Employee benefits and on-costs	711,205	649,175	666,013	605,846
Depreciation and amortisation	96,541	88,354	94,685	86,634
Impairment of available-for-sale assets	14,892	4,586	10,549	4,061
Other	454,155	436,457	415,151	395,032
Total Expenses	1,276,793	1,178,572	1,186,398	1,091,573
Outside equity interest and income tax expense	(281)	(90)	--	--
Surplus	143,178	73,234	141,145	79,879
Other Comprehensive Income				
Gain on revaluation of property, plant and equipment	43,651	27,840	43,651	27,840
Gain/(loss) on revaluation of available-for-sale financial assets	(17,846)	43,352	(15,575)	35,482
Exchange losses on translation of foreign operations	(428)	(833)	--	--
Actuarial gains/(losses) on defined benefit superannuation plans	(8,038)	19,759	(7,890)	19,295
Total Other Comprehensive Income	17,339	90,118	20,186	82,617
Total Comprehensive Income	160,517	163,352	161,331	162,496

Australian Government grants increased by \$41.9 million. This was largely due to increases of \$7.6 million from the Education Investment Fund, \$22.0 million from the Commonwealth Grant Scheme of Teaching Undergraduate and \$13.0 million from the Human Services, Health and Aged Care.

The \$57.9 million increase in fees and charges mainly came from a 32.9 per cent increase in overseas students (from 7,955 to 10,573) and a 6.8 per cent increase in domestic students (from 24,374 to 26,034).

Other revenue increased by \$56.8 million due mainly to capital funding of \$20.0 million for the Virology Institute received in 2008 and transferred from other liabilities during the year, a \$17.1 million increase in dividends and interest and a \$16.7 million increase in gains on the disposal of investments.

The increase in employee benefits and on-cost expenses of \$62.0 million was mainly due to a four per cent annual salary increase and 4.3 per cent increase in the number of employees.

Impairment of available-for-sale assets increased by \$10.3 million and the revaluation of available-for-sale financial assets fell by \$61.2 million compared to 2009 as a result of underperforming overseas financial markets.

The \$17.7 million increase in other expenses was mainly due to the provision of more scholarships, grants and prizes to the increased numbers in overseas and domestic students.

Investment Portfolio Performance

The University advised it has completed a review to improve the monitoring and reporting of its cash flow requirements. A three month cash flow projection was developed and implemented in 2009. During 2010, a longer term cash flow projection was developed, which further advanced the University's cash flow management. These procedures are now fully implemented.

The University's short-term working fund has recovered and performed well during the year, but the long-term investment slightly underperformed against its benchmark. However, long-term investments do not include refunds from the Australian Taxation Office for franking credits worth about 0.5 per cent in additional return:

Fund	2010		2009		2008	
	Actual Return %	Benchmark Return %	Actual Return %	Benchmark Return %	Actual Return %	Benchmark Return %
Long-term	3.63	3.80	20.26	13.74	(17.06)	(15.75)
Short-term	6.17	5.00	3.46	3.79	4.27	7.62

Source: University of New South Wales (unaudited).

Abridged Statements of Financial Position

At 31 December	Consolidated		Parent	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Current assets	350,098	285,500	287,850	225,505
Non-current assets	2,487,998	2,332,782	2,419,759	2,256,945
Total Assets	2,838,096	2,618,282	2,707,609	2,482,450
Current liabilities	296,364	312,627	263,621	275,328
Non-current liabilities	885,107	809,547	883,037	807,502
Total Liabilities	1,181,471	1,122,174	1,146,658	1,082,830
Net Assets	1,656,625	1,496,108	1,560,951	1,399,620

The increase in the University's total assets is predominantly due to revaluation increments in property, plant and equipment of \$43.7 million, increased deferred government contribution for superannuation of \$75.2 million and a \$62.8 million increase in cash and investments, mainly from increased grants.

The \$59.3 million increase in total liabilities was mainly due to a \$82.6 million increase in superannuation liabilities partially offset by a decrease in rentals in advance of \$3.5 million from the Children's Cancer Institute Australia for Medical Research; and the transfer of \$20.0 million received in 2008 from the South Eastern and Illawarra Area Health Service for the Virology project from unearned income to revenue.

Long Service Leave Liability

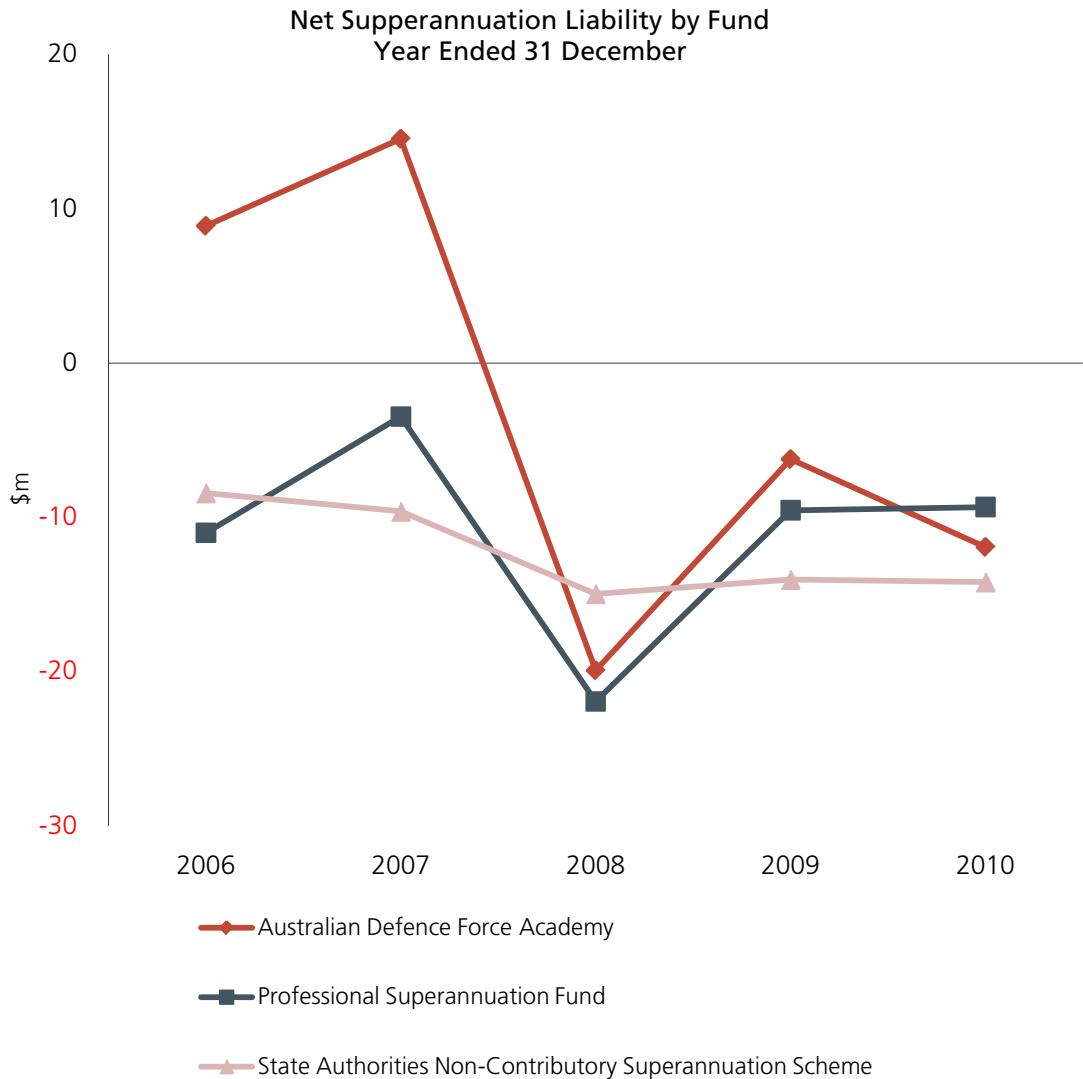
The long service leave liability of the University has increased by 26.2 per cent over the past five years to \$106 million (\$98.9 million).

The increase in the liability from 2009 to 2010 resulted from a growth in entitlements plus the impact of a change in the discount factor in calculating the present value of the liability.

Although the University has strong cash flows, it will need to ensure it has adequate plans to fund these liabilities, which generally increase over time with increases in employee remuneration levels.

Superannuation Liabilities

Defined benefit superannuation liabilities increased from \$687 million in 2009 to \$769 million in 2010. The Australian Government will fund the majority of these liabilities, which minimises the impact on the University's operating result. However, the University is responsible for funding three defined benefit superannuation funds and, as at 31 December 2010, the combined liability for these three funds was \$35.5 million (\$29.8 million). The trend for these liabilities over the last five years has been:



Source: University of New South Wales financial statements (audited).

University Activities

The University is constituted under the *University of New South Wales Act 1989*. It mainly:

- provides education and research facilities of university standard
- aids, by research and other suitable means, the advancement, development and practical application of science to industry and commerce
- provides instruction and carries out research in humane studies and medicine and other disciplines as the Council may determine.

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

Controlled Entities

NewSouth Innovations Pty Limited (NS Innovations)

Unqualified Independent Auditor's Reports were issued for NS Innovations and all its subsidiary companies for the year ended 31 December 2010. NewSouth Four Pty Ltd was deregistered on 6 January 2010, and its the 2009 financial statements were prepared on liquidation basis. NewSouth Five Pty Ltd was dormant until 23 December 2010, when its name changed to Bionic Eye Technologies Pty Ltd and NS Innovation's percentage holding decreased to 40 per cent, causing it to lose control of this entity.

NS Innovations' result for the 2010 financial year was a deficit of \$4.4 million (\$246,000 surplus). The significant change was largely due to a change in funding by its parent, the University of New South Wales, from a contribution of \$4.4 million in 2009 to \$5.0 million in loan in 2010. A loss of \$1.5 million on disposal of shares held by NS Innovations in a company called Vecor Australia also contributed to the deficit. In return for the disposal of shares, NS Innovation is to receive enhanced future licence fees based on Vecor Australia achieving certain milestones. The loss on disposal of shares was offset by a reduction in the direct costs of commercialisation (\$985,000) and impairment of assets (\$1.7 million) in the 2010 financial year.

NS Innovations continues to be supported financially by its parent. In 2010, the University of New South Wales issued eight loans to NS Innovations totalling \$5.0 million (\$603,000) at an annual interest rate of 4.75 per cent. NS Innovations did not make any loan repayments during 2010. The University of New South Wales has provided a letter of support, for up to \$15.0 million, to NS Innovations and its subsidiary companies to ensure they are able to pay their debts as and when they fall due.

For further information on NS Innovations, refer to www.nsinnovations.com.au.

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
ACN 125 694 546 Pty Ltd	*
AGSM Limited**	www.agsm.edu.au
Australian Education Consultancy Limited	www.aecl.com.hk
Systemix Pty Limited	*
John Lewis and Pamela Lightfoot Trust	*
NewSouth Four Pty Ltd ¹	*
NewSouth Global (Thailand) Limited	*
NewSouth Innovations Pty Ltd	www.nsinnovations.com.au
NewSouth Seven Pty Ltd	*
Qucor Pty Ltd	www.qucor.com.au
The New South Wales Minerals Industry/University of New South Wales Education Trust	*
University of New South Wales Foundation	*
University of New South Wales Foundation Limited	*
University of New South Wales International House Limited	www.ihunsw.edu.au
University of New South Wales Press Limited	www.unswpress.com.au
UNSW & Study Abroad - Friends and U.S. Alumni, Inc	*

Entity Name	Website
UNSW (Thailand) Limited	www.unswthailandoffice.com
UNSW Asia²	*
UNSW Asia School Limited³	*
UNSW Global (Singapore) Pte Limited	www.singapore.unsw.edu.au
UNSW Global India Private Limited	www.unswindiaoffice.com
UNSW Global Pty Limited	*
UNSW Hong Kong Foundation Limited	*
UNSW Hong Kong Limited	www.hongkong.unsw.edu.au

* These entities do not have websites.

** This entity is being liquidated.

1 This entity was deregistered on 6 January 2010.

2 This entity was dissolved on 22 January 2010.

3 This entity was dissolved on 26 July 2010.

Audit Opinion

The audits of the University and its controlled entities' financial statements for the year ended 31 December 2010 resulted in unqualified Independent Auditor's Reports, except for the UON Foundation Trust and Newcastle Innovation Limited.

I issued a qualified Independent Auditor's Report for UON Foundation Trust as I was unable to express an opinion as to whether the Trust had recorded all revenues received from donations and fundraising sources in its financial statements. This is common for entities with these sources of revenue, as it is impracticable for them to maintain effective systems of internal control over the receipt of such revenues until their initial entry in the financial records. My audit report for 31 December 2009 was similarly qualified.

At the date of finalising this report the audit of Newcastle Innovation Limited had not been completed. More detail is provided under the Newcastle Innovation comment below.

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

Key Issues

New Campus

Last year, I recommended the University conduct a comparative cost benefit analysis of its proposal to build a new campus in Newcastle city. The University advised it has had an economic assessment of the project prepared. The University has also advised that its application for funding stage 1 of the project under the Commonwealth's Structural Adjustment Fund was unsuccessful. Full funding for the project has not been sourced, although the University has been granted a parcel of land worth approximately \$4.0 million and received a commitment of financial support from the State Government of \$25.0 million. The University estimates it can presently contribute \$40.0 million to the project. The estimated cost of stage 1 is \$159 million, and the total project cost is \$562 million.

The University has a very large site at Callaghan with good infrastructure, which may be capable of accommodating increases in student numbers. The University advised that other issues associated with student accommodation and car parking at a city centre campus have yet to be resolved. The University has advised that until funding is confirmed by the Commonwealth or State Governments, the project will not proceed.

Capital Works (Repeat Issue)

The University is planning capital expenditure of \$102.3 million in 2011, \$34.3 million of which will be funded by grants predominately from the Australian Government. The major components of the planned capital expenditure are: \$80.5 million for buildings, \$7.0 million on information technology projects and \$14.8 million on plant and equipment.

The University has commenced a project to build additional student accommodation for up to 750 students on the Callaghan campus for an estimated cost of \$85.0 million, which is to be funded through debt. The University expects the income from the additional accommodation will exceed the cost of funding this project over its life.

During 2010, the University spent \$56.0 million on capital expenditure, with \$24.6 million funded through grants, and the remaining \$31.4 million funded through operational cash flows. The University estimates its backlog maintenance is \$64.9 million (\$62.3 million).

Last year, I recommended the University implement a total asset management plan to ensure assets are planned and managed efficiently and effectively. The University advised it is still in the process of developing such a plan.

The University was unsuccessful in obtaining funding from the Commonwealth's Structural Adjustment Fund for Stage 1 of its proposed new campus in Newcastle city.

Impact of the Global Financial Crisis

The fair values of the University's equity investments declined significantly during the global financial crisis. However, the value of equity investments at 31 December 2010 of \$78.6 million, compared to \$76.8 million in 2009 and \$67.1 million in 2008, reflects the subsequent improvement in financial markets.

The University recorded operating surpluses of \$36.6 million and \$45.4 million in 2010 and 2009 respectively, compared to an operating loss of \$366,000 in 2008. The major contributor to the loss was an impairment expense of \$29.2 million, reflecting the decline in the value of equity investments at that time.

The global financial crisis also significantly impacted superannuation investment earnings and benefit valuations in 2008. As economic conditions improved through 2009, superannuation liabilities decreased from \$234 million to \$199 million at 31 December 2009. However, they have subsequently increased to \$223 million at 31 December 2010, due to changes in key assumptions during 2010, resulting in an actuarial loss of \$18.5 million.

Employment of Contractors (Repeat Issue)

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

The University should also periodically review the roles and responsibilities of 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 contractors continues to represent 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 2010:

- 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 contractors to ensure they are appropriate to achieve desired outcomes and comply with employment related legislation.

Credit Cards (Repeat Issue)

I recommend the University:

- conduct a complete review of issued credit cards to determine whether all 1,001 employees who currently have credit cards actually need them
- review its credit card policy around the expenditure approval process, and consider reducing the time frame given to card holders for submitting documentation supporting the expenditure
- consider raising a receivable from relevant employees for expenditure incurred on corporate credit cards not acquitted and accounted for within 2 months of the statement date
- consider following up on and taking appropriate action for breaches of University credit card policy.

I have reviewed and raised concerns about the University's credit card processes for several years. Total credit card expenditure during 2010, by the 1,001 employees with credit cards, was \$19.0 million (\$22.1 million).

During the year, 149 employees used their credit cards for personal expenditure totalling \$68,060. Personal expenditure using a University credit card is considered to be a fraudulent transaction by the University and a breach of its policy, unless it is for emergency purposes only and reimbursed within 14 days. Last year, I recommended the University's debtors system record personal expenditure on credit cards as receivables, subject to the University's standard collection and recovery procedures. This would make the personal expenditure more visible and enable the University to effectively monitor and control it. The University did not implement this recommendation, but has recovered most personal expenditure by employing additional resources in the credit card section. An amount of \$2,625 remained outstanding as at 31 December 2010.

The University's internal analysis of credit card expenditure for a sample of cards covering the period from April to August 2010 identified the following instances of non-compliance with policy:

- 455 instances of incorrect account coding
- 759 instances where original tax invoices and receipts have not been attached to monthly statements
- 18 instances of possible asset purchases
- 232 instances of purchases greater than \$1,000
- 158 instances of possible personal expenditure
- 301 other possible policy breaches.

The card holders are given up to two months to submit documentation supporting the expenditure. At the beginning of March 2011, 72 individuals had not submitted documentation for expenditure incurred up to 31 December 2010.

The University advised that credit card expenditure documentation is in most cases submitted directly to the Card Services team, and not to the authorising officer. As a result, authorising officer approval is based on quite limited substantiating information. This lack of review is an inherent weakness in the University's internal control system. It also creates a significant risk of inappropriate personal and/or fraudulent expenditure occurring without being detected, e.g. due to incorrect coding.

During the year, 293 people had their credit cards suspended, and 46 were cancelled for not following policy requirements.

Contract Separation Provision

I recommend the University:

- implement a formal process to identify and record claims by contract employees for eligible payment. This will ensure adequate data is captured by Human Resources, allowing for the percentage of likely claims to be determined and used to more accurately calculate the contract separation provision
- monitor internal controls around HR processes and data capture to ensure compliance with the Workplace Agreements
- disclose the existence of potential liabilities from former employees under the contingent liabilities note.

In current Academic and General Staff Workplace Agreements, the University is required to make severance payments to contracted employees where they:

- are on their second or subsequent contract, and
- seek continued employment, but are declined by the University, or
- are replaced by another employee.

In any of these circumstances, the University is liable to pay the contracted employees severance pay at rates determined in the Workplace Agreements.

Credit cards issued to 293 employees were suspended and 46 were cancelled because staff failed to comply with the University's credit card policy requirements.

The University may be liable for separation payments to some former contract employees.

At 31 December 2010, the University provided \$6.7 million for contract separation payments to certain contract employees, an increase of \$5.9 million compared to 2009. In previous years, the provision was calculated at only 20.0 per cent of total estimated entitlements to reflect the number of likely claims. However, the University has found this basis of provisioning to be inadequate due to deficiencies in historical human resource data and processes, including failing to capture adequate evidence of employees seeking continued employment.

As a result, there may be a potential liability for former employees who sought continued employment on separation, but were not aware they were eligible for the payments. The University cannot reliably measure this potential liability.

Other Information

I identified opportunities to improve accounting and internal control procedures at the University and its controlled entities and have reported them to management.

The University has advised it is taking action on the issues I have raised.

Financial Information

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

Abridged Statements of Comprehensive Income

Year ended 31 December	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Australian Government grants	242,236	245,030	242,236	245,030
Higher Education Contribution Scheme	94,503	89,072	94,503	89,072
Fees and charges	90,767	79,782	84,908	75,724
Other	118,715	108,523	101,524	88,039
Total Revenue	546,221	522,407	523,171	497,865
Employee benefits and on-costs	303,973	271,698	290,088	258,947
Depreciation and Amortisation	40,403	38,997	39,744	38,306
Impairment of available for sale assets	22	66	--	--
Other	162,323	166,229	158,721	160,316
Deferred expense – superannuation	2,945	--	2,945	--
Total expenses	509,666	476,990	491,498	457,569
Surplus	36,555	45,417	31,673	40,296
Other Comprehensive Income				
Gain on revaluation of land and buildings	17,709	68,173	17,709	68,173
Gain/(loss) on value of available for sale financial assets	(1,024)	10,549	(1,027)	10,472
Other expense	(40)	(111)	--	--
Total Other Comprehensive Income	16,645	78,611	16,682	78,645
Total Comprehensive Income	53,200	124,028	48,355	118,941

Note: 2009 figures will not agree to the figures reported in Volume 2 of the 2010 Auditor-General's Report, due to reclassification of prior year figures in the 2010 financial statements of the University.

Fees and charges increased by 15.0 per cent due to an increase in the number of students from 21,913 in 2009 to 23,372 in 2010 and fee rises of approximately five per cent.

Employee benefits rose due to an increase in the number of staff, salary increments and a pay increase of approximately three per cent during the year.

Deferred superannuation expense increased due to a \$2.9 million write off of a receivable that had been recognised for the SANCS superannuation scheme. The Australian Government has indicated it will not fund SANCS superannuation liabilities.

Abridged Statement of Financial Position

At 31 December	Consolidated		Parent	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Current assets	190,815	167,249	180,602	155,046
Non-current assets	1,084,312	1,022,497	1,082,024	1,019,746
Total Assets	1,275,127	1,189,746	1,262,626	1,174,792
Current liabilities	106,117	93,983	112,939	93,362
Non-current liabilities	239,882	219,835	239,286	219,384
Total Liabilities	345,999	313,818	352,225	312,746
Net Assets	929,128	875,928	910,401	862,046

Note: 2009 figures will not agree to the figures reported in Volume 2 of the 2010 Auditor-General's Report, due to reclassification of prior year figures in the 2010 financial statements of the University.

Current assets increased due to additional investments in term deposits resulting from the operating surplus in 2010. Non-current assets increased due to asset additions of \$52.2 million and a revaluation of property, plant and equipment, which increased asset values by \$17.7 million.

Current liabilities increased by \$12.1 million primarily due to increases in the contract separation provision and the actuarially advised long service leave liability.

University Activities

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

- provides educational and research facilities, having particular regard to the needs of the Hunter Region, the Central Coast and surrounding areas
- encourages the dissemination, advancement, development and application of knowledge
- provides courses of study and carries out research to meet the needs of the community
- confers degrees, including Bachelor, Master and Doctor, and awards diplomas and certificates.

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

Controlled Entities

Probiotic Health Pty Limited, a subsidiary of Newcastle Innovation Limited, was voluntarily liquidated on 30 August 2010. The company obtained an exemption from The Treasury from preparing a financial report as at 31 December 2010.

Newcastle Innovation Limited

Newcastle Innovation's financial statements, and the audit thereof, had not been finalised at the time of this report. As a result of incorrect revenue recognition policies, I believe the company's revenue and expenses have been overstated by a maximum of \$4.5 million for 2010 and a maximum of \$5.1 million for 2009. The impact on the overall results and net assets of the company for both years is nil and I do not consider the amounts material to the University's consolidated financial statements.

I am currently working with management to resolve this issue so the financial statements and audit can be finalised.

UON Foundation Trust

I recommend Internal Audit findings be considered and actioned as necessary.

Internal Audit identified and reported several issues in papers presented to the February 2011 meeting of the Audit and Risk Management Committee. The papers identified that, in the view of the internal auditors, the Foundation had fallen short of its original objectives and that risks existed around its revenue raising activities. The papers recommended a review of the Foundation and a revision of its targets to ensure they are within achievable ranges, for presentation to and approval by the University Council. The University advised this has not occurred.

UON Singapore Pte Ltd

UON Singapore has an agreement with a partner entity in Singapore to share course fee revenue. Under the agreement, UON Singapore's share of course fee revenue decreases as student numbers enrolled in a course increase, subject to certain enrolment number 'trigger points'.

On 20 April 2011, the company received a letter from the partner entity requesting payments totalling SGD \$907,000 for student fees for the period from 2008 to 2010. The claim is based on an interpretation of the relevant clause in the agreement. UON Singapore strongly disputes the basis and quantum of the claim, and will instruct legal counsel to contest and refute it. UON Singapore management has had preliminary legal advice from the University Counsel that the claim is unlikely to succeed if challenged at law, and is now seeking external independent legal counsel to confirm this. As settlement is uncertain at this stage, the claim has been recognised as a contingent liability by UON Singapore.

UON Singapore paid a SGD \$500,000 dividend to the University of Newcastle on 29 March 2010. In December 2010, UON Singapore received a 5.82 per cent fixed interest loan of SGD \$1.0 million from the University of Newcastle to offset any adverse cash flow implications. The loan is to be repaid by 31 December 2012.

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
GraduateSchool.com Pty Limited	www.gradschool.com.au
Newcastle Innovation Limited	www.newcastleinnovation.com.au
UON Foundation Ltd	www.newcastle.edu.au/foundation
UON Foundation Trust	*
UON Services Limited	www.uonservices.org.au
UON Singapore Pte Ltd	www.newcastle.edu.au/location/singapore

* This entity does not have a website.

The University sold part of its Kuring-gai Campus to Defence Housing Australia for \$60.0 million.

Audit Opinion

The audits of the University and its controlled entities' financial statements for the year ended 31 December 2010 resulted in unqualified Independent Auditor's Reports.

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

Key Issues

Campus Master Plan

Construction of the University's campus master plan projects started in December 2009 and will take approximately six years to complete at a total cost of approximately \$900 million.

Actual campus master plan capital expenditure in 2010 of \$86.5 million was lower than budgeted expenditure of \$133 million because of the intentional slowing of projects to refine building designs to most effectively meet the university's current and future needs. The capital expenditure budget for 2011 is expected to be \$144 million, which will be funded from internal resources.

The table below shows total capital expenditure for 2009 and 2010 and predicted expenditure for 2011.

	Budget	Budget	Actual	Budget	Actual
	2011	2010		2009	
	\$m	\$m		\$m	
Campus Master Plan	143.9	133.0	86.5	10.4	5.8
Other Capital Expenditure	37.6	36.0	21.6	38.3	48.3
Total Capital Expenditure	181.5	169.0	108.1	48.7	54.1

Source: UTS Budgets (unaudited).

The University is finalising a 'debt funding plan' which is expected to be approved by the Council in August 2011. Borrowings to supplement the campus master plan funding will occur from 2013.

Major campus master plan projects include:

- a multipurpose sports hall, completed in April 2011
- a student housing tower, due to be completed in July 2011, ahead of schedule
- the Great Hall upgrade, which will commence in 2011
- the Broadway building, existing buildings demolished and excavation to start mid 2011.

Kuring-gai Campus

The sale of the Kuring-gai development site 'Lots 1 and 4' to Defence Housing Australia for \$60.0 million took effect on 21 February 2011. The University intends using these proceeds to assist with funding the improvements to the City campus educational facilities.

In December 2009, the then New South Wales Minister for Education and Training approved the sale of a portion of the Kuring-gai Campus. Specific areas of the Campus were excluded from the sale for environmental and educational purposes.

Initially, the sale process was delayed because of the presence of rare fauna, 'Darwinia', which required approval from the Federal Government Department of Sustainability, Environment and Water to enable any development to proceed on the site.

On 28 October 2010, the 'University of Technology (Kuring-gai Campus) Bill 2010' was introduced into Parliament. The object of this Bill was to ensure the entire Kuring-gai Campus continues to be used for educational purposes. This Bill was not passed by Parliament.

Financial Information

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

Increasing expenses were not matched by increased revenue resulting in a decrease in the operating surplus by \$33.6 million as described below.

Abridged Statements of Comprehensive Income

Year ended 31 December	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Australian Government grants	180,887	197,118	180,887	197,118
Higher Education Contribution Scheme	96,529	95,983	96,529	95,983
Fees and charges	245,071	221,066	198,037	174,401
Other	61,545	50,427	61,191	49,691
Total Revenue	584,032	564,594	536,644	517,193
Employee benefits and on-costs	329,361	297,756	305,768	277,526
Depreciation and Amortisation	54,028	53,314	52,466	51,551
Other	166,734	146,069	148,134	129,098
Deferred expense – superannuation	440	400	440	400
Total Expenses	550,563	497,539	506,808	458,575
Income tax expense	17	27	--	--
Surplus	33,452	67,028	29,836	58,618
Other Comprehensive Income:				
Gain on revaluation of land and buildings	36,540	31,845	36,540	31,845
Other losses/income	(321)	(1,769)	(386)	793
Total Other Comprehensive Income	36,219	30,076	36,154	32,638
Total Comprehensive Income	69,671	97,104	65,990	91,256

Australian Government grants decreased mainly due to a one-off payment of \$16.0 million received in 2009 for a 'Teaching and Learning Capital Fund'.

Fees and charges income increased by 10.8 per cent due to an increase in 'Fee Paying Overseas Students' of \$18.0 million. Overseas student numbers increased from 6,126 in 2009 to 6,738 in 2010 and fees rose by approximately ten per cent.

Other revenue rose by 22 per cent mainly due to an increase in interest income of \$4.8 million, additional donations and bequests of \$1.6 million and higher consulting services revenue of \$3.3 million.

The increase in employee benefits was due to an increase of 48 full time equivalent (FTE) academic and 77 FTE support staff, salary increments and two pay increases totalling approximately four per cent during the year.

Other expenses rose mainly due to a \$6.4 million increase in international and foundation studies agency fees, an increase of \$3.1 million for scholarships, tuition fees rose by \$1.5 million and energy costs increased by \$1.0 million.

Other comprehensive income increased due to the revaluation increment on land and buildings being \$4.7 million higher than the previous year.

Abridged Statement of Financial Position

At 31 December	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	334,690	279,017	288,553	237,867
Non-current assets	1,301,894	1,235,362	1,286,218	1,219,788
Total Assets	1,636,584	1,514,379	1,574,771	1,457,655
Current liabilities	130,770	111,855	112,585	94,748
Non-current liabilities	345,593	311,974	343,436	310,147
Total Liabilities	476,363	423,829	456,021	404,895
Net Assets	1,160,221	1,090,550	1,118,750	1,052,760

Current assets increased by \$55.7 million mainly due to the Kuring-gai land development site asset being transferred from non-current assets. The development site was classified as 'asset held for sale' in 2010 due to the impending sale which took place in February 2011.

Non-current assets increased mainly due to increases of \$32.1 million in superannuation liabilities recoverable from the Australian Government, \$36.5 million revaluation increment on land and buildings and capital expenditure on new projects of \$108 million less \$54.0 million increase in accumulated depreciation. The University also had a substantial addition to Property, Plant and Equipment of \$108 million resulting in a net increase in Non-current assets of \$56.0 million.

Current liabilities increased by \$18.9 million mainly due to an increase in capital works expenditure accruals of \$9.2 million and increase in employee benefits of \$6.0 million.

Non-current liabilities rose by \$33.6 million due mainly to an increase in superannuation liabilities.

University Activities

The University is constituted under the *University of Technology, Sydney Act 1989*. It mainly provides and is responsible for:

- educational facilities at university standard
- courses of study or instruction across a range of fields and carrying out of research to meet the needs of the community
- the encouragement of the dissemination, advancement, development and application of knowledge informed by free inquiry
- the conferring of degrees, including those of Bachelor, Master and Doctor, and the awarding of diplomas, certificates and other awards.

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

Controlled Entities

Insearch Limited

Insearch Limited operates controlled entities in China and a charitable foundation in the United Kingdom. It also has two joint ventures in China and Vietnam. Insearch has in excess of 350 agency agreements worldwide to enrol students from various countries.

Year ended 31 December	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Revenue	55,282	51,692	55,144	51,580
Expenses	51,304	44,362	51,307	43,470
Profit	3,978	7,330	3,837	8,110
Net assets (at 31 December)	36,959	33,449	32,142	28,305

The increase in revenue was due to:

- increased numbers of new international and domestic students which resulted in tuition fee income increasing by \$3.0 million
- increased investment income of \$900,000 from joint venture operations in China and Vietnam.

The company donated \$4.0 million (\$3.0 million) to the University as a contribution towards the University's operations.

The decrease in profit in 2010 was mainly due to:

- a \$1.0 million increase in donations to the University of Technology, Sydney
- respective increases of \$3.4 million and \$800,000 in employee benefits and occupancy expenses, which correspond to the increase in students numbers in 2010
- a \$700,000 increase in expenditure on a local advertising campaign focussing on promoting Insearch diplomas.

The increase in net assets was due to higher cash balances generated from operations.

Insearch Limited is a company limited by guarantee. It provides education courses in English language, business, information technology and other disciplines to Australian and international students. Insearch Limited also provides approximately 1,400 students to the University annually. It is accredited as a higher education institution.

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
accessUTS Pty Limited	www.accessuts.uts.edu.au

Other Bodies Associated with the University

The following body associated with the University has not been reported on separately as it is not considered material by its size or the nature of its operations.

Entity Name	Website
Sydney Educational Broadcasting Limited	www.2ser.uts.edu.au
AustLii Foundation Limited	www.austlii.edu.au

Audit Opinion

The audits of the University and 11 of its controlled entities' financial statements for the year ended 31 December 2010 resulted in unqualified Independent Auditor's Reports. The audits of the following entities resulted in qualified Independent Auditor's Reports:

- University of Western Sydney Foundation Trust
- Whitlam Institute within the University of Western Sydney Trust.

I was unable to express an opinion as to whether the Trusts' had recorded all revenues received from donations and fundraising sources in their financial statements. This is common for entities with these sources of revenue, as it is impracticable for them to maintain effective systems of internal control over the receipt of such revenues until their initial entry in the financial records. My audit reports for 2009 were similarly qualified.

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

Other Information

Capital Expenditure Program

Capital expenditure in 2010 was \$108 million (\$108 million in 2009). Major expenditures were:

- \$14.4 million for the construction of Campbelltown Campus Projects
- \$13.8 million for the Blacktown Clinical School
- \$13.1 million each for the Bankstown and Parramatta Campus Projects.

To assist fund this capital spend, The University received external grant funding of \$45.0 million, including \$20.0 million from the Department of Industry Science and Research for the Centre of Climate Change and Energy Research Education Investment Project and \$12.9 million for the Department of Health and Ageing for Blacktown clinical school. External grants funded 41.6 per cent of total capital expenditure and the remainder was funded by operating cashflows.

Future Capital Works

The University plans to spend in excess of \$346.5 million over the next three years on capital works. It will fund this program from a combination of internal funds, grants from the Australian Government and borrowings.

The capital expenditure program is designed to address the challenges facing the University, including its infrastructure needs and backlog maintenance. Backlog maintenance at 31 December 2010 was estimated to be \$43.8 million (\$73.5 million), a decrease of 40 per cent from the previous year. The University advised the decrease relates to a restructure of the capital plan to realign asset management and up front planning. This change is expected to ensure better and more consistent standards of teaching facilities and improved economies of scale.

Other

I identified opportunities for improvement to accounting and internal control procedures and have reported them to management.

Financial Information

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

Abridged Statements of Comprehensive Income

Year ended 31 December	Consolidated		Parent	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Australian Government grants	259,054	254,162	258,950	254,031
Higher Education Contribution Scheme	152,427	135,905	152,427	135,905
Fees and charges	85,892	77,418	69,892	59,977
Other	64,940	67,607	42,415	51,851
Total Revenue	562,313	535,092	523,684	501,764
Employee benefits and on-costs	308,652	286,098	283,029	265,707
Depreciation	31,182	27,821	30,421	27,319
Other	157,307	158,074	149,273	155,616
Deferred expense – superannuation	139	2,270	139	2,270
Total Expenses	497,280	474,263	462,862	450,912
Surplus	65,033	60,829	60,822	50,852
Other Comprehensive Income				
Increase in fair value of available for sale financial assets	34	5,603	34	5,603
Gain in revaluation of land and buildings and artworks	239,999	--	239,986	--
Other gains	36	1	36	1
Total Other Comprehensive Income	240,069	5,604	240,056	5,604
Total Comprehensive Income	305,102	66,433	300,878	56,456

The increase in the Higher Education Contribution Scheme was in line with the higher enrolment of student numbers. The expected number of student enrolments for 2010 was 20,123, but the actual number of enrolments was 23,553. This represented an increase of 9.3 per cent on the number enrolled in 2009.

Fees and charges rose mainly due to higher revenue from onshore international students of \$6.0 million. This was largely due to higher fees and the increase in student numbers; a \$1.6 million rise in residential student accommodation revenue and \$1.1 million from increased activity in the international English language testing system at UWS College Pty Limited, partially introduced in 2009.

The \$240 million gain in the value of land and buildings is attributed to:

- the last full revaluation being conducted three years earlier, in 2007
- increases in market values experienced in the Westmead and Campbelltown areas
- reassessment of, and extensions to, the useful lives of buildings across the campuses
- building upgrades increasing the total values of these assets
- refinements to the inputs used by the current independent valuer.

I understand the University will continue to use the inputs to the valuation process used by the valuer on this occasion, as it believes these give a more accurate estimate of land and building fair values. I concur with this assessment. I understand the University is also considering using land and building indices to assess and recognise movements in values annually.

Abridged Statements of Financial Position

At 31 December	Consolidated		Parent	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Current assets	95,061	118,843	54,102	79,231
Non-current assets	1,435,176	1,089,600	1,432,076	1,087,420
Total Assets	1,530,237	1,208,443	1,486,178	1,166,651
Current liabilities	122,339	119,989	118,349	114,181
Non-current liabilities	151,793	137,451	151,249	136,768
Total Liabilities	274,132	257,440	269,598	250,949
Net Assets	1,256,105	951,003	1,216,580	915,702

The decrease in current assets was due primarily to a reduction in accrued receivables of \$10.1 million relating to the Commonwealth Grant Scheme and the transfer of \$13.5 million worth of assets classified as held for sale (current assets) to property plant and equipment (non-current assets). This arose because anticipated land sales did not eventuate.

Non-current assets increased mainly due to the \$240 million revaluation increment in land and buildings, detailed above, and an increase in construction in progress of \$88.1 million.

The increase in non-current receivables of \$18.7 million was due predominantly to the increase in deferred government contribution for superannuation.

Although current liabilities exceed current assets in the parent, the University does not believe it has a liquidity risk as:

- its current liabilities include \$37.8 million of leave provisions not expected to be paid in the next 12 months
- it has access to a \$28.0 million loan facility of which only \$9.2 million was drawn down in 2010
- a significant amount of investments shown as non-current assets are highly liquid and can be drawn down immediately, although management's intention is to hold these long term. Liquid non-current investments are valued at \$29.8 million.

Non-current liabilities rose \$14.3 million due mainly to an increase in superannuation liabilities of \$18.8 million offset by a decrease in the non-current long service leave liability of \$3.9 million.

University Activities

The University is constituted under the *University of Western Sydney Act 1997*. It mainly:

- provides educational facilities of a university standard, having particular regard to the needs and aspirations of the residents of Greater Western Sydney
- achieves excellence through a commitment to scholarship, teaching, learning and research and provides educational services in the regional, national and international community beginning in the community of Greater Western Sydney
- disseminates and increases knowledge, undertakes and promotes research and scholarship and contributes to the intellectual life of Greater Western Sydney
- develops consultancy and entrepreneurial activities, including research and development initiatives, that will contribute to the development of Greater Western Sydney
- awards diplomas and degrees of Bachelor, Master and Doctor and other certificates and awards.

For further information on the University, refer to www.uws.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.

The University has provided support in the form of loans/advances to four of its controlled entities, with the most significant being a \$4.5 million loan to Television Sydney (TVS) Limited. The University has fully impaired the receivable as it is doubtful that Television Sydney (TVS) Limited will be able to repay the loan.

The University has provided financial guarantees to CADRE Design Pty Limited, Television Sydney (TVS) Limited, Television Sydney Foundation Limited and Television Sydney Foundation Trust to meet going concern considerations.

Entity Name	Website
CADRE Design Pty Limited and CADRE Design Unit Trust	www.cadre.com.au
Television Sydney (TVS) Limited	www.tvs.org.au
Television Sydney Foundation Limited and Television Sydney Foundation Trust *	
SGSM Limited	*
University of Western Sydney Foundation Limited and University of Western Sydney Foundation Trust	*
UWS College Pty Limited	www.uwscollege.edu.au
UWS Residential Colleges Limited	*
uwsconnect Limited	www.uwsconnect.com.au
Whitlam Institute within the University of Western Sydney Limited and Whitlam Institute within the University of Western Sydney Trust	www.whitlam.org

* This entity does not have a website.

The University has not changed its annual leave policies and procedures and continues to experience an unfavourable upward trend in these balances.

Audit Opinion

The audits of the University and its controlled entities' financial statements for the year ended 31 December 2010 resulted in unqualified Independent Auditor's Reports.

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

Key Issues

Excess Annual Leave (Repeat Issue)

I recommend the University take further action to reduce excess annual leave.

Last year, I recommended the University review its policies and procedures to assess whether additional actions were required to reduce excess leave balances held by employees. The University has not changed its policies and procedures and an unfavourable upward trend in these balances has continued. The number of staff with more than 40 days accrued annual leave has increased to 138 at 31 December 2010 (117 at 31 December 2009). The following table shows the number of staff with leave in excess of 40 days.

Annual Leave Entitlement (Days)	2010		2009	
	No. of Academic Staff	No. of Non-Academic Staff	No. of Academic Staff	No. of Non-Academic Staff
40-60	4	122	4	94
61-90	4	6	4	11
91-120	2	--	2	1
120+	--	--	--	1
Total	10	128	10	107

Source: University of Wollongong (unaudited).

Whilst staff with leave balances exceeding 61 days has decreased, non academic staff with leave balances in excess of 40 days has increased significantly. The University advised it has active procedures in place to manage annual leave balances. This includes regular reporting and monitoring of balances and a series of escalating actions to reduce balances over a period of time.

Excess leave balances result in additional expense to the University as the financial liability grows over time due to salary increases. Excessive leave balances may also lead to a decline in workplace health as employees are not taking sufficient breaks from work.

Internal Controls

I identified opportunities for improvements to accounting and internal control procedures and have reported them to management.

Other Information

Innovation Campus

The first stage of the Innovation Campus opened in June 2008. To date, four buildings costing \$88.0 million have been completed and are operational. In 2010, the Sydney Business School and the Digital Media Centre buildings were completed.

The University is currently building a further two buildings, namely the Australian Government funded Australian Institute for Innovative Materials – Processing and Devices, and the iC Enterprise 1 commercial building. These two buildings are expected to cost \$83.3 million on completion. The success of the campus will depend on the University's ability to attract and retain investors and tenants. The University advised all completed buildings were fully occupied during 2010.

The University is developing the campus via a joint venture arrangement with a private sector firm. The campus aims to provide an environment for commercial and research entities to co-locate with University teams and establish successful partnerships. The University will develop the campus in stages, over 10 to 15 years. Once completed, the campus will provide 135,000 square metres of gross floor area for research and office space, retail and service facilities, a hotel and conference centre and residential accommodation.

Future Capital Works

The University has commenced a significant capital works program. It plans to spend over \$250 million over the next five years and will fund the program from a combination of internal funds, grants from the Australian Government and borrowings.

Major projects over the next two years include:

- \$25.1 million retrofitting the Resilient and Sustainable Buildings facility, for completion in 2012
- \$24.2 million building the Australian Institute for Innovative Materials – Processing and Devices building at the Innovation Campus
- \$17.7 million building the iC Enterprise 1 commercial building, for completion in mid 2011.

Financial Information

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

Abridged Statements of Comprehensive Income

Year ended 31 December	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Australian Government grants	226,357	182,472	226,332	182,472
Higher Education Contribution Scheme	82,578	66,819	82,578	66,819
Fees and charges	176,987	166,169	129,751	113,033
Other	62,194	65,763	60,069	59,534
Total Revenue	548,116	481,223	498,730	421,858
Employee benefits and on-costs	260,224	238,362	219,434	200,067
Depreciation and amortisation	25,102	25,458	23,059	22,310
Impairment of investment assets	75	1,665	75	1,265
Other	160,686	157,585	155,270	140,480
Deferred expense - superannuation	492	558	492	558
Total Expenses	446,579	423,628	398,330	364,680
Income tax expense	1,018	1,509	--	--
Operating profit/(loss) from discontinued operations	77	(92)	--	--
Operating profit/(loss) attributable to minority interest	(106)	400	--	--
Surplus	100,490	56,394	100,400	57,178
Other Comprehensive Income				
Gain/(loss) in value of available for sale financial assets	(1,170)	6,609	(569)	6,072
Exchange differences on translation of foreign operations	667	883	--	--
Actuarial gain/(loss) from defined benefit superannuation plans	(686)	1,351	(686)	1,351
Other loss	--	(246)	--	--
Total Other Comprehensive Income	1,322	8,597	(1,255)	7,423
Total Comprehensive Income	99,407	64,812	99,145	64,601

The increase in Australian Government grants was largely due to a \$14.7 million increase in Commonwealth Grant scheme funding and the receipt of \$47.8 million in capital funding from the Education Investment Fund. The increase in Commonwealth Grant scheme funding was due to greater student enrolments. In 2010, the University had 20,391 (18,922) enrolled students. The University is using the \$47.8 million received from the Education Investment Fund to construct the Australian Institute for Innovative Materials – Processing and Devices and the Simulation, Modelling, Analysis, Research and Teaching (SMART) buildings.

The increase in fees and charges was largely due to an increase in international student numbers. International student numbers increased by 317 to 7,414 in 2010. As a result international student fee revenue increased to \$97.4 million (\$82.5 million). The University advised the strong Australian dollar, visa requirements and increased international competition are likely to lead a decline in student numbers in 2011 and 2012.

Employee benefits and on-costs increased primarily because of salary increases and growth in staff numbers.

Abridged Statements of Financial Position

At 31 December	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	250,054	197,206	223,134	172,342
Non-current assets	798,035	702,558	786,665	691,575
Total Assets	1,048,089	899,764	1,009,799	863,917
Current liabilities	118,889	106,731	99,048	89,599
Non-current liabilities	231,092	194,332	237,641	200,353
Total Liabilities	349,981	301,063	336,689	289,952
Net Assets	698,108	598,701	673,110	573,965

The increase in current assets is attributed to a \$40.4 million increase in term deposit investments due mainly to unspent grant monies. The University expects to spend these grants in 2011.

The increase in non-current assets was mainly due to the University spending \$103 million on capital works during the year.

The increase in non-current liabilities is primarily due to the University issuing \$20.0 million of bonds in December 2010. The University will use the funds raised to partly finance its future capital works program. A \$15.2 million increase in the University's defined benefit superannuation liability also contributed to the increase in non-current liabilities.

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
- 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 Ltd)

ITC Ltd 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 and delivering offshore and pre-university education.

ITC Ltd is a company limited by shares. To grow its business ITC Ltd pursues opportunities in Australia and overseas. At 31 December 2010, it owned ITC Education Ltd, ITC (New Zealand) Limited, the International Film School Sydney Pty Ltd and ITC Aviation Pty Ltd. It also has majority ownership interest in the International School of European Aviation Pty Ltd. During the year, ITC Ltd deregistered ITC (Middle East) Ltd and ITC Emirates Limited.

Other Information

Offshore Operations

Last year, I recommended ITC Ltd improve its oversight of the University of Wollongong Dubai (UOWD) campus. ITC Ltd has responded to this recommendation by establishing a UOWD committee of the Board. The committee's primary purpose is to help the Board fulfil its corporate governance and oversight responsibilities. It met six times during the year.

Submission of Controlled Entities' financial statements

Last year, I recommended ITC Ltd implement a timetable to ensure controlled entities' financial statements are prepared and submitted by the statutory deadline. ITC Ltd implemented this recommendation. They prepared and submitted all 2010 financial statements within the statutory deadline.

Business Developments

ITC Ltd purchased the legal entity, ITC Aviation Pty Ltd, for \$500,000 on 20 August 2010. The company operates the International School of Aviation Australia in the Hunter Valley in New South Wales and offers students vocational education and a number of Civil Aviation Safety Authority approved courses. ITC Ltd entered the aviation education sector because of the current and projected demand for qualified pilots in the domestic and international market.

On 1 October 2010, ITC Ltd purchased the remaining 33 per cent non-controlling interest in International Film School Sydney Pty Ltd.

ITC (Middle East) Ltd and ITC Emirates Limited were deregistered in May and December 2010 respectively. The entities were dormant and never traded.

Financial Information

The table below shows ITC Ltd's summarised consolidated financial information.

Year ended 31 December	2010	2009
	\$'000	\$'000
Revenue	60,462	70,541
Expenses	56,033	64,231
Income tax expense	951	1,552
Profit from continuing operations	3,478	4,758
Profit/(loss) from discontinued operations	77	(92)
Profit	3,555	4,666
Other comprehensive income	66	1,259
Total comprehensive income	3,621	5,925
Net assets (at 31 December)	12,890	12,069

The decrease in revenue and expenses was largely due to a change in the contractual arrangement with the University for reimbursing commissions paid to student agents.

Wollongong UniCentre Limited (UniCentre)

UniCentre, which is 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, UniCentre established a wholly owned subsidiary, UniCentre Conferences and Functions Pty Limited, to provide conference and functions services.

In 2010, UniCentre decided to wind up its subsidiary and transferred its functions to itself. As part of the wind up, UniCentre forgave a \$253,399 debt owed by the subsidiary.

The table below shows UniCentre's summarised financial information.

Year ended 31 December	Consolidated		Parent	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Revenue	17,857	17,289	17,069	16,395
Expenses	17,404	17,252	16,792	16,135
Income tax benefit	(67)	(43)	--	--
Profit after income tax	386	80	278	260
Total comprehensive income	386	80	278	260
Net assets (at 31 December)	9,416	9,031	9,416	9,139

Revenue increased mainly because of increases in revenue from childcare and food services.

Expenses increased predominantly because of higher employee related expenses for salary increases and additional agency staff, offset by less raw materials used in catering for conferences and functions.

University of Wollongong Recreation and Aquatic Centre Limited

The Company continued to make losses and requires the support of the University to continue operating.

This Company, limited by guarantee, principally provides aquatic and recreational facilities to the University community and the general public. The table below shows the Company's summarised financial information.

Year ended 31 December	2010	2009
	\$'000	\$'000
Revenue	2,991	2,668
Expenses	3,966	3,693
Income tax expense	--	--
Loss	975	1,025
Net assets (at 31 December)	2,662	3,636

The increase in the Company's revenue was primarily due to price increases and the opening of a new sports facility.

The company incurred an operating loss of \$975,000 (\$1.0 million) for the year. Since the introduction of voluntary student unionism at the beginning of 2007, the Company has incurred losses totalling \$3.7 million. The Company expects to incur a further loss in 2011, before returning to a profit in 2012. The continuing losses have reduced the Company's net assets to \$2.7 million at 31 December 2010.

The Company's current ratio, a measure of its liquidity, is 0.2 (0.2) at 31 December 2010. This means it has twenty cents of current assets for every dollar of current liabilities. Concerns about the Company's ability to continue as a going concern resulted in the University providing the Company with a letter of financial support to ensure it can settle its debts as and when they fall due.

The following controlled entity has not been reported on separately as it is not considered material by its size or the nature of its operations to the consolidated entity.

Entity Name	Website
The Sydney Business School Pty Limited	*

* This entity does not have a website.

Hunter Region Sporting Venues Authority

Audit Opinions

The audits of the Authority's financial statements for the period ended 30 June 2009 and year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

Key Issues

Formation of the Authority

The Authority was established by the *Sporting Venues Authorities Act 2008*. Two Crown Lands Trusts', the Newcastle Showground and Exhibition Trust and the Newcastle International Sports Centre Trust were dissolved on 11 July 2008 and all assets, rights and liabilities were transferred to the Authority.

The delay in finalising the 30 June 2009 financial statements was due to a lengthy dispute between the Authority and the Newcastle Knights National Rugby League Club in relation to license fees payable. The dispute was settled by arbitration in March 2010.

The Treasurer granted the Authority extensions of time to submit their financial statements for both 2009 and 2010.

Financial Information

Year ended 30 June	Consolidated		Parent	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Revenue	5,446	17,726	5,446	17,578
Depreciation	2,072	2,779	2,072	2,774
Personnel services expense	1,649	1,578	1,649	1,508
Other expenses	2,815	2,719	2,811	2,620
(Loss)/Profit	(1,090)	10,650	(1,086)	10,676
Net assets (at 30 June)	133,154	134,244	133,180	134,266

Revenue in 2009 included a \$10.0 million government grant for construction of the western grandstand at Ausgrid Stadium (formerly Energy Stadium Australia).

Authority Activities

The Authority is constituted by the *Sporting Venues Authorities Act 2008*. The Authority's major objectives are to:

- maintain and improve the Authority's land
- establish and manage sporting grounds, sporting facilities and recreational facilities (whether or not on the Authority's land)
- establish and manage facilities for the purposes of sporting competitions, sports training and sports education (whether or not on the Authority's land)
- permit the use of the whole or any part of the Authority's land for activities of a sporting, recreational or community nature, including the use of that land for events and general community access
- encourage the use and enjoyment of the Authority's land by the public and clubs, associations or other bodies, where appropriate
- undertake, provide or facilitate the undertaking or provision of, commercial and retail activities and facilities on the Authority's land
- make all reasonable attempts to ensure that any new development carried out on the Authority's land accords with best practice environmental and planning standards.

The Authority is subject to the control and direction of the Minister for Sport and Recreation.

For further information on the Authority refer to www.huntervenues.com.au.

The delay in finalising the 30 June 2009 financial statements was due to a lengthy dispute relating to license fees payable. The dispute was settled by arbitration in March 2010.

Gosford Water Supply Authority

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NSW Auditor-General's Report
Volume Two 2011

GOSFORD WATER SUPPLY
AUTHORITY

I was unable to obtain sufficient, appropriate audit evidence to satisfy myself as to the fair value and recoverability of the Authority's investment portfolio of \$43.0 million.

Audit Opinion

The audit of the Authority for the year ended 30 June 2010 resulted in a qualified Independent Auditor's Report. I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the fair value and recoverability of the Authority's investment portfolio of \$43.0 million.

Since July 2007, global financial markets experienced a period of high volatility, which impacts the value, recoverability, liquidity, cash flows and rates of return of many financial assets. This market volatility impacted the Authority's investment portfolio. Many of its investments did not have market values that were independently quoted and were not widely traded.

The audit report for 2008-09 was similarly qualified.

Performance Information

Operational Performance Indicators

Year ended 30 June	2010	2009	2008	2007
Average volume of water consumed (kilolitres) per residential property	146	140	135	147
Water quality complaints per 1,000 properties	39.0	25.3	94.3	56.4
Average frequency of unplanned water supply interruptions per 1,000 properties	239.0	203.4	181.0	280.0
Water main breaks per 100 km of water main	34.0	27.1	28.9	36.4
Water losses (kilolitres/water main kilometre/day)	3.0	1.8	1.4	na
Total connection sewer main breaks and chokes per 100 kilometres of sewer main	40.0	29.7	35.4	43.9
Percentage of sewage treated to a secondary level (%)	100.0	98.1	99.0	99.0

Source: National Water Commission 'National Performance Report 2007-08: Urban Water Utilities'; 2009 and 2010 Gosford City Council.

na not available.

The Authority advised:

- the slight increase in usage is related to the relaxing of water restrictions. Usage remains far below unrestricted demand of approximately 200kL per residential property.
- the increase in the number of complaints in 2009-10 related to a small number of specific discoloured water events impacting a significant number of properties. These events were triggered by sudden changes in the distribution system
- the increase in water main breaks per 100 kms of water main is due to high pressures within the water distribution system due to topography of the area. The Authority is expanding its water main replacement program in an effort to reduce unplanned water interruptions. The Authority is also implementing a program to install additional area meters to allow more accurate measurement of leakage
- the Authority counts all sewer chokes cleared, whether found reactively from a discharge or proactively during main and manhole inspections. The Authority sees an increase in chokes found as a measure of good system maintenance.

Other information

Central Coast Water Corporation

On 17 February 2011, Gosford City Council and Wyong Shire Council approved the Central Coast Water Corporation's (Corporation) constitution and shareholders agreement. The Councils agreed that the Corporation will be operational from 1 July 2011. The new Corporation will manage the region's entire water cycle. The Councils are looking at a full transfer of staff, assets and functions to the Corporation by 2013.

Dividend

The Authority paid a dividend of \$1.7 million (\$1.7 million in 2008-09) to Gosford City Council. Local government water and sewerage supply businesses are permitted to pay annual dividends to Councils from operating surpluses.

Financial Information

Abridged Income Statement

Year ended 30 June	2010 \$'000	2009 \$'000
Service charges	38,352	33,261
Usage charges	23,491	21,005
Other	25,293	9,234
Total Revenue	87,136	63,500
Total Expenses	67,721	58,345
Surplus	19,415	5,155

The increase in service and usage charges was due to higher prices. Average price per water bill increased from \$394.75 to \$463.59 representing an increase of 17.4 per cent. Other revenue increased due to additional grant income of \$17.0 million for the Mardi Mangrove link construction.

Expenses increased because of higher employee benefits of \$1.7 million due to employing more staff; higher borrowing costs of \$2.0 million associated with borrowings for the Mardi Mangrove link construction and \$1.4 million for the purchase of water from Hunter Water Corporation (2008-09 nil).

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	71,318	54,639
Non-current assets	946,146	852,944
Total Assets	1,017,464	907,583
Current liabilities	21,145	12,492
Non-current liabilities	90,886	56,601
Total Liabilities	112,031	69,093
Net Assets	905,433	838,490

Current assets increased by \$17.0 million due to the inter-fund receivable balance from Gosford City Council.

Non-current assets increased with the construction of infrastructure assets under the Gosford/Wyong Joint Water Scheme and a revaluation of assets. This included the Mardi Mangrove link construction, totalling to \$41.2 million, and an upward indexation of infrastructure asset values of \$49.2 million. The Authority funded the construction costs by increased borrowings.

Authority Activities

Gosford Water Supply Authority is part of Gosford City Council and provides water, sewerage and related services.

For further information on Gosford City Council, refer to www.gosford.nsw.gov.au.

Parramatta Stadium Trust

Audit Opinion

The audit of the Trust's financial statements for the year ended 31 December 2010 resulted in an unqualified Independent Auditor's Report.

Key Issues

Parramatta Stadium Master Plan

The Trust recently approved the Parramatta Stadium Master Plan that, on completion, will establish a 30,000 seat stadium and other facilities within a precinct surrounding the existing venue. Completion of the Master Plan is expected to cost approximately \$100 million and take 10 years to complete. The Trust has yet to secure funding to complete the Master Plan.

The Trust received \$6.0 million from the New South Wales Government in 2007 for development of the southern grandstand. This project has been overtaken by the Master Plan and these funds will be reallocated to contribute to the Master Plan.

Performance Information

The Trust provided the following information regarding its performance.

Year ended 31 December	2010	2009	2008
Number of events	18	17	18
Total attendance during the year	175,724	154,358	153,950
Average attendance per event	9,762	9,080	8,553

The Trust advises that improved results by the Parramatta Eels in the 2009 National Rugby League competition contributed to increased attendances in the current year.

Financial Information

Abridged Statement of Comprehensive Income

Year ended 31 December	2010	2009
	\$'000	\$'000
Event related	2,070	1,766
General	1,747	1,194
Total Revenue	3,817	2,960
Event related operating costs	555	516
Depreciation	1,125	1,064
Personnel services	641	697
Other operating costs	1,199	827
Total Expenses	3,520	3,104
Surplus/(Deficit) before tax	297	(144)
Income tax equivalent expense	--	--
Surplus/(Deficit) after tax	297	(144)
Other Comprehensive Income		
Net gain on revaluation of land and buildings	6,550	--
Superannuation actuarial gains	--	38
Total Other Comprehensive Income	6,550	38
Total Comprehensive Income/(Expense)	6,847	(106)

Increased attendances resulted in increased revenues and expenses in 2010. The Trust also received \$317,000 from Communities NSW to improve disability access around the stadium.

The Trust is part of the Tax Equivalent Regime (TER) for New South Wales Government businesses. Under the TER, the Trust makes income tax equivalent payments when it generates an accounting profit. However, for the purposes of the TER, accounting profit excludes the \$317,000 grant and as a result, the Trust does not have an income tax equivalent expense for the year.

Property, plant and equipment were independently valued in 2010. This resulted in a \$6.6 million increase in the value of non-current assets. The previous revaluation was performed in 2008.

Abridged Statement of Financial Position

At 31 December	2010 \$'000	2009 \$'000
Current assets	8,491	8,640
Non-current assets	52,068	45,034
Total Assets	60,559	53,674
Current liabilities	330	292
Non-current liabilities	--	--
Total Liabilities	330	292
Net Assets	60,229	53,382

Trust Activities

The Trust is constituted by the *Parramatta Stadium Trust Act 1988*. The Trust manages the Parramatta Stadium. The main objectives of the Trust include:

- managing the trust land
- providing a sporting arena suitable for football matches
- using the trust land for other sporting, recreational, educational or cultural activities
- encouraging the public's use and enjoyment of the trust.

Parramatta Stadium was opened in 1986 and has total seating capacity of around 21,000 spectators.

For further information on the Trust refer to www.parramattastadium.com.au.

Appendix

Agencies not reported elsewhere in this volume

The following audits resulted in unqualified independent auditor's reports and did not identify any significant issues or risks.

Entity name	Website	Period/year ended
NSW Vocational Education and Training Accreditation Board	www.vetab.nsw.gov.au	30 June 2009
Pacific Power (Subsidiary No 1) Pty Ltd	*	30 June 2010
Pacific Solar Pty Limited	www.pacificsolar.com.au	30 June 2010
Residual Business Management Corporation	*	30 June 2010
Trustees of the Farrer Memorial Research Scholarship Fund	www.dpi.nsw.gov.au/agriculture/field/field-crops/farrer-memorial-trust	31 December 2010
UNILINC Limited	www.unilinc.edu.au	31 December 2010
Wine Grapes Marketing Board	www.wgmb.net.au	31 December 2010
Wild Dog Destruction Board	*	31 December 2010
Wild Dog Destruction Board Division	*	31 December 2010

* This entity does not have a website.

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