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# New South Wales Auditor-General's Report

## Financial Audit

### Volume Two 2013

#### Focusing on Universities

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## The role of the Auditor-General

The roles and responsibilities of the Auditor-General, and hence the Audit Office, are set out in the *Public Finance and Audit Act 1983*.

Our major responsibility is to conduct financial or 'attest' audits of State public sector agencies' financial statements. We also audit the Total State Sector Accounts, a consolidation of all agencies' accounts.

Financial audits are designed to add credibility to financial statements, enhancing their value to end-users. Also, the existence of such audits provides a constant stimulus to agencies to ensure sound financial management.

Following a financial audit the Office issues a variety of reports to agencies and reports periodically to parliament. In combination these reports give opinions on the truth and fairness of financial statements, and comment on agency compliance with certain laws, regulations and Government directives. They may comment on financial prudence, probity and waste, and recommend operational improvements.

We also conduct performance audits. These examine whether an agency is carrying out its activities effectively and doing so economically and efficiently and in compliance with relevant laws. Audits may cover all or parts of an agency's operations, or consider particular issues across a number of agencies.

Performance audits are reported separately, with all other audits included in one of the regular volumes of the Auditor-General's Reports to Parliament – Financial Audits.

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GPO Box 12  
Sydney NSW 2001

The Legislative Assembly  
Parliament House  
Sydney NSW 2000

The Legislative Council  
Parliament House  
Sydney NSW 2000

Pursuant to the *Public Finance and Audit Act 1983*,  
I present Volume Two of my 2013 report.

A handwritten signature in black ink that reads 'Pete Achterstraat'.

**Peter Achterstraat**  
Auditor-General  
28 May 2013

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# Significant Items

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# Recommendations

This summary shows my more significant recommendations to agencies to address issues I identified during my audits.

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# Section One

The Legislature

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Members' Additional Entitlements



# Members' Additional Entitlements

## Review Opinion

Except for the matters noted below, the Members I reviewed substantially complied with the requirements of the Parliamentary Remuneration Tribunal's Determination (the PRT Determination) for the year ended 30 June 2012.

My review identified the following material exceptions:

- nine Member claims were not submitted for payment within 60 days of receipt or occurrence of the expense
- eight Members did not return their unspent Sydney Allowance amounts by 30 September 2012
- sixteen Members did not complete an annual declaration stating the benefits accrued by way of loyalty/incentive schemes, as a consequence of using their allowance and entitlements, were used only for Parliamentary duties and not for private purposes.

There are inherent limitations in undertaking an engagement of this nature. My work was conducted as a review engagement, not an audit. Consequently, my procedures were not designed to detect all instances of non-compliance. My review provides limited assurance and expresses my conclusion about whether the Members reviewed complied with the PRT Determination's requirements for Member entitlements.

## Key Issues

### Additional Temporary Staff

#### *Recommendation*

By 31 December 2013, the Department of Parliamentary Services should develop a plan to implement online processing of additional temporary staff claim forms.

Last year, I found instances where Members had approved, in advance, time worked by additional temporary staff and I recommended the Department of Parliamentary Services (the Department) remind Members this is contrary to the Members Handbook. This year I found no exceptions. It is pleasing Members responded to the reminder from the Department.

While I found no exceptions, the approval of additional temporary staff claim forms remains an intensive manual process. In my view, this is inefficient and increases the risk of incorrect data entry. The Department has started preliminary work to automate the process, using an online facility, but a detailed implementation plan is needed. Without a plan, there is a heightened risk the Department will not achieve the intended outcomes.

The PRT Determination provides Members with equipment, services and facilities entitlements, which includes additional temporary staff entitlements used to hire people to help Legislative Assembly Members at their electorate offices.

### Electorate Mail-out Account

#### *Recommendation*

The Parliamentary Remuneration Tribunal should consider the merits of introducing a blackout period for Electorate Mail-out Account expenditure.

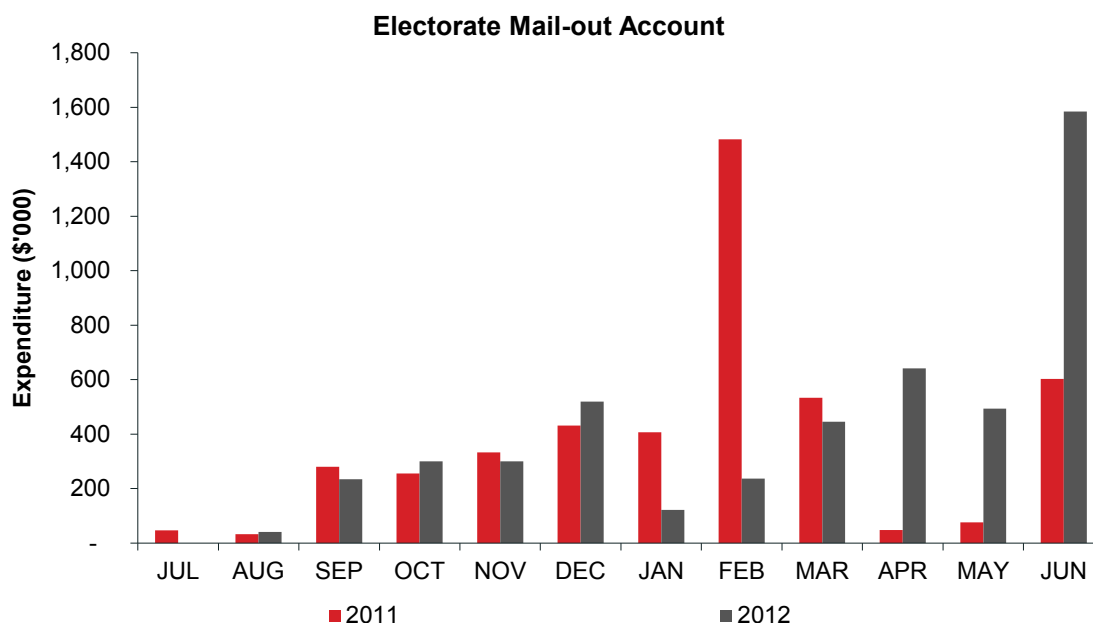
The Electorate Mail-out Account provides Legislative Assembly Members with annual funding to meet the cost of preparing and distributing newsletters to their electorate. They cannot use these funds for any other purpose, such as electioneering or political campaigning.

Members generally complied with the PRT Determination's requirements for members' entitlements

The Department of Parliamentary Services is considering online processing of additional temporary staff claim forms

Electorate Mail-out expenditure was significantly higher in the month before the 2011 State election

Any unused Electorate Mail-out Account funds are forfeited at the end of each financial year. The graph below shows Members spent \$1.5 million in February 2011 and \$1.6 million in June 2012. The average monthly spend across the two years was \$392,000. While the Department did not come across any evidence of electioneering or political campaigning leading up to the 2011 March State election, there is a heightened risk this could occur given the unusually high spend just before the election. To reduce this risk, introducing an extended blackout period beyond the date the writs are issued should be considered.



Source: The Legislature (unaudited).

Member Services within the Department review Members' newsletters to ensure the content complies with the PRT Determination and Parliament's publication guidelines. The table below shows the minimum and maximum Electorate Mail-out Account entitlement for the year ended 30 June 2012.

Range	Annual entitlement \$
Minimum	58,819
Maximum	77,563

Source: PRT Determination 2011.

## Sydney Allowance

### Recommendation

The Parliamentary Remuneration Tribunal should consider amending the PRT Determination to require Members to submit their Sydney Allowance reconciliations twice a year.

Eight Members did not return their unspent Sydney Allowance by 30 September 2012

Members who receive the Sydney Allowance as an annual fixed allowance are required to provide an annual reconciliation and return unspent money to the Department by 30 September each year. Eight Members failed to do so. All eight have subsequently repaid all or most of the unspent money, with \$11,133 still outstanding at 31 March 2013.

An annual reconciliation is particularly onerous on the Department's staff as they need to complete around 30 reconciliations in a short period of time. Splitting the annual reconciliation into bi-annual reconciliations at 31 December and 30 June, would spread the work across the year and reduce the risk of Members not repaying unspent advances before 30 September.

A Member can choose to receive the Sydney Allowance as either an annual fixed allowance or a daily rate. The choice is made at the start of each financial year and just under half the Members opt to receive an annual fixed allowance.

Year ended 30 June	Legislative Assembly			Legislative Council		
	2012	2011	2010	2012	2011	2010
Members receiving entitlement on an annual basis	23	21	23	7	7	6
Members' receiving entitlement on a daily rate	22	23	21	13	13	15

Source: The Legislature (unaudited).

In its 2011 Determination, the Parliamentary Remuneration Tribunal included the sanction of suspending the annual entitlement and reverting to a daily rate until the Member reimbursed unused monies on a timely basis.

The Department advises this sanction was not enforced for the eight Members mentioned above, as they either paid the outstanding amounts shortly after 30 September 2012 or agreed a repayment plan.

In its 2010 Determination, the Parliamentary Remuneration Tribunal also recommended Presiding Officers consider publishing the names of Members who had not repaid unspent Sydney Allowances on time.

The Sydney Allowance is provided to Members whose principal place of residence is in non-metropolitan electorates. It compensates Members for additional costs associated with staying in Sydney to attend to parliamentary business. The table below shows the daily rate and number of nights an eligible Member could claim for the year ended 30 June 2012.

Maximum allowable overnight stay*	Amount payable for overnight stay where accommodation costs are incurred*	Amount payable for transit to and from Sydney where no overnight stay is involved
From 105 to 180 nights	\$259.00	Actual reasonable expenses for meals and incidentals up to a maximum of \$82.05 per day

Source: PRT Determination 2011.

\* If a Member chooses to receive the daily rate allowance and exceeds the set number of overnight stays, they will be reimbursed actual costs, up to the daily maximum, on production of tax invoices/receipts for each occasion. The maximum depends on a Member's parliamentary office and location of principal place of residence.

## Other Information

### Internal Audit of Members' Additional Entitlements

As a result of the self-assessment process for Members' additional entitlement claims, The Legislature has in place an internal audit program focusing on the administration and management of varying aspects of Members' Additional Entitlements claims. Each year, The Legislature's internal auditors select a sample of Members and test compliance with the PRT Determination. Some of the findings from their 2011-12 audit included:

- two instances where newsletters directed readers to the Member's website, which did not qualify for inclusion
- one member had two instances of excessive mail-outs (ordered 70,000 newsletters and mailed out 45,500 in both instances)
- four instances of differences between newsletters ordered and those issued
- one instance of a Member submitting a claim 60 days after the expense was incurred.



The additional entitlements expenditure was less than expected

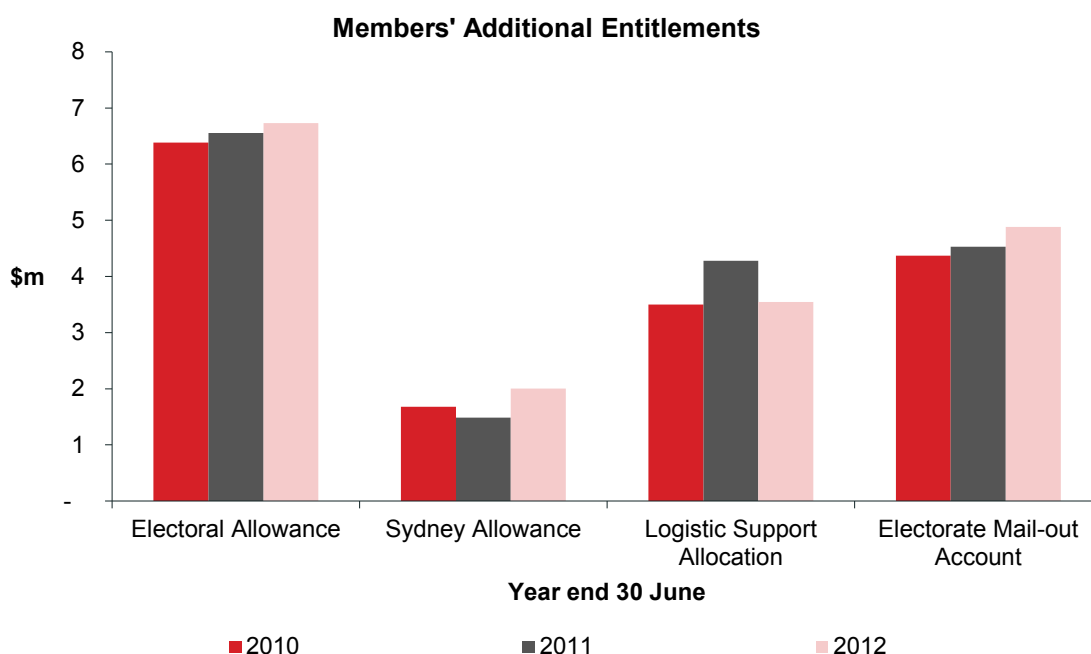
## Summary of Members' Additional Entitlements Expenditure

As shown in the table below, Members' additional entitlements expenditure for the year ended 30 June 2012 was 15.0 per cent lower than expected.

Entitlement for year ended 30 June 2012	Expected expenditure	Actual expenditure	Variance (favourable)/unfavourable %
	\$	\$	
Electoral Allowance	6,735,890	6,731,860	(0.1)
Sydney Allowance	2,354,310	2,003,002	(14.9)
Logistic Support Allocation	4,814,953	3,543,095	(26.4)
Electorate Mail-out Account	6,231,290	4,882,442	(21.6)
Committee Allowance	20,550	18,941	(7.8)
Electorate Charter Transport Allowance	102,615	45,160	(56.0)
<b>Total</b>	<b>20,259,608</b>	<b>17,224,500</b>	<b>(15.0)</b>

Source: Expected and actual expenditure from The Legislature (unaudited). The expected expenditure includes adjustments for offices held by members and classification of electorates into applicable groups, categories or zones.

The graph below compares actual expenditure over the last three years for the major entitlement categories.



Source: The Legislature (unaudited).

In 2012, Logistic Support Allocation expenditure decreased by 17 per cent. The Department advises the decrease was due to the Members' four year parliamentary term ending in March 2011 and returning Members forfeiting their unused allocation. In 2011, Members spent their carried forward allocations from previous years. Under the PRT Determination, Members can carry forward unspent monies in one year to future years within their four-year term.

Sydney Allowance expenditure increased by 35 per cent mainly due to an increase in the combined sitting days of both Houses, from 103 in 2011 to 143 in 2012.

The table below summarises the average, maximum and minimum amounts claimed by entitlement category.

Entitlement for the year ended 30 June 2012	Average amount claimed per eligible Member \$	Maximum amount claimed by an eligible Member \$	Minimum amount claimed by an eligible Member \$
Electoral Allowance*	49,866	86,585	13,909
Sydney Allowance	28,896	46,620	6,734
Logistic Support Allocation	26,245	56,250	897
Electorate Mail-out Account	52,499	77,546	5,354
Committee Allowance	2,706	3,183	343
Electorate Charter Transport Allowance	5,645	20,934	538
Travelling Allowance for Recognised Office Holders	--	--	--

Source: The Legislature (unaudited).

\* The quantum of the electoral allowance is fixed according to the geographical electoral grouping of the Member and is paid pro-rata as part of a Member's monthly salary.

## Electoral Allowance

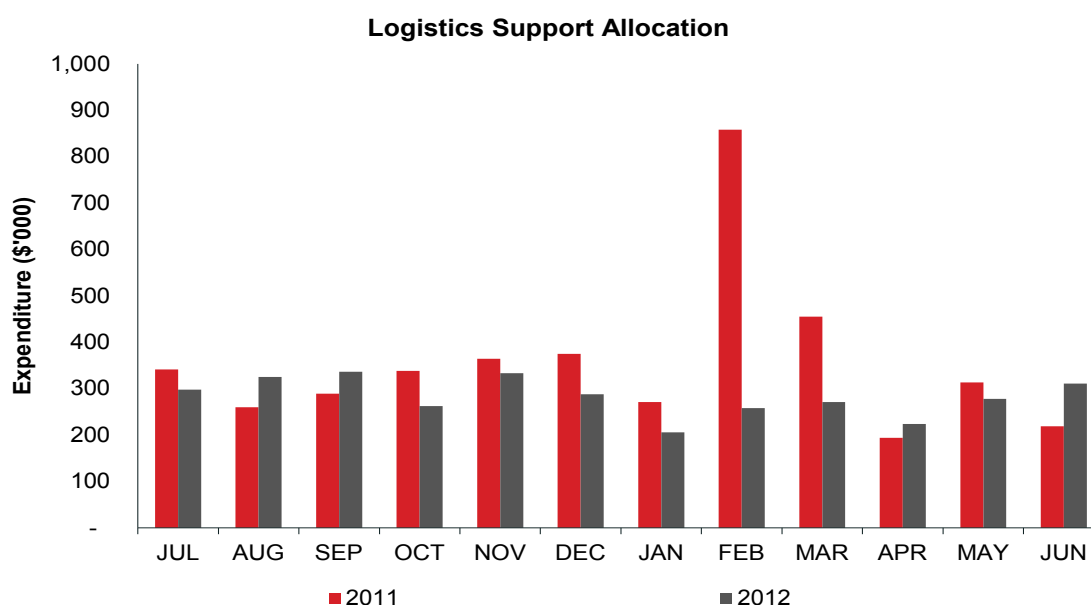
The Electoral Allowance is provided to Members to help meet the costs of performing parliamentary duties, including leasing or purchasing motor vehicles. This is paid to Members in equal monthly instalments and Members are not required to demonstrate if, or how, they have spent this allowance.

Members	Electoral allowance payable each year
Legislative Assembly Members	From \$42,140 to \$86,585
Legislative Council Members	\$49,345

Source: PRT Determination 2011.

## Logistic Support Allocation

The graph below compares Logistic Support Allocation expenditure by month over the last two years. It shows that apart from February and March 2011, monthly expenditure has remained consistent between the two years. In February and March 2011, Members spent \$858,000 and \$455,000 respectively from their Logistic Support Allocations. It appears the spike in February 2011 was attributable to the State election held in March 2011.



Source: The Legislature (unaudited).

The Logistic Support Allocation covers Members' operational costs associated with their parliamentary duties, which include transport, communication, printing and stationery costs. Members can use the Logistic Support Allocation to fund the cost of newsletters if they have no funds left in their Electoral Mail-out Accounts. Members can carry forward unspent monies from one year to future years within their four-year term.

Legislative Assembly and Legislative Council Members and Recognised Office Holders are entitled to a Logistic Support Allocation as follows:

Member Type	Minimum allocation each year \$	Maximum allocation each year \$
Legislative Assembly Members and office holders	33,095	42,195
Legislative Council Members and office holders	22,445	34,245

Source: PRT Determination 2011.

## Committee Allowance

Committee Allowances are paid to Chairpersons of Joint, Select, and Standing Committees in recognition of the additional responsibilities of the office. The allowance is not paid to chairpersons who receive a salary of office. Given the statutory nature of the Public Accounts Committee and its role in government activities, an annual allowance rate is payable to all committee members.

Range	Entitlement
Chairpersons of Joint, Select and Standing Committees	\$175 for each day parliament was not sitting
Public Accounts Committee Members	\$4,110 each year

Source: PRT Determination 2011.

## Electorate to Sydney Travel

Legislative Assembly and Legislative Council Members, who reside in particular electorate groups and zones, qualify for return air travel between their electorates/zones and Sydney as follows:

Categories	Electorate to Sydney Travel Entitlement (number of single journeys each year)
Basic entitlement for all eligible Members	104
Additional entitlement for office holders (Ministers of the Crown, Party Leaders, Presiding Officers and their Deputies)	32
Additional entitlement for other officer holders (Deputy Leader of an eligible party and Deputy Leader of the Opposition)	16

Source: PRT Determination 2011.

Travel is restricted to economy class and is not transferrable between Members, relatives or Members' staff. Alternatively, the Member may use the entitlement to meet the cost of using a private or rental vehicle, but this must not exceed the cost of an equivalent economy airfare.

## Electorate Charter Transport for Legislative Assembly Members

Members of the largest electorates are provided with the Electorate Charter Transport allowance to meet charter transport costs incurred within their electorates. Charter transport includes charter aircraft, vehicle costs and any other mode of transport deemed appropriate by the Speaker of the Legislative Assembly. Members can receive between \$7,360 and \$22,230 each year.

## Travelling Allowances for Recognised Office Holders

Recognised Office Holders, such as the Premier, Deputy Premier and senior ministers, receive a travelling allowance for all travel they undertake in their role as a Recognised Office Holder. They cannot claim the allowance when travelling in their ministerial capacity.

Recognised Office Holders may also claim additional expenses exceeding the entitlement incurred by an approved relative who accompanied them to a State or official function.

## Equipment, Services and Facilities

Parliament provides Legislative Assembly and the Legislative Council Members with equipment, services and facilities necessary to perform their parliamentary duties, including:

- a fitted-out, equipped and maintained office with secretarial services at Parliament House
- a fitted-out, equipped and maintained Electorate Office for Legislative Assembly Members
- equipment and ancillary services in the Member's private residence, including a telephone and facsimile machine, for the performance of parliamentary duties
- administrative support from Presiding Officers, including electorate and additional temporary staff.

## The Role of the Parliamentary Remuneration Tribunal

The Parliamentary Remuneration Tribunal's principal function is to determine Members' additional entitlements. These additional entitlements fall into two categories:

- those in the nature of allowances:
  - Electoral Allowance
  - Sydney Allowance
  - Committee Allowance
- those in the nature of fixed allocations:
  - Electorate to Sydney Travel
  - Logistic Support Allocation
  - Electorate Mail-out Account for Legislative Assembly Members
  - Electorate Charter Transport for Legislative Assembly Members
  - Travelling Allowance for Recognised Office Holders
  - Equipment, Services and Facilities.

The additional entitlements determined by the Parliamentary Remuneration Tribunal are separate from:


- Members' annual basic salaries, set by the Parliamentary Remuneration Tribunal
- additional salaries paid to ministers and certain other office holders, set out in Schedule One of the *Parliamentary Remuneration Act 1989* as varying percentages of their basic salaries
- expense allowances paid to ministers and certain other office holders, set out in Schedule One of the *Parliamentary Remuneration Act 1989* as varying percentages of their basic salaries.

# Section Two

Overview

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University Overview



# University Overview

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

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

Unqualified audit opinions issued for all ten NSW universities

## Audit Opinion

I issued unqualified audit opinions on all ten universities' 31 December 2012 financial statements.

## Key Issues

Universities face a variety of financial challenges, including:

- funding superannuation liabilities of \$4.7 billion at 31 December 2012 (\$4.3 billion at 31 December 2011)
- reliance on revenue from overseas students
- funding employee long service leave obligations of \$642 million (\$576 million)
- funding significant capital works programs exceeding \$1.5 billion in 2013 (\$1.2 billion was spent in 2012)
- funding backlog maintenance of \$669 million at 31 December 2012 (\$763 million at 31 December 2011).

My report focuses on these challenges and includes observations from my audits of the universities' financial statements.

## Funding Superannuation Liabilities

### Government Funding of Superannuation Liabilities

Reserve balances held by the trustee for defined benefit superannuation funds have reached a critically low level for some universities.

Universities have not agreed the specific terms and funding arrangements, including timing and amounts, with the Australian Government for most of the universities' State employee defined benefit superannuation liabilities. Universities need a funding timetable to effectively manage cash flow requirements and inform the superannuation schemes' trustee. Reserve balances held by the trustee for some universities have fallen to a level where the trustee has asked universities for a funding plan. Funding is becoming ever more critical as increasing numbers of employees retire.

Superannuation reserves for some universities have reached critically low levels



In 2010, I recommended the vice-chancellors of all universities collaborate and approach the Australian Government to negotiate and agree the funding arrangements for most of the universities' State employee defined superannuation liabilities. During 2011, the NSW Vice-Chancellors' Committee approached the New South Wales and Australian Governments to formalise the funding arrangements for each NSW university. I understand negotiations between the New South Wales and Australian Governments are still in progress.

### Recommendation

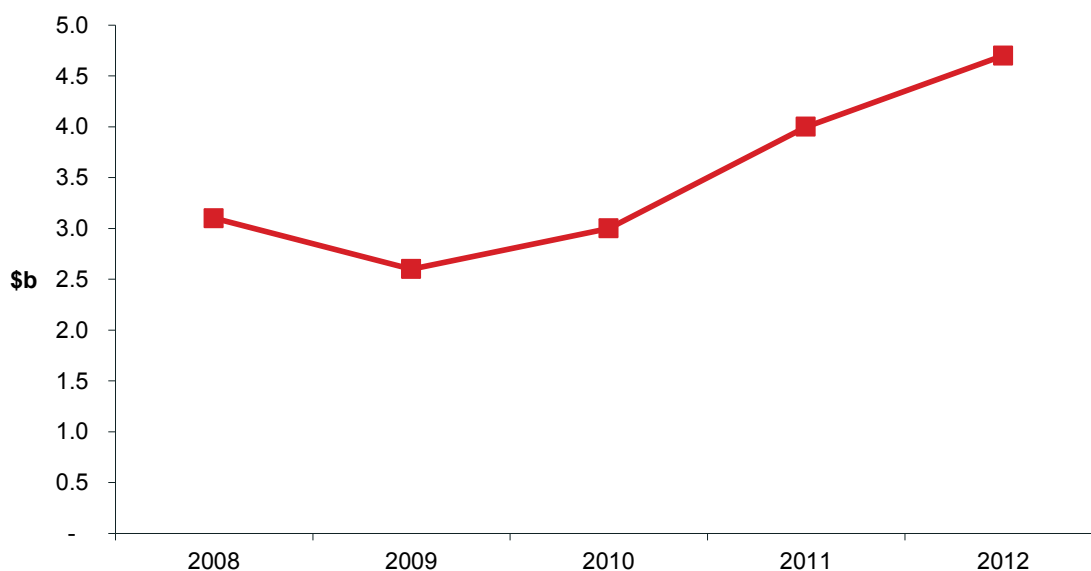
All ten NSW universities ensure arrangements to fund superannuation liabilities are completed and agreed within the next year. The funding agreements should clarify the amount and timing of funding payments.

Superannuation liabilities increased from \$4.3 billion to \$4.7 billion

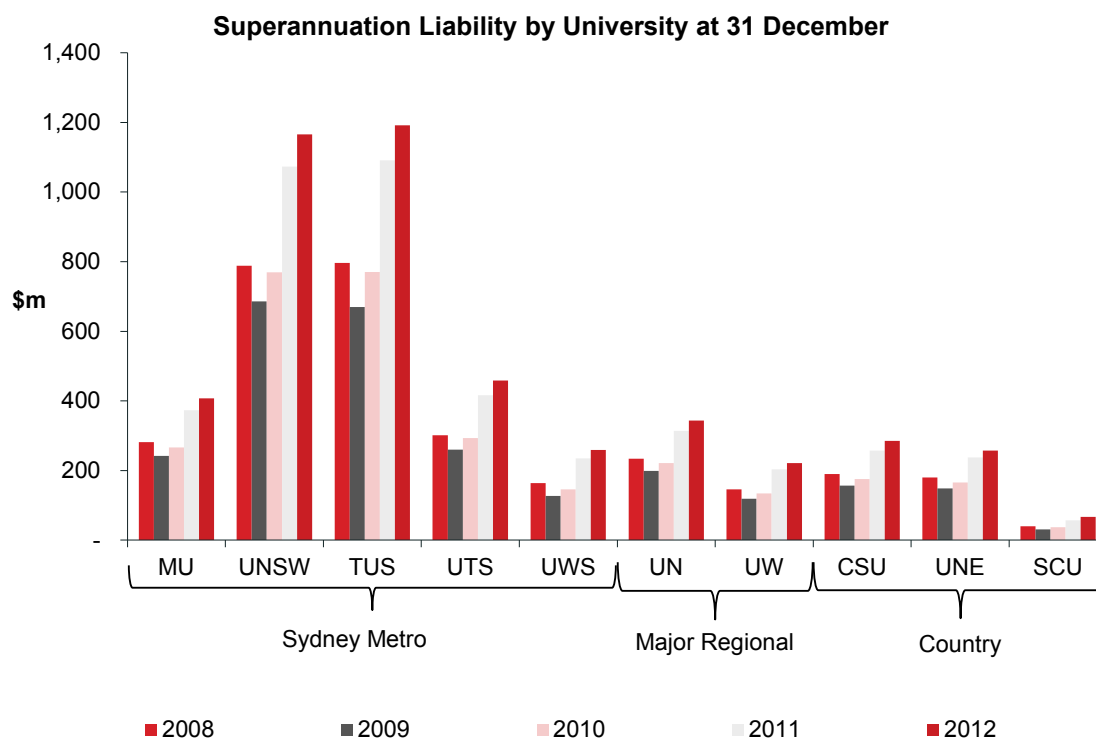
Liabilities for defined benefit superannuation schemes across all ten universities increased from \$4.3 billion to \$4.7 billion at 31 December 2012, an increase of \$400 million (\$1.3 billion increase in 2011). At 31 December 2012, the receivable from the Australian Government to fund the liabilities increased from \$4.0 billion to \$4.4 billion.

At 31 December 2012, 50.6 per cent (50.8 per cent) of total defined benefit superannuation liabilities was attributable to the University of New South Wales and The University of Sydney.

**Superannuation Liabilities for all Universities at 31 December**



Source: University financial statements (audited).



Source: University financial statements (audited).

### Superannuation Liabilities Funded by the Universities

At 31 December 2012, the total defined superannuation liability to be funded by universities and not the Australian or New South Wales Governments was \$222 million (\$226 million at 31 December 2011). Each university will need to ensure it has sufficient future cash flows to meet these obligations as they fall due. At 31 December 2012, 48.2 per cent (50.0 per cent) of these liabilities was attributable to the University of New South Wales, 17.2 per cent (19.3 per cent) to The University of Sydney and 16.2 per cent (14.3 per cent) to the University of Newcastle.

### UniSuper

Some university employees are members of the UniSuper Defined Benefit Division (UniSuper), which does not have guaranteed funding arrangements with Australian Universities or Governments. As a result, NSW universities' financial statements do not include a share of UniSuper liabilities.

UniSuper's board received an actuary's report on 15 February 2013, on UniSuper's financial position. The board has decided to wait for six months before deciding whether to reduce member benefits under clause 34 of the Trust Deed. The board noted the improvement in the investment markets is likely to allow the full benefit the members have accrued to date to be paid in the future.

Based on 2012 actuarial advice, the Trustee believed UniSuper's assets at 30 June 2012 and future contribution rates were not expected to be sufficient to meet existing and anticipated new members' benefit levels. The Trustee notified employers and members of this. The deficit of total assets over vested benefits was estimated at \$2.0 billion at 30 June 2012 (\$907 million at 30 June 2011) for members across Australia.

## Status of 2011 Audit Recommendations

Last year, I recommended universities review the taxation status of their controlled entities to ensure current Australian Taxation Office private rulings remained valid for Australian entities not paying tax and tax was not being incurred unnecessarily.

In response, universities performed either a self-review or discussed the issue with external experts to ensure compliance with taxation law. The universities also reviewed the need for separate tax paying controlled entities and, where appropriate, are incorporating these entities' activities within the university structure to effectively manage tax exposures.

I understand the Australian Government plans further changes to taxation arrangements, which are expected to apply to the not-for-profit sector.

### Recommendation

The tax status of controlled entities should be reconsidered on an ongoing basis to ensure the consequences of changes to taxation law are effectively managed when enacted.

## Financial Information

### Financial Performance

Six NSW universities (four in 2011) met four of the Australian Government's Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education's (the Department's) benchmarks for university financial performance.

Three universities (four in 2011) were below the liquidity benchmark range at 31 December 2012 and all universities met the benchmark for Australian Government operating grants not being much more than 50 per cent of total operating revenue. The University of New England's (no universities in 2011) employee benefits and on-costs represented 48.9 per cent of its total operating revenue, just below the Department's benchmark. All universities achieved the benchmark for operating surpluses in 2012 and 2011.

The following table shows each university's performance against the benchmarks at 31 December 2012.

University	Benchmark achieved			
	Liquidity – current ratio between 1.5 and 3.0	Australian Government operating grants not much more than 50% of total operating revenue	Employee benefits and on-costs between 50% - 70% of total operating revenue	Positive operating result as percentage of total operating revenue
<b>Sydney Metropolitan</b>				
Macquarie	Yes	Yes	Yes	Yes
New South Wales	No	Yes	Yes	Yes
Sydney	Yes	Yes	Yes	Yes
Technology, Sydney	Yes	Yes	Yes	Yes
Western Sydney	No	Yes	Yes	Yes
<b>Major Regional</b>				
Newcastle	Yes	Yes	Yes	Yes
Wollongong	Yes	Yes	Yes	Yes
<b>Country</b>				
Charles Sturt	Yes	Yes	Yes	Yes
New England	Yes	Yes	No	Yes
Southern Cross	No	Yes	Yes	Yes

Six universities achieved all four benchmarks for university financial performance in 2012 compared to four in 2011

A February 2000 publication, 'Benchmarking: A Manual for Australian Universities', details these benchmarks, which are now over ten years old. A review of their current relevance and appropriateness would benefit stakeholders.

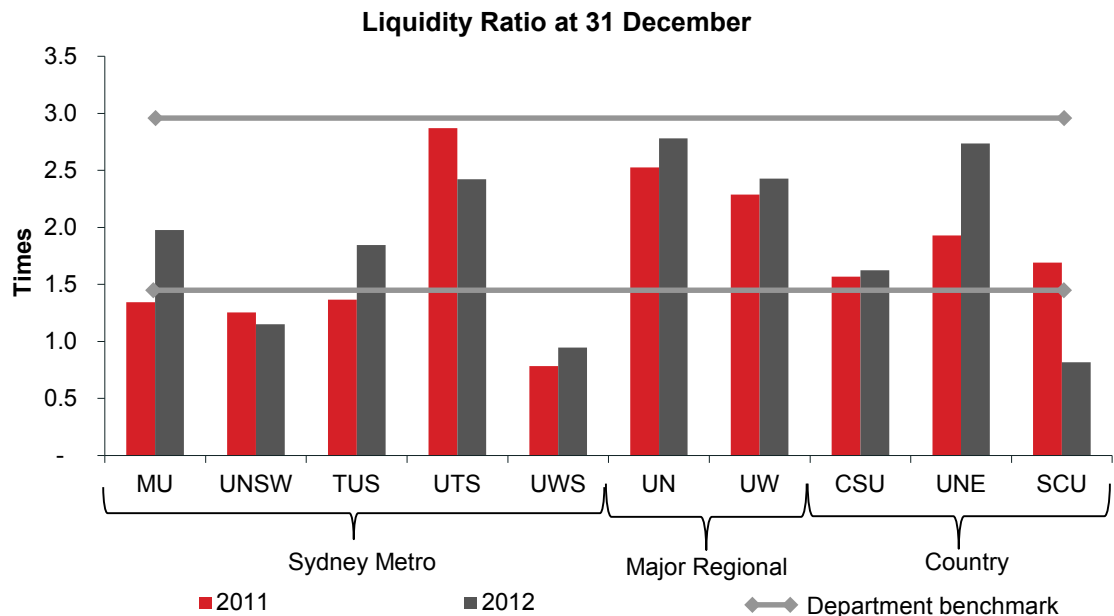
The benchmark criteria and calculations are presented in aggregated tables on pages 44 to 47.

### Liquidity

At 31 December 2012, three universities (four at 31 December 2011), did not meet the Department's liquidity benchmark. The Department considers a current ratio below 1.5 may not represent better practice for the higher education industry, particularly in overly tight cashflow situations.

Southern Cross University had the lowest current ratio of 0.8 at 31 December 2012 (0.8 for the University of Western Sydney at 31 December 2011). Southern Cross University advises it does not have a significant liquidity risk as it has an approved borrowing facility of \$45.0 million at 31 December 2012. It had not used this facility.

The University of Newcastle had the highest current ratio of 2.8 at 31 December 2012 (2.9 for the University of Technology at 31 December 2011). At 2.8, this ratio is close to the Department's upper benchmark range of 3.0.



Source: University financial statements, as adjusted (audited).

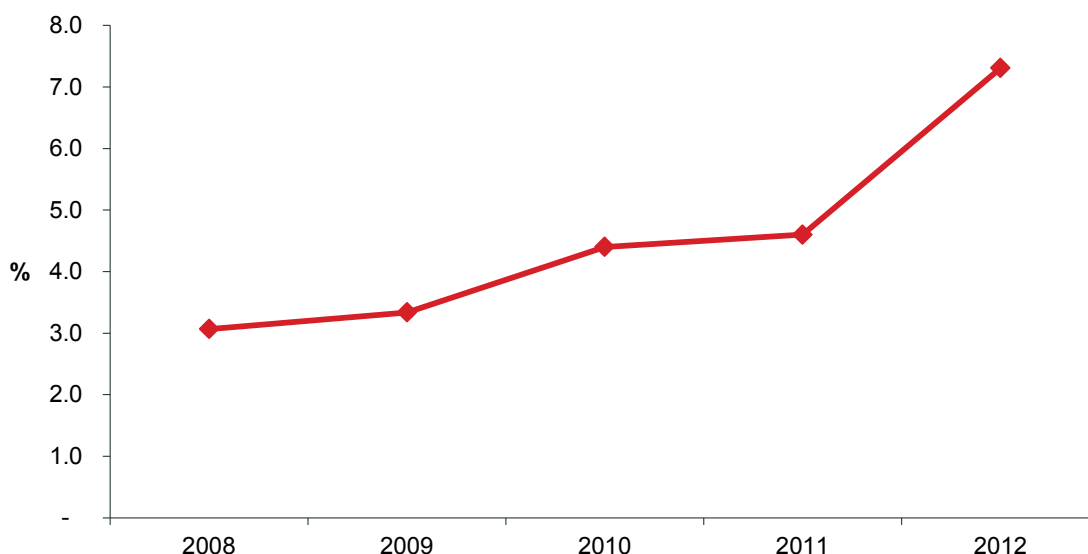
The Department's benchmark liquidity ratio is based on the traditional formula of current assets divided by current liabilities. The definition of current liabilities has changed significantly under Australian Accounting Standards and since the Department published the benchmarks in 2000. Certain liabilities are now reported as current liabilities irrespective of when they are expected to be settled.

To make the ratio more comparable with the Department's benchmark liquidity measure, the ratio discussed above has been adjusted to exclude long service leave liabilities, expected to be settled more than 12 months after the reporting date, from current liabilities.

## Debt to Equity Ratio

Universities' borrowings totalled \$917 million at 31 December 2012, an increase of \$373 million from \$544 million at 31 December 2011. Total borrowings of all ten universities were 7.3 per cent (4.6 per cent) of total equity.

**Debt to Equity Ratio for all NSW Universities at 31 December**

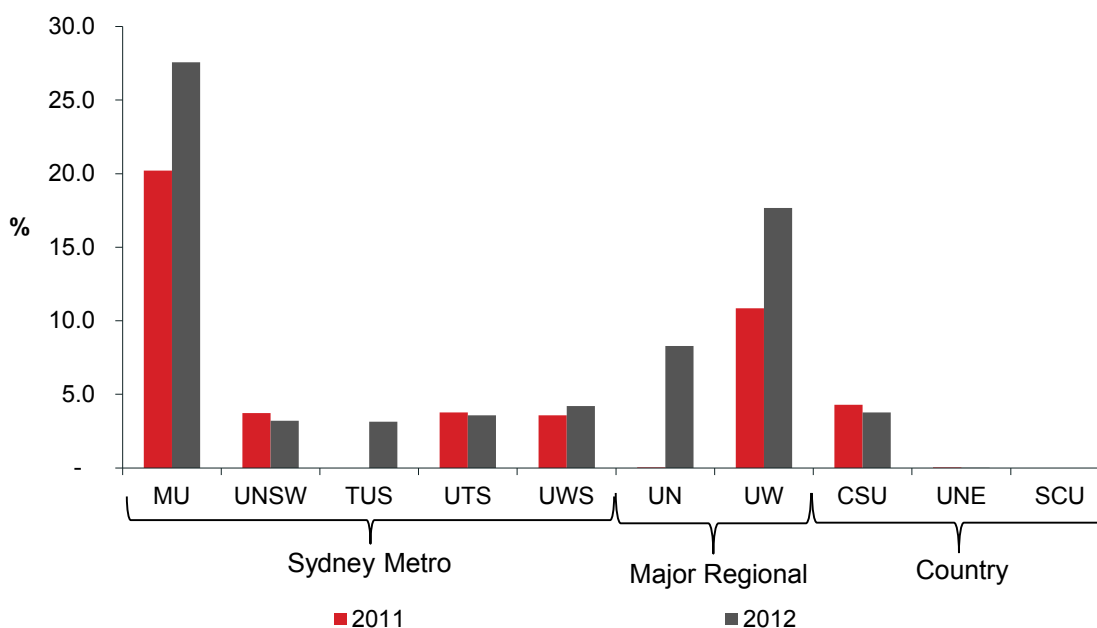


Source: University financial statements (audited).

Macquarie University had the highest borrowings of \$398 million (\$279 million) at 31 December 2012. It and the University of Wollongong again had the highest debt to equity ratios of 27.6 per cent and 17.7 per cent respectively at 31 December 2012. The borrowings were for capital works programs.

The graph below shows the proportion of borrowings to equity for each NSW university at 31 December 2012 and 31 December 2011.

**Debt to Equity Ratio by University at 31 December**



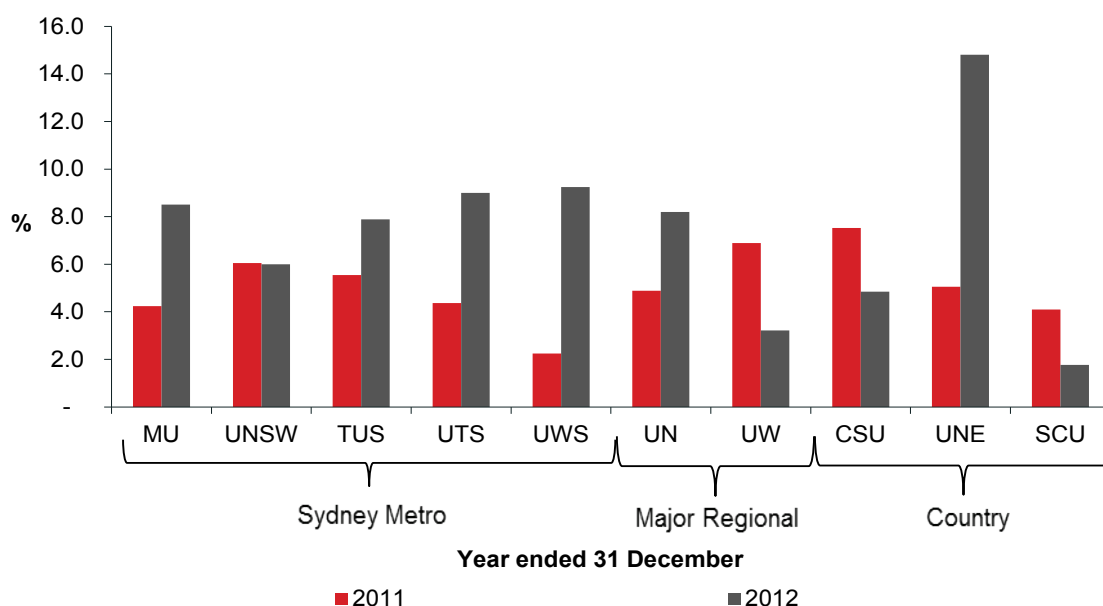
Source: University financial statements, as adjusted (audited).

Operating margins for most universities improved in 2012

## Operating Margin

Overall, NSW universities improved their combined operating margin (which includes operating and capital grants), increasing from 5.3 per cent for the year ended 31 December 2011 to 7.4 per cent at 31 December 2012. The University of New England recorded the highest operating margin of 14.8 per cent primarily due to one-off grant funding. Southern Cross University recorded the lowest operating margin of 2.0 per cent. Operating margin is the proportion of operating surplus to total revenue, which includes recurrent and capital grants.

Operating Margin by University



Source: University financial statements, as adjusted (audited).

All NSW universities reported operating surpluses for 2012, recording a combined surplus of \$567 million (\$379 million for 2011). Individual financial summaries are provided in the university information tables later in this overview. More detailed information appears in the individual university comments following this overview.

## Diversity of Revenue

The Department expects Australian Government operating grants to be not much more than 50 per cent of total operating revenue. All universities achieved this benchmark in 2012.

One way universities reduce financial risks is by diversifying revenue sources. A university's ability to generate revenue depends on factors such as location, size, perceived standing, faculties, facilities, and student and staff profiles. The breakdown of the combined universities' revenue is shown below:

Year ended 31 December	2012 \$m	2011 \$m	2010 \$m	2009 \$m	2008 \$m
<b>Student course fees</b>					
Domestic students	1,578	1,420	1,367	1,233	1,216
Overseas students	1,340	1,348	1,291	1,108	928
<b>Total student course fees</b>	<b>2,918</b>	<b>2,768</b>	<b>2,658</b>	<b>2,341</b>	<b>2,144</b>
Australian Government grants	3,222	2,853	2,657	2,518	2,303
Consultancy and contracts	299	292	279	295	281
Investment revenue	189	212	226	174	150
Other	1,004	954	811	721	707
<b>Total revenue</b>	<b>7,632</b>	<b>7,079</b>	<b>6,631</b>	<b>6,049</b>	<b>5,585</b>

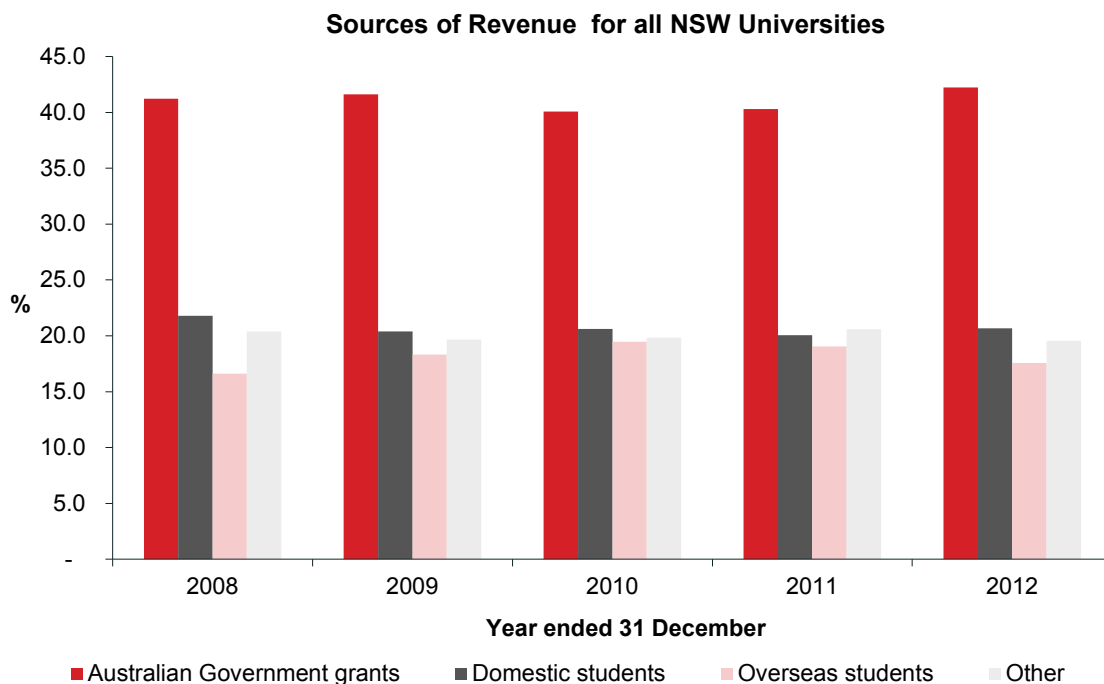
Source: University financial statements (audited).

Australian Government grants rose \$369 million (12.9 per cent) from 2011 to 2012

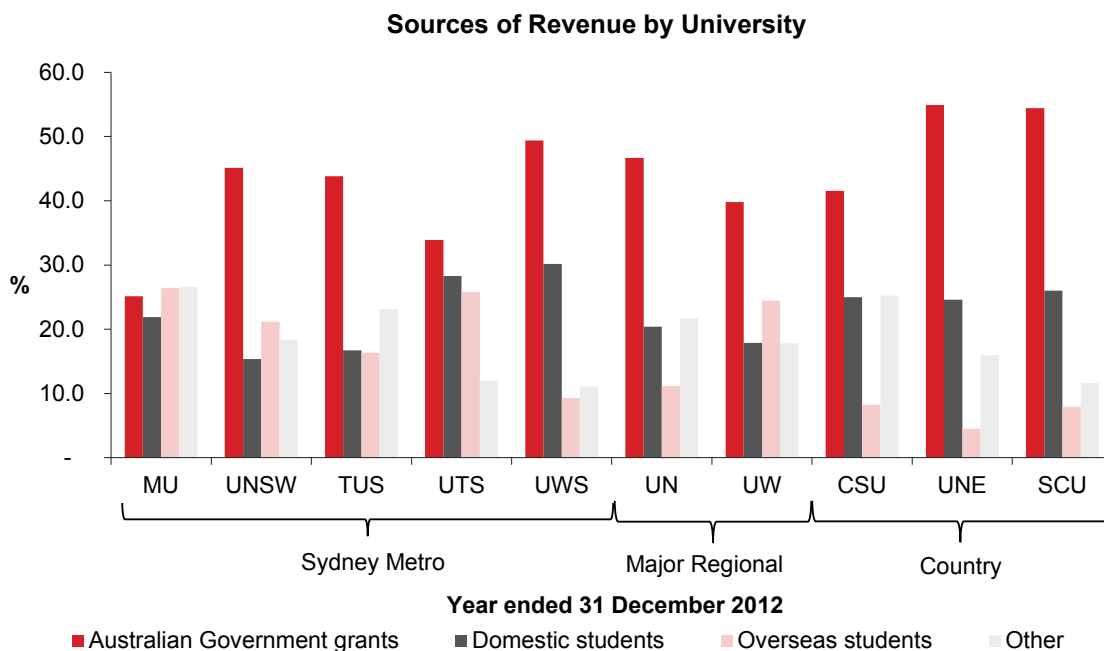


For the purposes of this analysis Australian Government grants (operating and capital) does not include Higher Education Loan Programs, such as the Higher Education Contribution Scheme (HECS). These amounts are included in student course fees.

Total revenue has increased by 36.7 per cent since 2008, primarily due to Australian Government grants growing by 39.9 per cent. This trend continued in 2012 with Australian Government grants increasing by \$369 million (12.9 per cent) compared to 2011. Total student course fees have increased by \$774 million (36.1 per cent) since 2008.



Source: University financial statements (audited).



Source: University financial statements (audited).

The University of Technology and Macquarie University received over 48 per cent of total revenue from student course fees

Since 2008, revenue from overseas students increased by 44.4 per cent, whilst fees from domestic students increased by 29.8 per cent

Macquarie University had the highest percentage of revenue from overseas students, while the University of New England had the lowest

## Student Course Fees

Student course fees were the second most significant source of revenue in 2012 representing 38.2 per cent (39.1 per cent in 2011) of total revenue for all NSW universities. Student course fees have increased by 36.1 per cent since 2008.

The University of Technology and Macquarie University had the largest proportion of total revenue from student course fees at 54.1 per cent (57.0 per cent) and 48.3 per cent (51.5 per cent) respectively in 2012. The University of New England had the lowest percentage of revenue from this source at 28.9 per cent (31.1 per cent).

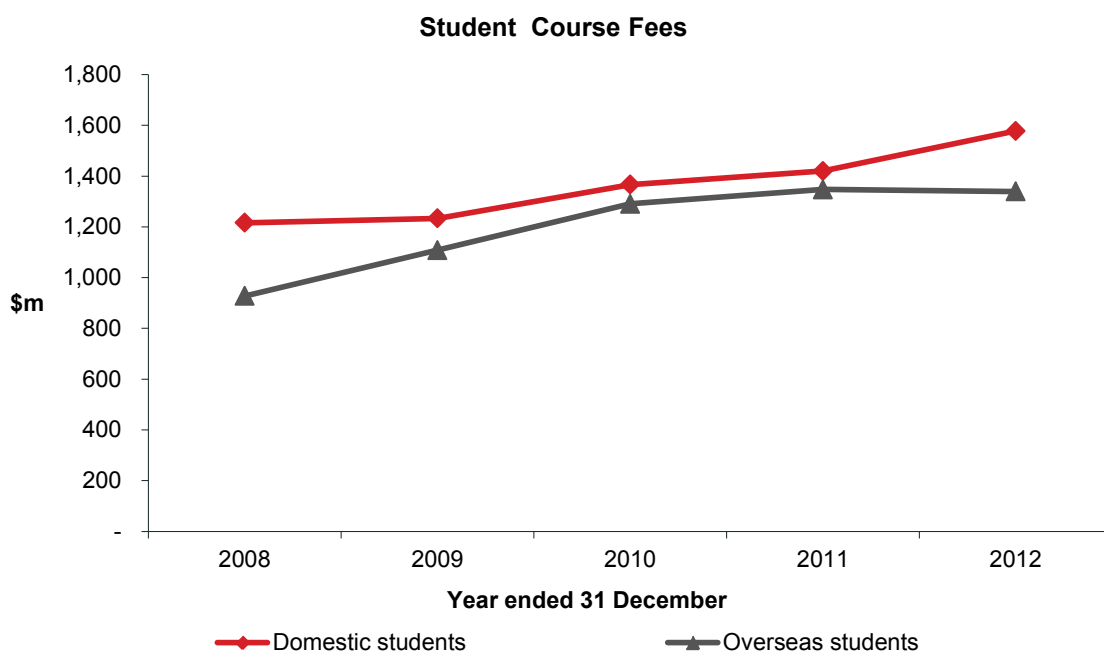
Student course fees are received directly from students or through Higher Education Loan Programs, such as the Higher Education Contribution Scheme (HECS).

Revenue from domestic students increased by \$158 million (11.1 per cent) compared to 2011 and by \$362 million (29.8 per cent) since 2008. In 2012, domestic student course fees represented 20.7 per cent of total revenue, which is relatively consistent with the last four years.

Revenue from overseas fee-paying students decreased by \$8.0 million (0.6 per cent) compared to 2011, but continued to be a significant revenue stream for universities representing 17.6 per cent (19.0 per cent in 2011) of total revenue. Revenue from overseas students increased by 44.4 per cent since 2008 and, in 2012, represented 45.9 per cent (48.7 per cent) of total student course fees.

Fees from overseas students as a percentage of total revenue ranged from 4.5 per cent (5.3 per cent in 2011) for the University of New England to 26.4 per cent (31.0 per cent) for Macquarie University.

Total student course fees for all NSW universities over the period 2008 to 2012 are shown below:



Source: University financial statements, as adjusted (audited).

Fees received per overseas student were, on average, close to three times those received from a domestic student

## Fees Received per Student

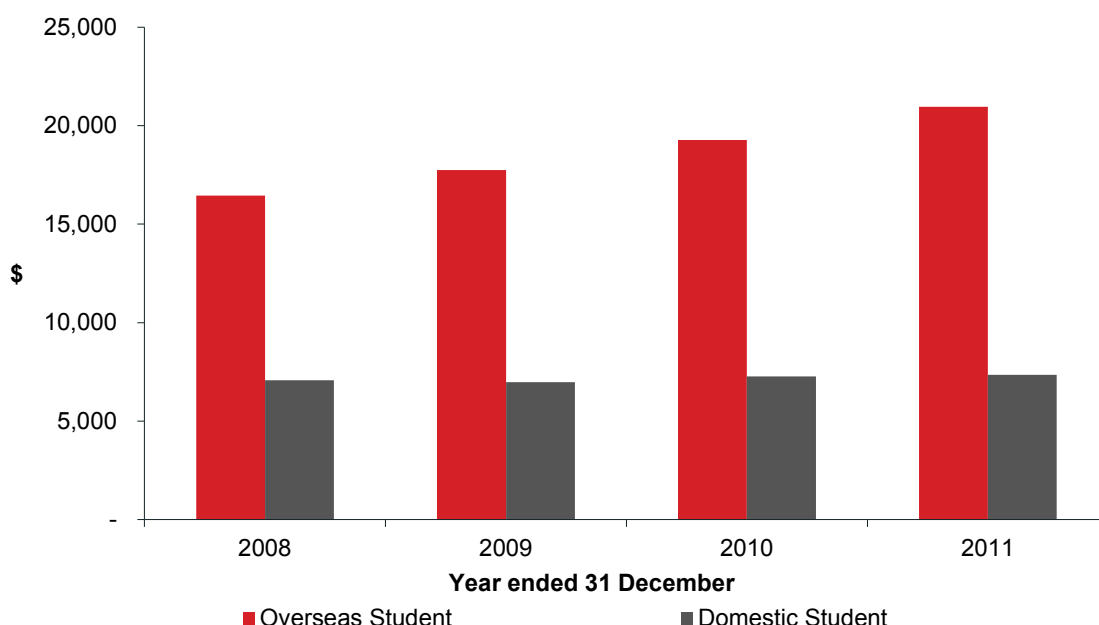
In 2011, based on university only results, average fees received per overseas student were \$20,954 and \$7,355 per domestic student. Fees received per overseas student were, on average, close to three times those received from a domestic student.

Fees received per student (for the university parent entities only) have been calculated as follows:

- fees per overseas student – overseas student fees divided by equivalent full time overseas student load
- fees per domestic student – total revenue from undergraduate, postgraduate and non-award domestic student fees, continuing education, Higher Education Student Loan Programs (such as the Higher Education Contribution Scheme) divided by equivalent full time domestic student load.

Fees received per overseas student increased 27.4 per cent from 2008 to 2011. Fees received per domestic student increased by 3.9 per cent over the same period. The average fee received per student from 2008 to 2011 across the ten universities is shown below:

**Average Fee Revenue per Equivalent Full-Time Student Load**

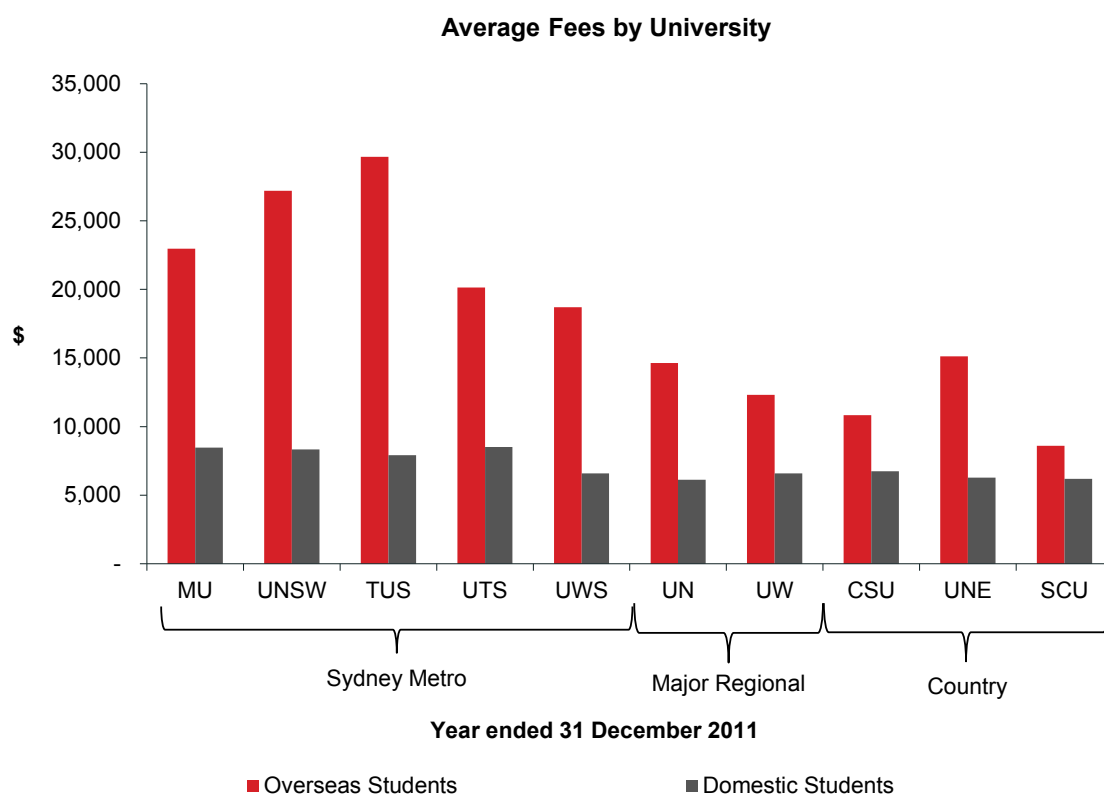


Source: Fees information obtained from universities' audited financial statements. Student numbers obtained from Department publications.

Generally, greater disparities between overseas and domestic student fees occurred in Sydney metropolitan universities. In 2011, The University of Sydney had the highest disparity between average fees received from an overseas student compared to a domestic student of \$21,741 (274 per cent). Southern Cross University had the lowest disparity of just \$2,416 (39.0 per cent).

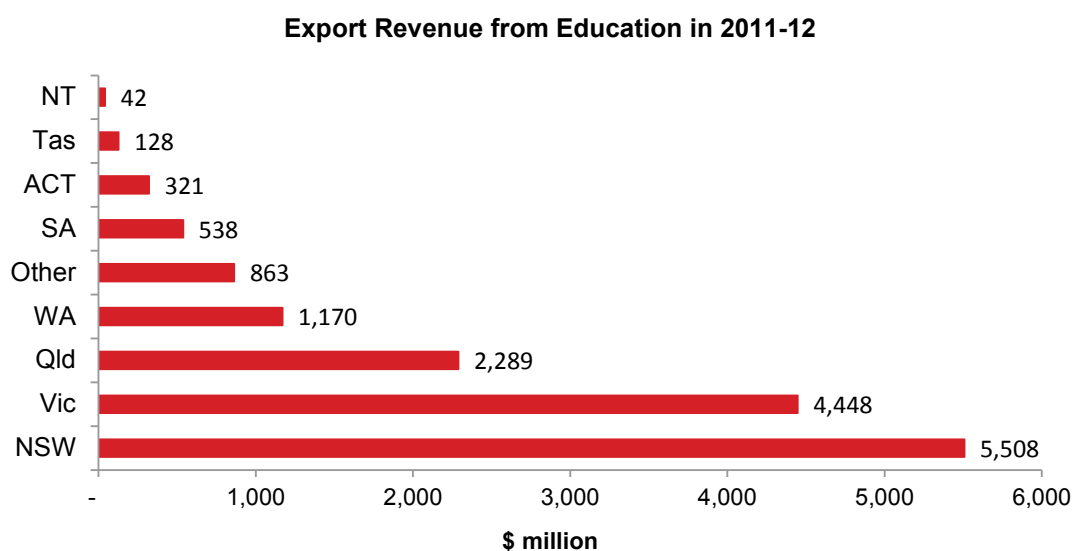
Average fees received per student for each university in 2011 are shown below. Student numbers from the Department for 2012 was unavailable at the time of preparing this report.

Sydney's metropolitan universities have the largest disparities between overseas and domestic student fees



Source: Fees information obtained from universities' audited financial statements. Student numbers obtained from Department publications.

The graph below shows the importance of overseas students to universities and the overall Australian economy. The Australian economy benefited from student course fees, money students spend on goods and services in Australia and money spent overseas, which was channelled back to Australia. These revenues totalled \$15.3 billion in 2011-12, with NSW accounting for most of this revenue, \$5.5 billion.



Source: Australian Bureau of Statistics publication, ABS 5368.0.55.003.

The University of New England and Southern Cross University were most reliant on Australian Government grants funding

## Australian Government Grants

Australian Government grants (operating and capital) continued to be the largest source of revenue for universities in 2012 accounting for 42.2 per cent (40.3 per cent in 2011) of total revenue. All universities, except Macquarie University, derived the largest proportion of their revenue from this source. Macquarie University received 25.1 per cent (23.6 per cent) of total revenue from Australian Government grants. The University of New England and Southern Cross University were most reliant on Australian Government grants in 2012 with these accounting for 54.9 per cent and 54.4 per cent of their total revenues respectively.

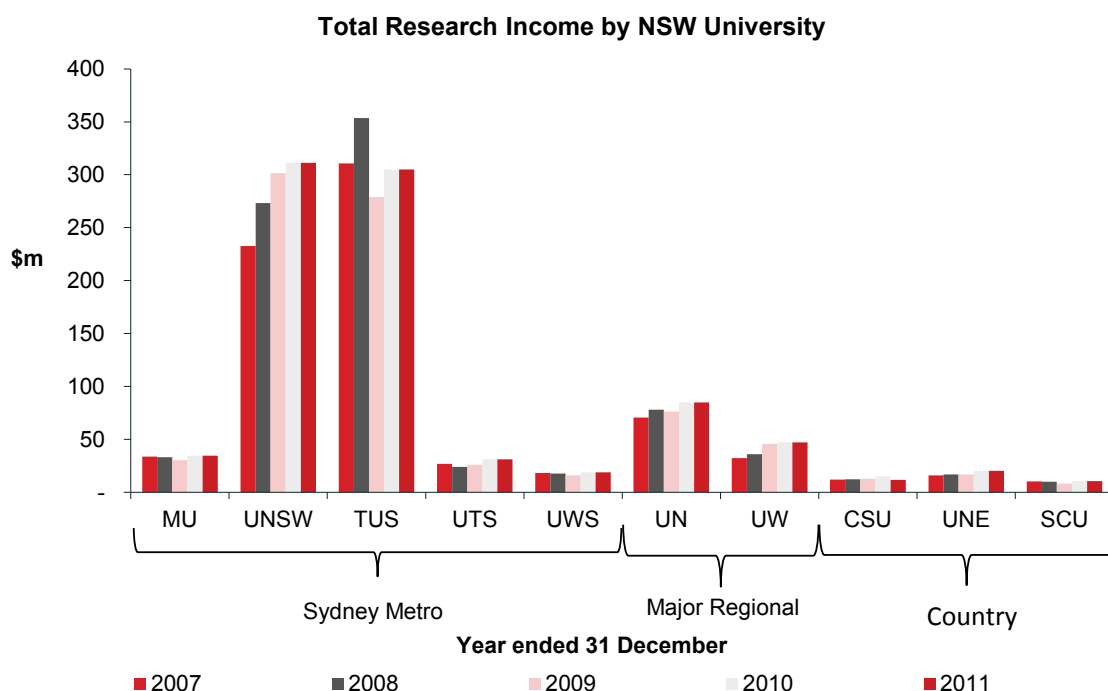
## Other Income

Since 2008, there has been a 6.4 per cent increase in consultancy and contracts revenue. In the same period, investment income increased by 26.0 per cent and other income increased by 42.0 per cent.

## Research Income

Most research income comes in the form of grants from the Australian Government sector. Each year, NSW universities provide the Department with research income data. The data is used to assess university research performance. Research performance drives the allocation of Australian Government Research Block Grants. These grants reward universities' success in obtaining non-government grants and support further research.

The graph below shows total research income received by NSW universities from 2007 to 2011. Research income data from the Department for 2012 was unavailable at the time of preparing this report.

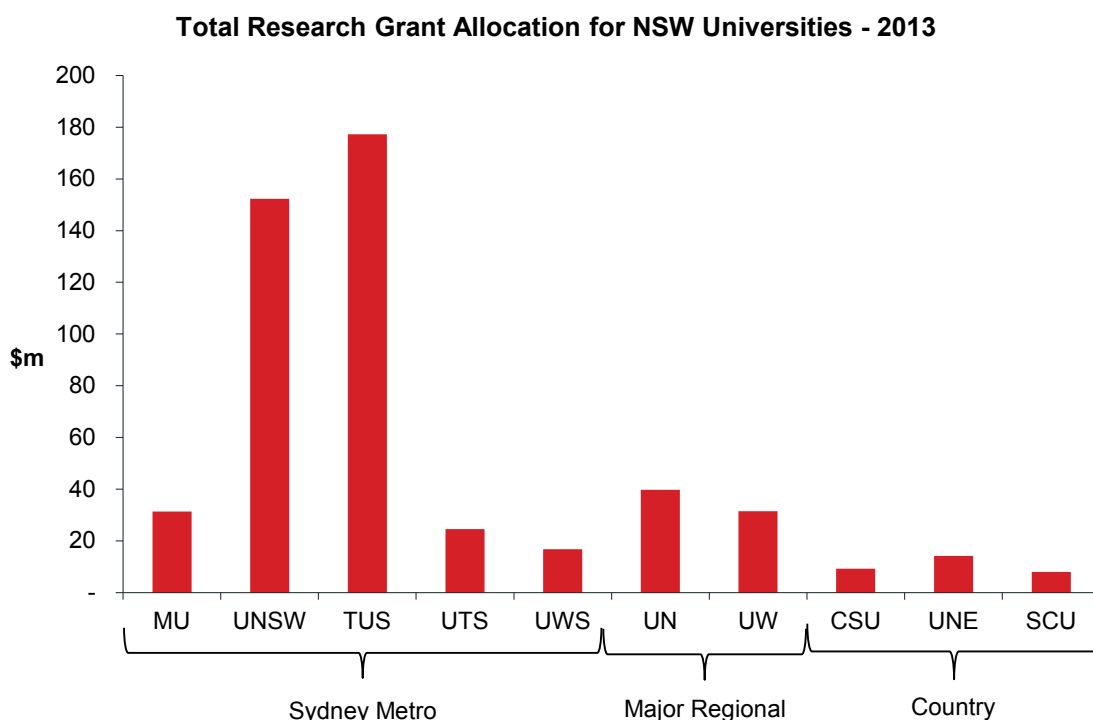


Source: Data analysed from Department Publications.

Research income received by NSW universities has increased by 14.7 per cent over the past five years to \$875 million in 2011. However, the proportion of total research income for respective NSW universities has remained relatively consistent over the last five years. The University of New South Wales and The University of Sydney continue to be the top two recipients, receiving 35.6 per cent and 34.8 per cent of total research grants respectively. Most of this income came from Australian Government competitive grants and industry and other public sector research grant funding.

In 2013, \$1.7 billion will be provided to eligible Australian higher education providers in the form of block grants by the Australian Government.

The graph below shows the total research grant to be provided by the Department to each NSW university in 2013.

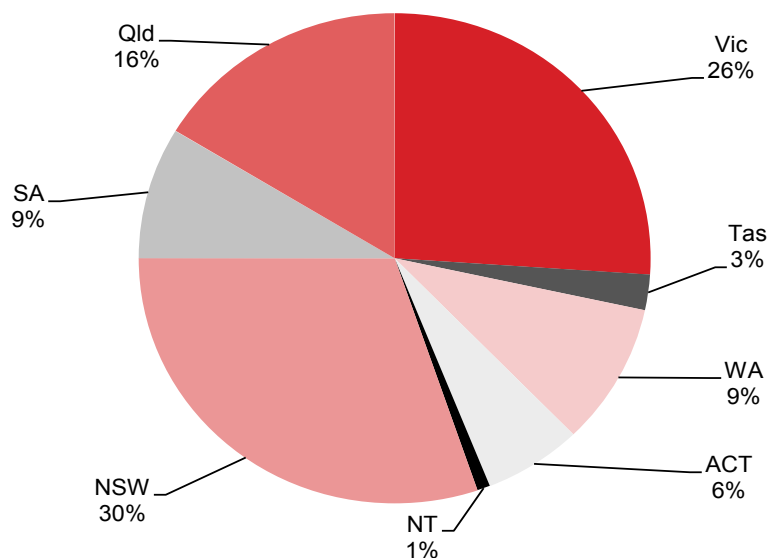


Source: Data analysed from Department Publications.

The University of Sydney and the University of New South Wales expect to receive research grants of \$177 million and \$152 million respectively in 2013.

The graph below illustrates total Australian Government research grants allocated to the universities in each state and territory in Australia. New South Wales receives the highest allocation of 30.3 per cent and Victoria the second highest allocation of 26.1 per cent.

**2013 Research Grant Allocation - by State and Territory**



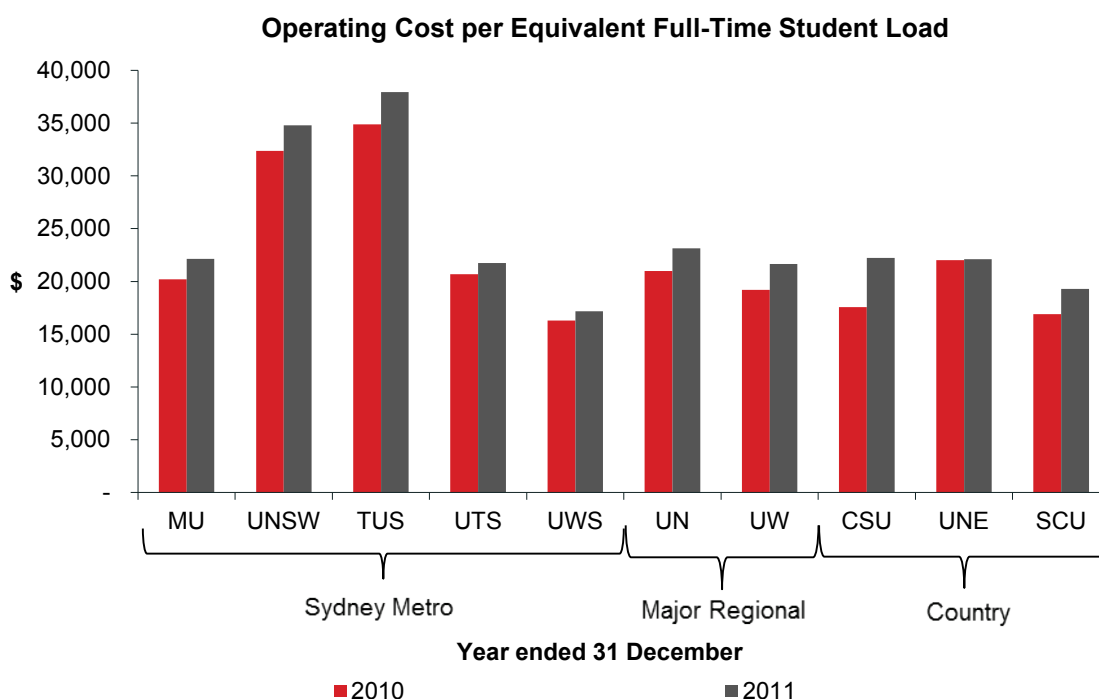
Source: Data analysed from Department Publications.



## Operating Cost per Student

In 2011, based on university figures only, universities spent an average of \$25,928 (\$23,754 in 2010) in operating expenses for every student, based on the equivalent full time student load (EFTSL). This represents an 9.2 per cent increase over 2010. The University of Sydney and the University of New South Wales continue to have the highest operating expenses per student at \$37,934 and \$34,798 respectively. This reflects the costs of their higher than average level of research activity. The University of Western Sydney has the lowest operating expenses per student at \$17,180.

The graph below compares the operating cost per student for each university.



Source: Operating cost from universities' audited financial statements. Student numbers from the Department's publications.

At the time of preparing this report, the Department's statistics for 2012 were not available. The latest available statistics are for 2011.

## Student Numbers

During 2011, the equivalent full time student load in NSW universities increased by 4,622 (1.9 per cent) to 245,404. The equivalent full time overseas student load decreased by 400 (0.7 per cent) to 57,972. At 31 December 2011, overseas students represented 23.6 per cent of all enrolled students (24.2 per cent at 31 December 2010).

The dissection of students by university is shown in the table below. This is the latest information available from published data of the Department. Individual university comments appearing after this Overview include 2012 data provided by the universities, which has not been through the Department's review and publication process.

University	Overseas Students (EFTSL)				Domestic Students (EFTSL)			
	3 year trend	2011	2010	2009	3 year trend	2011	2010	2009
<b>Sydney Metro</b>								
Macquarie	~	9,582	10,003	9,337	↑	17,499	16,658	15,545
New South Wales	↑	10,865	10,575	8,966	↑	26,534	26,090	24,879
Sydney	~	9,343	9,526	9,270	↑	30,319	30,270	29,553
Technology, Sydney	↑	7,123	6,647	5,928	↑	18,634	17,864	18,048
Western Sydney	~	3,035	3,250	2,971	↑	26,635	25,144	23,092
<b>Sydney Metro Total</b>	~	<b>39,948</b>	<b>40,001</b>	<b>36,472</b>	↑	<b>119,621</b>	<b>116,026</b>	<b>111,117</b>
<b>Major Regional</b>								
Newcastle	~	4,306	4,321	3,854	↑	19,514	19,097	18,076
Wollongong	↑	7,539	7,538	7,137	↑	13,721	13,199	12,034
<b>Major Regional Total</b>	↑	<b>11,845</b>	<b>11,859</b>	<b>10,991</b>	↑	<b>33,235</b>	<b>32,296</b>	<b>30,110</b>
<b>Country</b>								
Charles Sturt	↑	3,224	3,248	3,011	↑	18,116	18,076	15,792
New England	↑	874	823	752	↑	8,954	8,503	8,311
Southern Cross	↓	2,081	2,441	2,616	↓	7,506	7,509	7,547
<b>Country Total</b>	~	<b>6,179</b>	<b>6,512</b>	<b>6,379</b>	↑	<b>34,576</b>	<b>34,088</b>	<b>31,650</b>
<b>Total*</b>	↑	<b>57,972</b>	<b>58,372</b>	<b>53,842</b>	↑	<b>187,432</b>	<b>182,410</b>	<b>172,877</b>

Source: Department Publications.

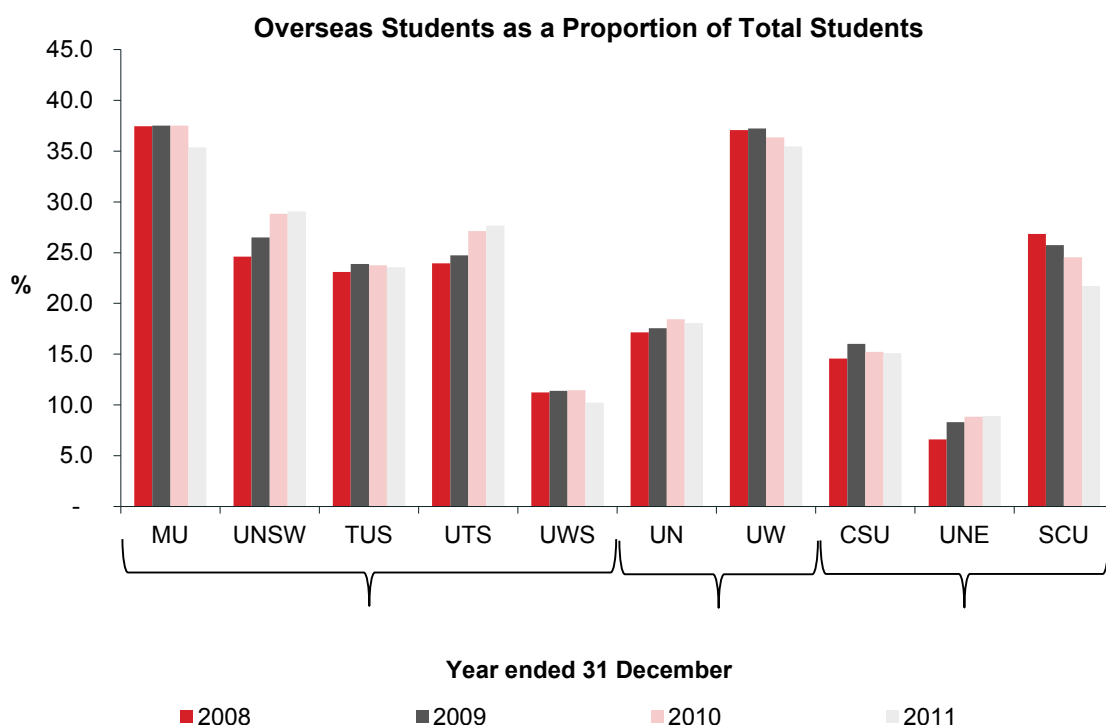
\* Student numbers in the table are for universities, except for the University of Western Sydney, which includes one controlled entity.

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

Domestic student numbers continued to increase in 2011, but the rate of increase was lower than the previous year. Macquarie University, the University of Western Sydney and the University of Technology experienced the highest increases in 2011.

In 2011, six universities (one university in 2010) had falls in overseas student numbers compared to 2010. Southern Cross University recorded the greatest percentage fall of 14.7 per cent.

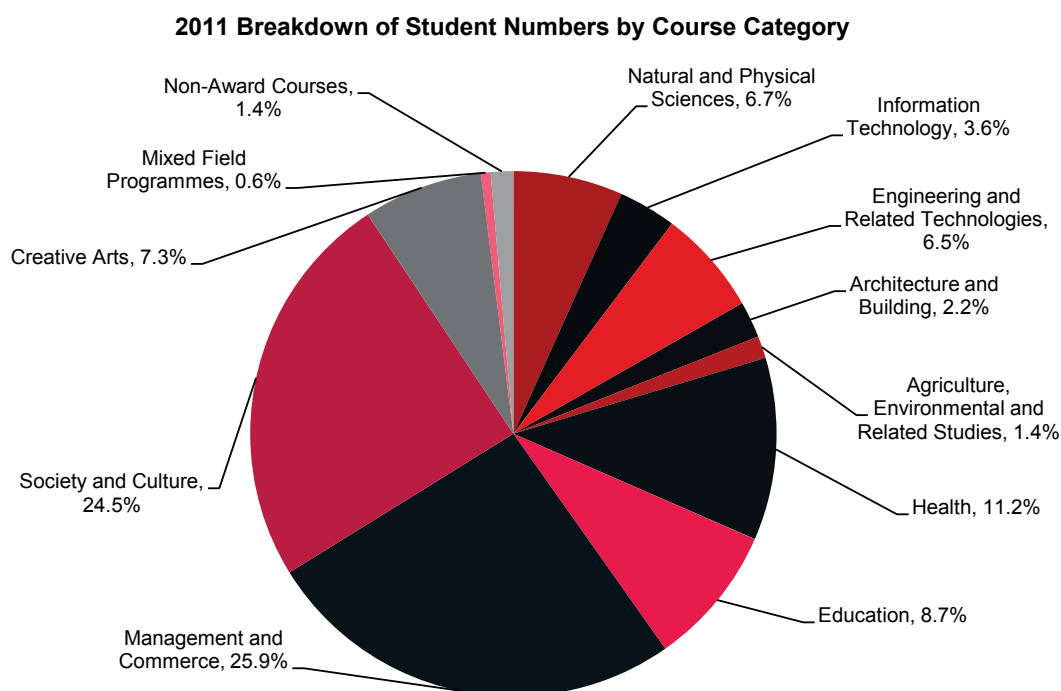
The percentage of overseas students at NSW universities over the four years to 31 December 2011 is shown below.



Source: Data analysed from Department Publications.

Over the four years to 31 December 2011, Macquarie University and the University of Wollongong had the highest percentages of overseas students with over 35.4 per cent of total students coming from overseas. The University of New England continued to have the lowest percentage of 8.9 per cent in 2011 (8.8 per cent in 2010).

The graph below shows the breakdown of total students enrolled in NSW universities split by course category in 2011.



Source: Data analysed from Department Publications.

The following course categories have the highest proportions of all enrolled students: Management and Commerce (25.9 per cent); Society and Culture (24.5 per cent); and Health (11.2 per cent). Over the three years to 31 December 2011, total students enrolled in NSW universities have increased, but the percentage of students enrolled for each course category has remained steady.

## Student to Academic Ratio

In 2011 the NSW universities' student to academic ratio of 30.3 was the third highest of any jurisdiction in Australia (30.1 and third highest in 2010). Some universities are concerned the ratios are misleading due to factors such as distance learning. The information in this report should be considered in this context.

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

Jurisdiction	Number of universities	Students (EFTSL)	FTE Academics	Ratio trend	Student : Academic ratio		
		2011	2011		2011	2010	2009
Australian Capital Territory	2	24,902	1,060	↑	23.5	24.0	21.9
New South Wales	10	245,404	8,101	↑	30.3	30.1	28.5
Northern Territory	2	4,726	205	↓	23.1	24.0	29.8
Queensland	7	144,894	4,811	↑	30.1	29.8	28.6
South Australia	3	57,549	2,146	~	26.8	27.3	26.9
Tasmania	1	16,412	706	↑	23.2	23.3	21.1
Victoria	8	227,605	6,601	↑	34.5	31.8	30.0
Western Australia	4	83,665	2,647	↑	31.6	30.8	29.6

Source: Department Publications.

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

## Excessive Annual Leave

I have been recommending universities with high levels of employees with excess annual leave balances and related liabilities examine trends over the last five to ten years and investigate the drivers of the increases so they can address underlying issues. It is pleasing to see most universities are addressing this issue.

Managing excessive annual leave balances is a continual challenge. At 31 December 2012, 1,624 (1,647 in 2011) university employees or 5.4 per cent (6.0 per cent) of all staff had accrued more than 40 days annual leave. The University of Newcastle continues to have the lowest proportion of its staff with excess annual leave balances.

Liabilities for excessive annual leave generally increase over time as salary rates increase, which increases 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 at each university.

Most universities are reducing excess annual leave balances

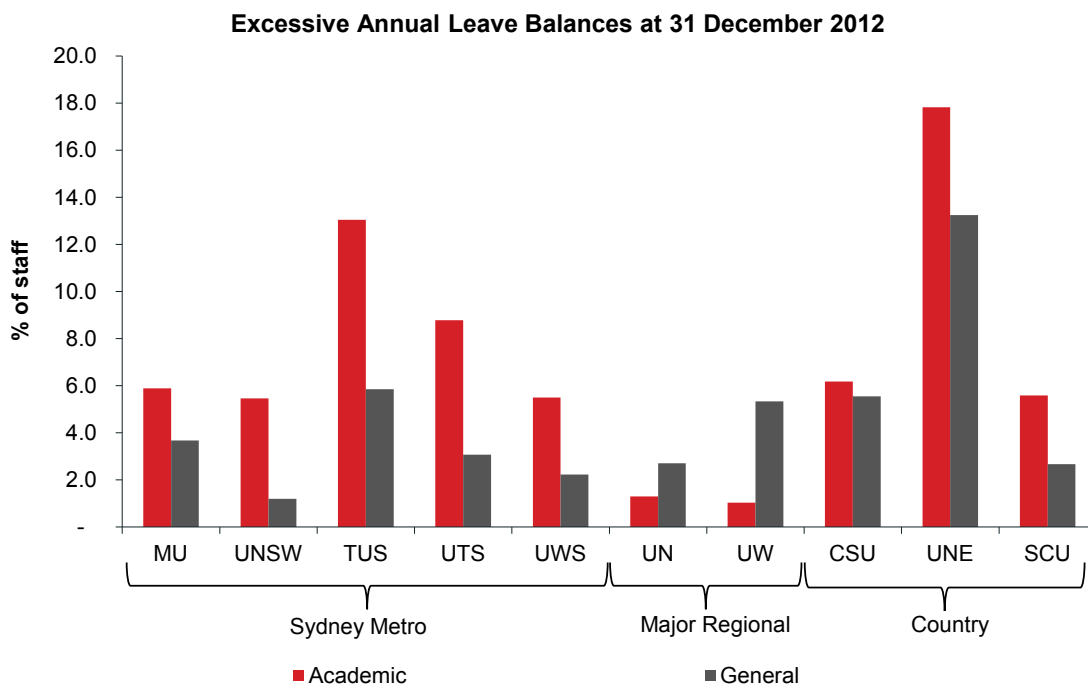
University	Academic staff				General staff			
Year	3 year trend	2012	2011	2010	3 year trend	2012	2011	2010
<b>Sydney Metropolitan</b>								
Macquarie	↓	65	156	162	↑	48	42	43
New South Wales	↓	151	225	313	↓	39	62	86
Sydney	~	392	288	364	↑	220	84	176
Technology, Sydney	↓	92	111	105	↓	50	71	65
Western Sydney	↑	61	59	52	↓	33	48	52
<b>Sydney Metro Total</b>	↓	<b>761</b>	<b>839</b>	<b>996</b>	~	<b>390</b>	<b>307</b>	<b>422</b>
<b>Major Regional</b>								
Newcastle	↓	15	16	21	↑	50	54	47
Wollongong	~	11	11	10	↓	67	68	128
<b>Major Regional Total</b>	↓	<b>26</b>	<b>27</b>	<b>31</b>	↓	<b>117</b>	<b>122</b>	<b>175</b>
<b>Country</b>								
Charles Sturt	↓	48	64	77	↓	80	87	115
New England	↑	78	76	72	↑	87	81	76
Southern Cross	↓	21	32	35	~	16	12	22
<b>Country Total</b>	↓	<b>147</b>	<b>172</b>	<b>184</b>	↓	<b>183</b>	<b>180</b>	<b>213</b>
<b>Total</b>	↓	<b>934</b>	<b>1,038</b>	<b>1,211</b>	↓	<b>690</b>	<b>609</b>	<b>810</b>

Source: Information provided by respective universities (unaudited).

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

Academic staff with excess annual leave balances decreased to 7.3 per cent of total academics at 31 December 2012 (8.2 per cent at 31 December 2011). For general staff the percentage with excess leave balances decreased to 4.0 per cent (4.1 per cent).

The graph below shows 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

The long service leave liability for NSW universities has increased by \$204 million (46.6 per cent) since 2008, largely due to the impact of a decrease in discount rates used to calculate the present value of the liability.

Universities need to ensure they have plans to fund these liabilities, which generally increase over time as employee remuneration levels increase. This will be more critical for universities with an older workforce approaching retirement.

Long service leave liabilities have increased by 46.6 per cent since 2008

The table below shows the long service leave liability of each university over the past five years.

University	5 year trend	2012 \$m	2011 \$m	2010 \$m	2009 \$m	2008 \$m
<b>Sydney Metropolitan</b>						
Macquarie	↑	49	42	34	34	36
New South Wales	↑	161	144	106	99	105
Sydney	↑	121	115	99	92	89
Technology, Sydney	↑	70	64	45	40	39
Western Sydney	↑	51	47	41	39	37
<b>Sydney Metro Total</b>	<b>↑</b>	<b>452</b>	<b>412</b>	<b>325</b>	<b>304</b>	<b>306</b>
<b>Major Regional</b>						
Newcastle	↑	66	53	43	39	40
Wollongong	↑	52	45	40	35	33
<b>Major Regional Total</b>	<b>↑</b>	<b>118</b>	<b>98</b>	<b>83</b>	<b>74</b>	<b>73</b>
<b>Country</b>						
Charles Sturt	↑	33	32	27	25	25
New England	~	22	20	21	21	22
Southern Cross	↑	17	14	13	12	12
<b>Country Total</b>	<b>↑</b>	<b>72</b>	<b>66</b>	<b>61</b>	<b>58</b>	<b>59</b>
<b>Total</b>	<b>↑</b>	<b>642</b>	<b>576</b>	<b>469</b>	<b>436</b>	<b>438</b>

Source: Universities financial statements (audited).

Key: ↑ Trend upwards, ~ No trend.

All universities experienced increases in long service leave liabilities. The University of Newcastle had the greatest percentage increase of 24.5 per cent (42.2 per cent for the University of Technology in 2011).

## Capital Programs and Asset Management

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

### Capital Works

Capital expenditure across all ten universities totalled \$1.2 billion in 2012 (\$1.0 billion in 2011). The University of New South Wales incurred the largest spend of \$242 million.

The introduction of the Student Demand Driven System, which allows universities to increase student numbers to levels they can support, increases pressure on university resources, infrastructure and funding models for maintenance and capital expenditure.

More capital expenditure is needed for new and modern teaching and research facilities, student accommodation, to improve other infrastructure and address backlog maintenance.

All universities experienced increases in long service leave liabilities

Capital works spending in 2012 across all ten universities totalled \$1.2 billion (\$1.0 billion in 2011)

The table below shows the capital spends for each university for the last three years and the budgets for 2013 and 2014.

Year ended 31 December	Budget			Actual		
University	2014 \$m	2013 \$m	3 year trend	2012 \$m	2011 \$m	2010 \$m
<b>Sydney Metropolitan</b>						
Macquarie	55	71	↓	198	95	334
New South Wales	226	296	↑	242	225	126
Sydney	300	371	↑	237	198	98
Technology, Sydney	191	324	↑	165	154	108
Western Sydney	114	146	~	109	111	108
<b>Sydney Metro Total</b>	<b>886</b>	<b>1,208</b>	<b>↑</b>	<b>951</b>	<b>783</b>	<b>774</b>
<b>Major Regional</b>						
Newcastle	89	122	↓	36	53	52
Wollongong	46	92	↓	65	78	103
<b>Major Regional Total</b>	<b>135</b>	<b>214</b>	<b>↓</b>	<b>101</b>	<b>131</b>	<b>155</b>
<b>Country</b>						
Charles Sturt	18	78	~	50	77	53
New England	2*	50	↑	24	21	20
Southern Cross	56	31	↑	38	25	10
<b>Country Total</b>	<b>76</b>	<b>159</b>	<b>~</b>	<b>112</b>	<b>123</b>	<b>83</b>
<b>Total</b>	<b>1,097</b>	<b>1,581</b>	<b>↑</b>	<b>1,164</b>	<b>1,037</b>	<b>1,012</b>

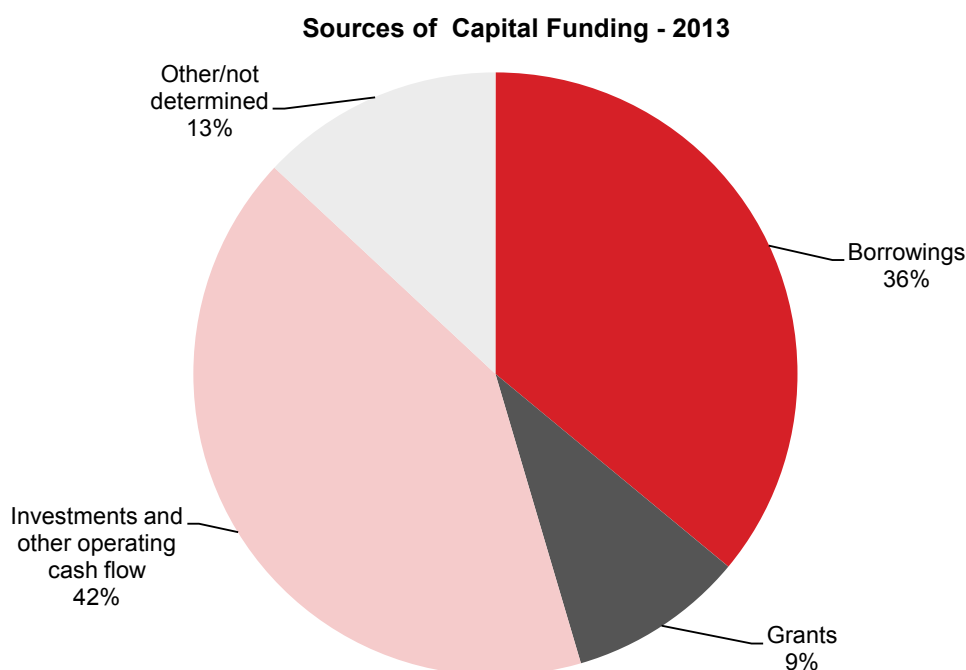
Source: Data provided by respective universities actuals figures (audited), budget figures (unaudited). Trend is based on 2010 – 2012 data.

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

\* this is for one controlled entity only. The University's budget is not available

Sources of funding for proposed 2013 capital works programs for all ten universities are shown below.





Source: Data provided by universities (unaudited).

Refer to individual university comments after this Overview for more detailed commentary on each university's capital works program.

### Asset Maintenance

Backlog maintenance for nine of the ten universities remains significant at 31 December 2012, totalling \$669 million.

Backlog maintenance has decreased \$94.0 million to \$669 million

Year ended 31 December	2012	2011	2010
Backlog maintenance (\$m)	669*	763	782
Maintenance expenditure (\$m)	185	192	151
Property, Plant and Equipment (PPE) values at 31 December (\$b)	11.5	9.2	9.5
Maintenance expenditure/PPE values (%)	1.6	2.1	1.6
Depreciation expense (\$m)	486	448	405

Source: Backlog maintenance data supplied by universities (unaudited). All other data sourced from universities' financial statements (audited).

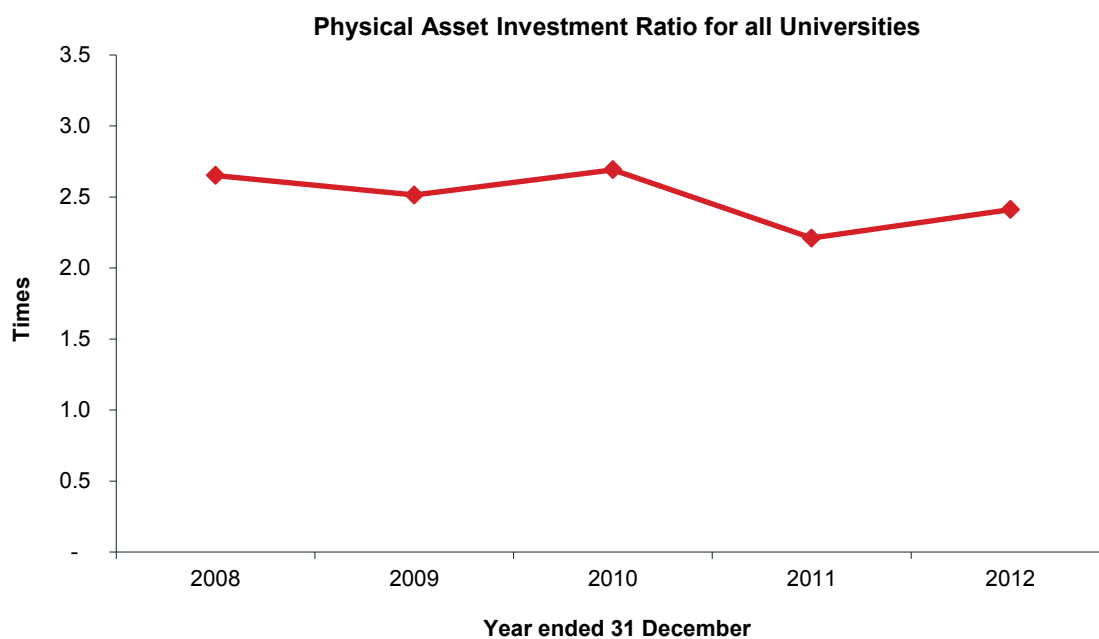
\* This is the total for nine universities. The University of New England could not provide backlog maintenance data.

Estimated backlog maintenance ranged from \$286,000 for Southern Cross University to \$358 million for the University of Sydney. The estimate for some universities could be higher depending on the timing of condition assessments. Some universities perform asset condition audits over a five year cycle, while others perform these on a continuous basis.

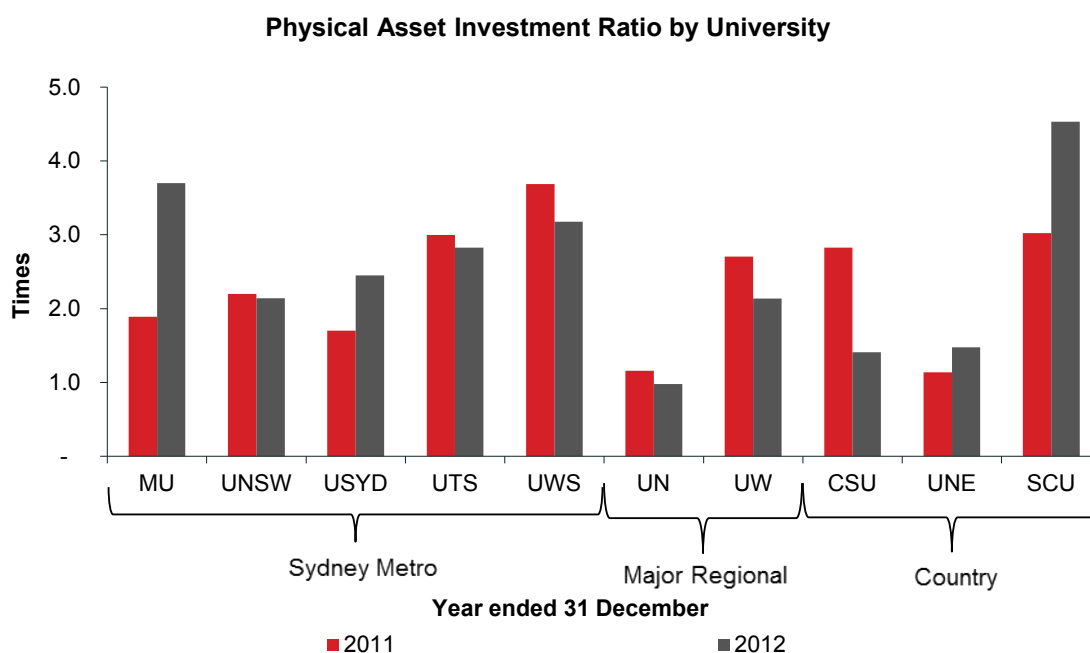
## Physical Asset Investment Ratio

Capital expenditure across all ten universities in 2012 was 2.4 times greater than depreciation charges, an increase from 2.3 in 2011.

The physical asset investment ratio calculates the extent to which an organisation renews or grows its physical assets. This is especially important to organisations like the universities, which have significant capital facilities. A ratio above one indicates an increasing investment in physical assets, while a lower ratio may indicate under-investment in assets and could result in future, unplanned capital expenditure.



Southern Cross University had the highest physical asset investment ratio at 31 December 2012 of 4.5 and the University of Newcastle had the lowest ratio at 1.0. Macquarie University experienced the highest increase from 1.9 to 3.7.



Over the last five years, the overall trend in the physical asset investment ratio has decreased slightly. This trend would be offset if the ratio included privately financed facilities (such as student accommodation). Privately financed facilities are excluded because these facilities are not assets of universities.

## Other Information

### University Governance

Over the last couple of years, universities have reviewed their governance arrangements and taken steps to improve these as part of their ongoing commitment to improving governance. These actions have now produced positive outcomes including:

- only six qualified audit opinions were issued from 94 audits in 2012. In 2011, there were nine qualifications from 100 audits
- strengthened oversight and monitoring by universities of controlled entities
- sharing of information between universities and the broader education industry through forums, such as the biannual professional financial officers forum
- there are no key issues in 2012 within the individual university comments following this Overview.

### Complexity of Universities' Business Arrangements

Universities continue to review their business arrangements and have further reduced the number of domestic controlled entities from 78 to 71 at 31 December 2012. Overseas controlled entities increased from 12 to 13.

At 31 December 2012, 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*
<b>Sydney Metropolitan</b>				
Macquarie	25	21	--	4
New South Wales	27	17	--	10
Sydney	13	6	--	7
Technology, Sydney	13	6	4	3
Western Sydney	9	8	--	1
<b>Sydney Metro Total</b>	<b>87</b>	<b>58</b>	<b>4</b>	<b>25</b>
<b>Major Regional</b>				
Newcastle	12	4	--	8
Wollongong	16	8	--	8
<b>Major Regional Total</b>	<b>28</b>	<b>12</b>	<b>--</b>	<b>16</b>
<b>Country</b>				
Charles Sturt	3	3	--	--
New England	14	8	--	6
Southern Cross	12	3	5	4
<b>Country Total</b>	<b>29</b>	<b>14</b>	<b>5</b>	<b>10</b>
<b>Total</b>	<b>144</b>	<b>84</b>	<b>9</b>	<b>51</b>

Source: Data obtained from respective universities.

\* Includes CRCs where a university has a core or supporting participant role.

The number of entities controlled by each university at 31 December was:

At 31 December University	Incorporated in Australia					Incorporated overseas				
	3 year trend	2012	2011	2010	2009	3 year trend	2012	2011	2010	2009
<b>Sydney Metropolitan</b>										
Macquarie	~	20	20	20	34	↑	1	--	--	--
New South Wales	↓	9	11	13	15	~	8	8	8	10
Sydney	↓	6	7	7	8	~	--	--	--	--
Technology, Sydney	~	4	3	4	3	~	2	2	2	3
Western Sydney	↓	8	11	13	13	~	--	--	--	--
<b>Sydney Metro Total</b>	↓	<b>47</b>	<b>52</b>	<b>57</b>	<b>73</b>	↑	<b>11</b>	<b>10</b>	<b>10</b>	<b>13</b>
<b>Major Regional</b>										
Newcastle	↓	3	3	5	6	~	1	1	1	1
Wollongong	↓	7	8	10	9	~	1	1	1	3
<b>Major Regional Total</b>	↓	<b>10</b>	<b>11</b>	<b>15</b>	<b>15</b>	~	<b>2</b>	<b>2</b>	<b>2</b>	<b>4</b>
<b>Country</b>										
Charles Sturt	↓	3	3	4	5	~	--	--	--	--
New England	~	8	6	8	8	~	--	--	--	--
Southern Cross	~	3	6	4	3	~	--	--	--	--
<b>Country Total</b>	↓	<b>14</b>	<b>15</b>	<b>16</b>	<b>16</b>	~	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>
<b>Total</b>	↓	<b>71</b>	<b>78</b>	<b>88</b>	<b>104</b>	↑	<b>13</b>	<b>12</b>	<b>12</b>	<b>17</b>

Source: Data obtained from respective universities.

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

In 2012, NSW universities reduced their Australian controlled entities by seven. Macquarie University still had the highest number of controlled entities at 21. The universities continue to review the need for controlled entities and are taking steps to incorporate their functions within the university when considered appropriate.

Four universities continue to have incorporated controlled entities operating outside Australia. They are located in Singapore, India, Thailand, the USA, and China. In January 2012, a fifth university, Macquarie University, registered a new overseas controlled entity in the Republic of South Africa. It was established for the purpose of applying for regulatory approvals in connection with the delivery of teaching. The approval has not yet been received and the company is not trading.

The University of New England registered two new controlled entities locally in 2012, one to provide online courseware and the other to provide specialist and general medicine training facilities. These entities did not trade during 2012.

The University of Technology also registered a new controlled entity locally in 2012. The controlled entity aims to establish an office in China, to provide profile building and marketing, manage government and media relationships and help develop collaborative research and training programs.

Six qualified audit opinions issued for university controlled entities, compared to nine last year

## Audit Opinions on Controlled Entities

I issued six qualified audit opinions on controlled entities' 2012 financial statements, compared to nine last year. All qualifications were because I was unable to express an opinion on whether the entity 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 opinions for the year ended 31 December 2011 were similarly qualified.

At the time of finalising this report, three audits were incomplete compared to two in 2011.

University	Number of controlled entities		Number of qualified opinions		Number of incomplete audits	
	2012	2011	2012	2011	2012	2011
<b>Sydney Metropolitan</b>						
Macquarie	21	20	--	--	--	--
New South Wales	17	19	1	3	1*	1*
Sydney	6	7	--	--	1	1**
Technology, Sydney	6	5	--	--	--	--
Western Sydney	8	11	3	2	1	--
<b>Sydney Metro Total</b>	<b>58</b>	<b>62</b>	<b>4</b>	<b>5</b>	<b>3</b>	<b>2</b>
<b>Major Regional</b>						
Newcastle	4	4	--	1	--	--
Wollongong	8	9	--	--	--	--
<b>Major Regional Total</b>	<b>12</b>	<b>13</b>	<b>--</b>	<b>1</b>	<b>--</b>	<b>--</b>
<b>Country</b>						
Charles Sturt	3	3	1	1	--	--
New England	8	6	1	1	--	--
Southern Cross	3	6	--	--	--	--
<b>Country Total</b>	<b>14</b>	<b>15</b>	<b>2</b>	<b>2</b>	<b>--</b>	<b>--</b>
<b>Total</b>	<b>84</b>	<b>90</b>	<b>6</b>	<b>8</b>	<b>3</b>	<b>2</b>

\* The audit of one controlled entity in the group is incomplete because its financial period ended 31 March 2013.

\*\* A qualified opinion was issued for this 2011 audit in 2013.

## Aggregated Results of Operations, Financial Positions and Performance Indicators

The aggregated tables on pages 44 to 47 give the consolidated results of operations, financial positions and performance indicators for the universities.

Consistent with previous years, I have eliminated deferred income and deferred expenses for superannuation from the tables.

Australian Accounting Standards require entities to report certain liabilities as current liabilities irrespective of when they are expected to be settled. As a result, I 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.

## University Information

University	Sydney Metropolitan											
	Macquarie		New South Wales		Sydney		Technology, Sydney		Western Sydney		Total	
Year	2012 \$m	2011 \$m	2012 \$m	2011 \$m	2012 \$m	2011 \$m	2012 \$m	2011 \$m	2012 \$m	2011 \$m	2012 \$m	2011 \$m
<b>Abridged Statement of Comprehensive Income (year ended 31 December)</b>												
Total revenue	815	738	1,548	1,470	1,738	1,595	683	624	660	559	5,444	4,986
Total expenses	745	707	1,455	1,381	1,601	1,506	622	597	599	546	5,022	4,737
Surplus	70	31	93	89	137	89	61	27	61	13	422	249
<b>Abridged Statement of Financial Position (at 31 December)</b>												
Total assets	2,433	2,196	3,563	3,270	5,186	4,787	1,989	1,859	1,790	1,648	14,961	13,760
Total liabilities	989	815	1,655	1,534	1,678	1,421	680	621	469	414	5,471	4,805
Net assets	1,444	1,381	1,908	1,736	3,508	3,366	1,309	1,238	1,321	1,234	9,490	8,955
<b>Performance Indicators (at 31 December)</b>												
Current ratio (a)	2.0	1.3 <sup>d</sup>	1.2 <sup>d</sup>	1.3 <sup>d</sup>	1.8	1.4 <sup>d</sup>	2.4	2.9	0.9 <sup>d</sup>	0.8 <sup>d</sup>	1.6	1.4 <sup>d</sup>
Employee Benefits and on-costs as a % of total revenue (b)	50.3	52.1	53.8	53.5	54.3	56.2	55.2	58.3	55.4	60.6	53.8	55.5
Operating result as % of total revenue (c)	8.6	4.2	6.0	6.1	7.9	5.6	8.9	4.3	9.2	2.3	7.8	5.0
Student numbers (e)	na	27,081	na	37,399	na	39,662	na	25,757	na	29,670	na	159,569
Students per academic (e)	na	36.8	na	22.8	na	21.9	na	35.5	na	43.5	na	32.1

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

Performance indicators as per Australian Government's Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education 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 Employee Benefits and on-costs as a percentage of Total Revenue – good practice is between 50 and 70 per cent.
- c Operating Result as a percentage of Total Operating Revenue – should be positive with a safety margin.
- d Represents performance outside benchmark.
- e Australian Government's Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education publications Higher Education Statistics Collection. Academics are 'Teaching' and 'Teaching and Research'. Student numbers are equivalent full time student load (EFTSL).
- f Calculation is after excluding deferred superannuation contributions.
- na Not available.

University	Major Regional					
	Newcastle		Wollongong		Total	
	2012 \$m	2011 \$m	2012 \$m	2011 \$m	2012 \$m	2011 \$m
<b>Abridged Statement of Comprehensive Income (year ended 31 December)</b>						
Total revenue	657	599	546	548	1,203	1,147
Total expenses	602	567	529	508	1,131	1,075
Surplus	55	32	17	40	72	72
<b>Abridged Statement of Financial Position (at 31 December)</b>						
Total assets	1,606	1,390	1,239	1,137	2,845	2,527
Total liabilities	580	440	486	411	1,066	851
Net assets	1,026	950	753	726	1,779	1,676
<b>Performance Indicators (at 31 December)</b>						
Current ratio (a)	2.8	2.5	2.4	2.3	2.6	2.4
Employee Benefits and on-costs as a % of total revenue (b)	55.5	53.5	57.2	52.9	56.3	53.2
Operating result as % of total revenue (c)	8.4	5.3	3.1	7.3	6.0	6.3
Student numbers (e)	na	23,820	na	21,260	na	45,080
Students per academic (e)	na	40.6	na	30.5	na	35.6

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

Performance indicators as per Australian Government's Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education 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 Employee Benefits and on-costs as a percentage of Total Revenue – good practice is between 50 and 70 per cent.
- c Operating Result as a percentage of Total Operating Revenue – should be positive with a safety margin.
- d Represents performance outside benchmark.
- e Australian Government's Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education publications Higher Education Statistics Collection. Academics are 'Teaching' and 'Teaching and Research'. Student numbers are equivalent full time student load (EFTSL).
- f Calculation is after excluding deferred superannuation contributions.
- na Not available.

University	Country							
	Charles Sturt		New England		Southern Cross		Total	
	2012 \$m	2011 \$m	2012 \$m	2011 \$m	2012 \$m	2011 \$m	2012 \$m	2011 \$m
<b>Abridged Statement of Comprehensive Income (year ended 31 December)</b>								
Total revenue	474	514	315	247	196	185	985	946
Total expenses	451	476	269	235	192	177	912	888
Surplus/(deficit)	23	38	46	12	4	8	73	58
<b>Abridged Statement of Financial Position (at 31 December)</b>								
Total assets	1,141	1,059	655	582	317	302	2,113	1,943
Total liabilities	398	362	323	297	109	97	830	756
Net assets	743	697	332	285	208	205	1,283	1,187
<b>Performance Indicators (at 31 December)</b>								
Current ratio (a)	1.6	1.6	2.7	1.9	0.8 <sup>d</sup>	1.7	1.9	1.7
Employee Benefits and on-costs as a % of total revenue (b)	56.6	54.3	48.9*	56.7	62.3	60.1	55.3	56.2
Operating result as a % of total revenue (c)	4.8 <sup>f</sup>	9.0 <sup>f</sup>	14.6	4.9	2.0	4.3	7.4 <sup>f</sup>	6.8 <sup>f</sup>
Student numbers (e)	na	21,340	na	9,828	na	9,587	na	40,755
Students per academic (e)	na	36.0	na	26.1	na	48.9	na	37.0

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

Performance indicators as per Australian Government's Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education 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 Employee Benefits and on-costs as a percentage of Total Revenue – good practice is between 50 and 70 per cent.
- c Operating Result as a percentage of Total Operating Revenue – should be positive with a safety margin.
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- e Australian Government's Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education publications Higher Education Statistics Collection. Academics are 'Teaching' and 'Teaching and Research'. Student numbers are equivalent full time student load (EFTSL).
- f Calculation is after excluding deferred superannuation contributions.
- na Not available.



University	Totals for all universities							
	Sydney Metropolitan		Major Regional		Country		Total	
	2012 \$m	2011 \$m	2012 \$m	2011 \$m	2012 \$m	2011 \$m	2012 \$m	2011 \$m
<b>Abridged Statement of Comprehensive Income (year ended 31 December)</b>								
Total revenue	5,444	4,986	1,203	1,147	985	946	7,632	7,079
Total expenses	5,022	4,737	1,131	1,075	912	888	7,065	6,700
Surplus	422	249	72	72	73	58	567	379
<b>Abridged Statement of Financial Position (at 31 December)</b>								
Total assets	14,961	13,760	2,845	2,527	2,113	1,943	19,919	18,230
Total liabilities	5,471	4,805	1,066	851	830	756	7,367	6,412
Net assets	9,490	8,955	1,779	1,676	1,283	1,187	12,552	11,818
<b>Performance Indicators (at 31 December)</b>								
Current ratio (a)	1.6	1.4 <sup>d</sup>	2.6	2.4	1.9	1.7	1.8	1.6
Employee Benefits and on-costs as a % of total revenue (b)	53.8	55.5	56.3	53.2	55.3	56.2	54.4	55.2
Operating result as % of total revenue (c)	7.8	5.0	6.0	6.3	7.4 <sup>f</sup>	6.8 <sup>f</sup>	7.4 <sup>f</sup>	5.3 <sup>f</sup>
Student numbers (e)	na	159,569	na	45,080	na	40,755	na	245,404
Students per academic (e)	na	32.1	na	35.6	na	37.0	na	30.3

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

Performance indicators as per Australian Government's Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education 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 Employee Benefits and on-costs as a percentage of Total Revenue – good practice is between 50 and 70 per cent.
- c Operating Result as a percentage of Total Operating Revenue – should be positive with a safety margin.
- d Represents performance outside benchmark.
- e Australian Government's Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education publications Higher Education Statistics Collection. Academics are 'Teaching' and 'Teaching and Research'. Student numbers are equivalent full time student load (EFTSL).
- f Calculation is after excluding deferred superannuation contributions.
- na Not available.



# Section Three

## Agencies with Individual Comments

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Minister for Education

Minister for Finance and Services

Minister for Police and Emergency Services

Minister for Primary Industries

Premier

Treasurer

# Charles Sturt University

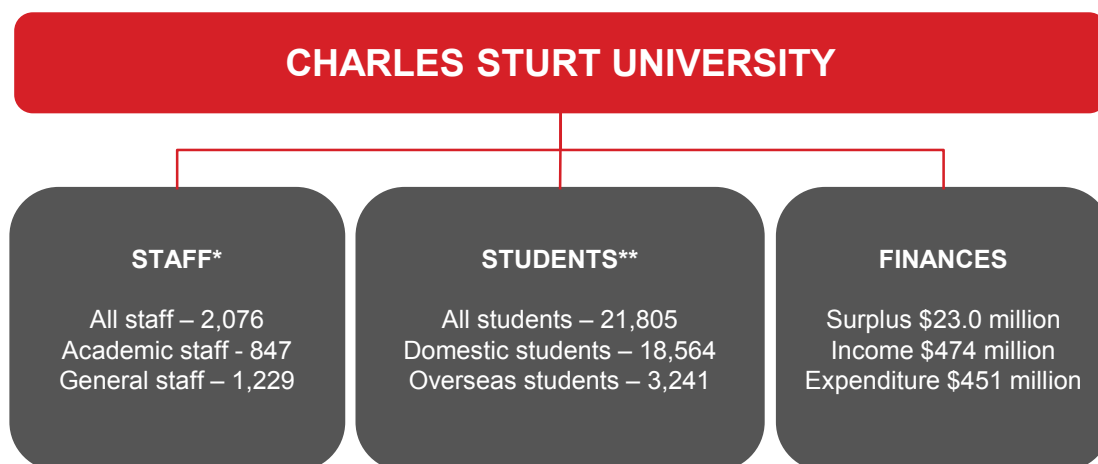
## Audit Opinion

I issued unqualified audit opinions on the University and two of its controlled entities' 31 December 2012 financial statements.

I issued a qualified audit opinion on the 31 December 2012 financial statements of Charles Sturt University Foundation Trust (Trust).

I could not express an opinion as to whether the Trust recorded all revenues received from donations and fundraising in its financial statements. This is common for entities with these sources of revenue. It is impracticable for them to maintain effective internal control systems over the receipt of such revenues until their initial entry in the financial records. My audit report for 2011 was similarly qualified.

## Operational Snapshot



Source: Charles Sturt University.

\* Full-Time Equivalent (unaudited).

\*\* Equivalent Full-Time Student Load (unaudited).

The University is the largest regional university in Australia with a large number of students in its distance education programs. It also has a campus in Ontario, Canada.

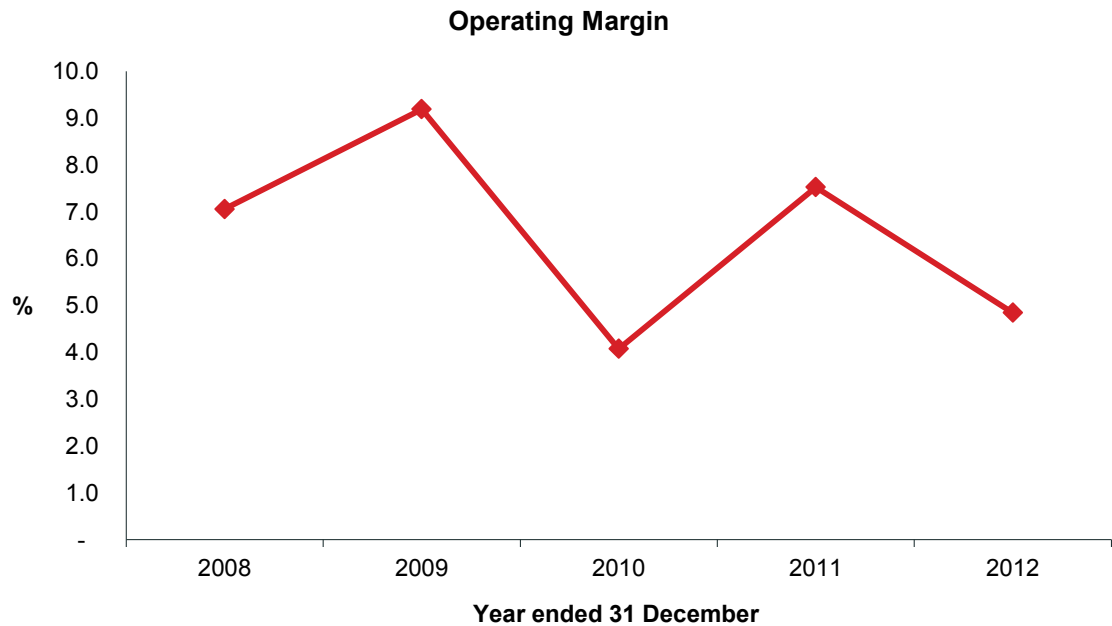
## Performance Information

### Operating Margin

The University continued to make a surplus from its operations. The surplus for the year ended 31 December 2012 was \$23.0 million (\$38.7 million in 2011) resulting in an operating margin of 4.9 per cent (7.5 per cent).

The operating margin shows the operating surplus as a percentage of total revenue. It should be noted that total revenue includes Australian Government grants for recurrent and capital expenditure of \$197 million (\$191 million).

Operating margin was 4.9 per cent for 2012 compared to 7.5 per cent for 2011

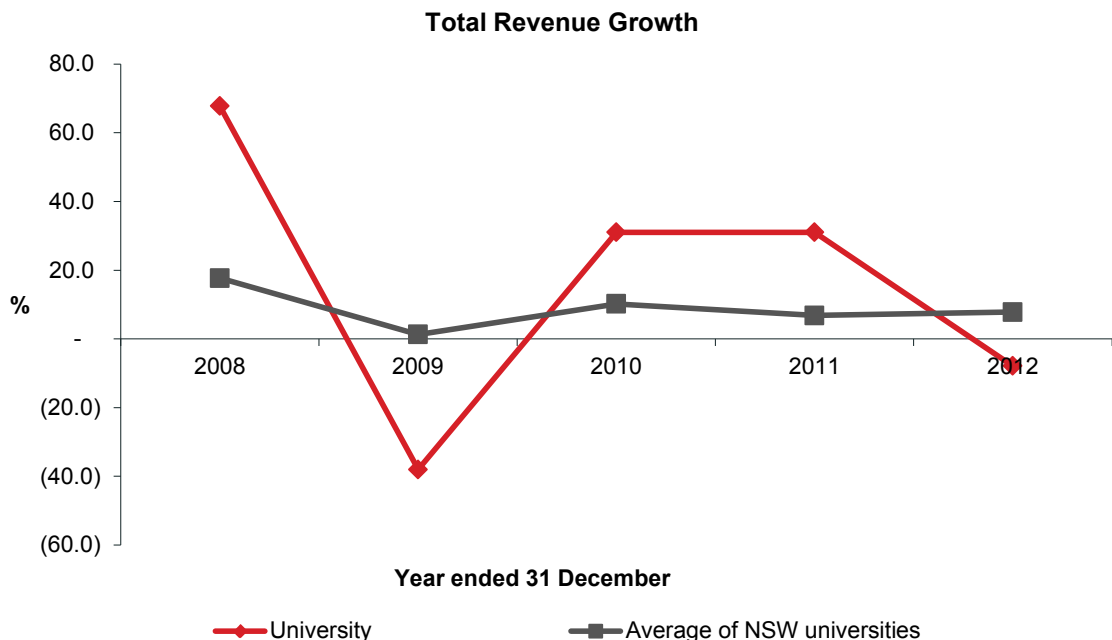


Source: Financial statements (audited).

The University's operating margin has fluctuated over time largely because expense levels have not changed in the same proportion as changes in revenue. Revenue has been more volatile than expenditure, partly due to fluctuations in the level and timing of capital grants from the Australian Government and changes in deferred superannuation revenue.

The University's operating margin fell in 2012 due to a fall in capital grants compared with the prior year, because the University only received capital grants of \$6.0 million, compared to \$31.0 million in 2011.

## Revenue Growth



Source: Financial statements (audited).

Revenue fell in 2009 because of a fall in deferred income reflecting a corresponding fall in the actuarially assessed employee superannuation liability for employees who are members of the State Government's defined benefit superannuation plans. The fall in revenue in 2012 is for similar reasons.

The University recognises deferred income equal to changes in the superannuation liability for employees who are members of the State Government's defined benefit superannuation plans.

## Revenue Sources

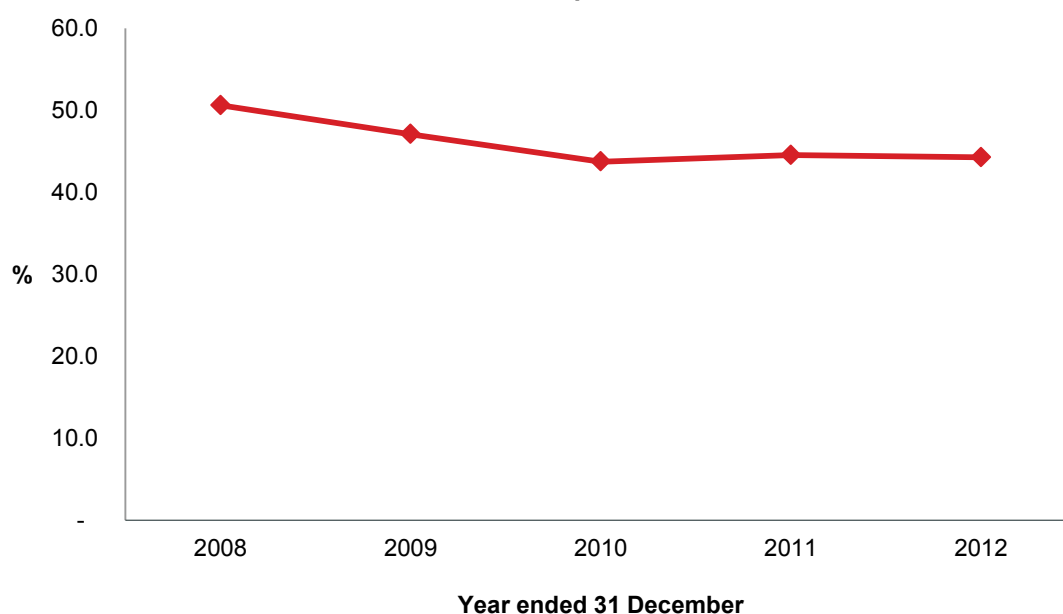
Year ended 31 December	2012 \$m	2011 \$m	2010 \$m	2009 \$m	2008 \$m
<b>Student course fees</b>					
Domestic students	119	122	104	89	94
Overseas students	39	35	36	17	13
<b>Total student course fees</b>	<b>158</b>	<b>157</b>	<b>140</b>	<b>106</b>	<b>107</b>
Australian Government grants	197	192	156	155	183
Consultancy and contracts	10	12	11	7	8
Investment income	13	14	10	8	11
Other	96	139	75	23	174
<b>Total revenue</b>	<b>474</b>	<b>514</b>	<b>392</b>	<b>299</b>	<b>483</b>

Source: Financial statements (audited).

## Australian Government Funding

Australian Government grants are a major source of the University's revenue. The University's reliance on this funding source decreased from 50.6 per cent in 2008 to 44.3 per cent in 2012. The University received large capital grants in 2011, which are included in revenue.

**Government Grants as a Proportion of Total Revenue**



Sources: Financial statements (audited).

In the analysis above, Australian Government grants include capital grants and exclude Higher Education Loan Programs. These revenues are included in student fees. Total revenue excludes deferred superannuation income.

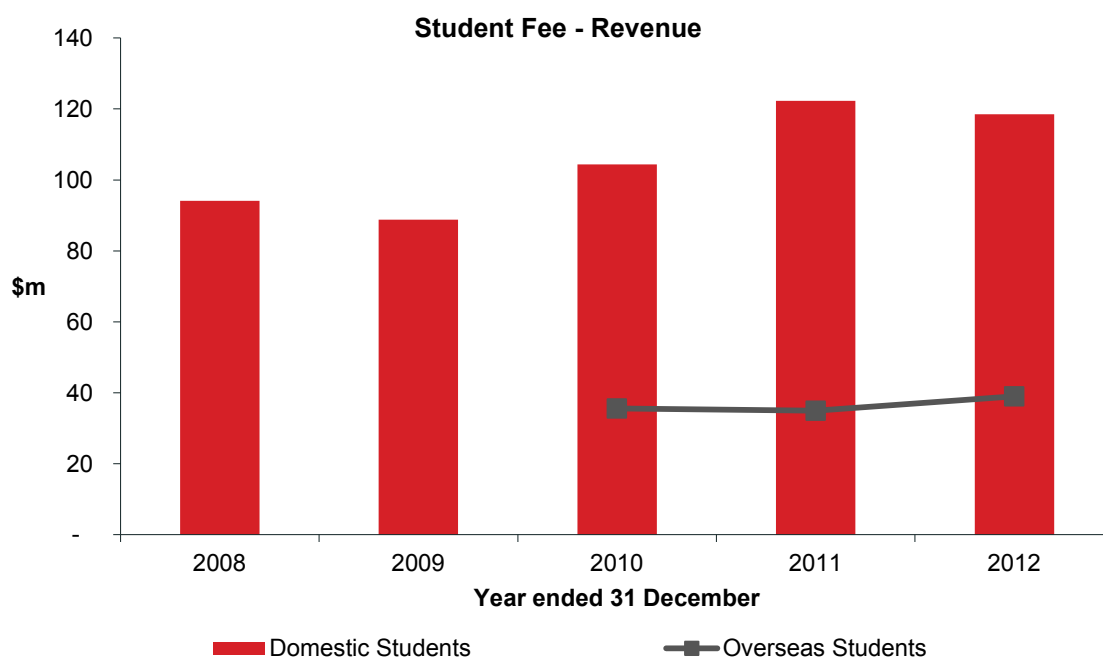
Australian Government grants reliance is fairly stable

Fees from overseas students in 2012 were 11.6 per cent higher than in 2011

## Student Fees

Student fees comprise:

- \* domestic student fees including those paid directly by students and fee payments from the Australian Government on behalf of students from Higher Education Loan Programs such as the Higher Education Contribution Scheme
- \* fees from overseas students studying at the University.



Source: Financial statements (audited).

Note: Overseas student revenue for 2008 and 2009 excluded as it is not available on the same basis as 2010 to 2012.

The University continues to attract overseas students. The higher overseas enrolments are due to more students at its Ontario campus and overseas partnering arrangements with other overseas institutions.

Over the last five years, revenue from domestic students grew by 26 per cent. Since 2010, revenue from fee paying overseas students has remained stable at 25 per cent of total student revenue. Fees from overseas students were 11.6 per cent higher than in 2011.

## Student Numbers

Total student numbers for 2012 increased by 2.1 per cent compared to 2011. Domestic students increased by 2.5 per cent and overseas students by less than one

Total student numbers for 2012 increased by 2.1 per cent compared to 2011. Domestic students increased by 2.5 per cent and overseas by less than one per cent. The University's equivalent full-time student load (EFTSL) grew by 22.8 per cent over the last five years. Since 2008, the overseas student EFTSL increased by 25.4 per cent, while the domestic student EFTSL increased by 22.4 per cent.

The University credits growth in overseas students to its offshore partnering arrangements with other overseas institutions. It also offers distance education programs allowing flexible study, which appeals to overseas students.

The University expects overseas student numbers to increase. It believes its offshore campus offers niche courses suited to local needs. The positioning of its courses offsets the impact of the high Australian dollar.

The table below shows the University's EFTSL by type over the past five years.

Year ended 31 December	2012	2011	2010	2009	2008
Domestic	18,564	18,116	18,076	15,792	15,169
Overseas	3,241	3,224	3,248	3,011	2,585
<b>Total</b>	<b>21,805</b>	<b>21,340</b>	<b>21,324</b>	<b>18,803</b>	<b>17,754</b>

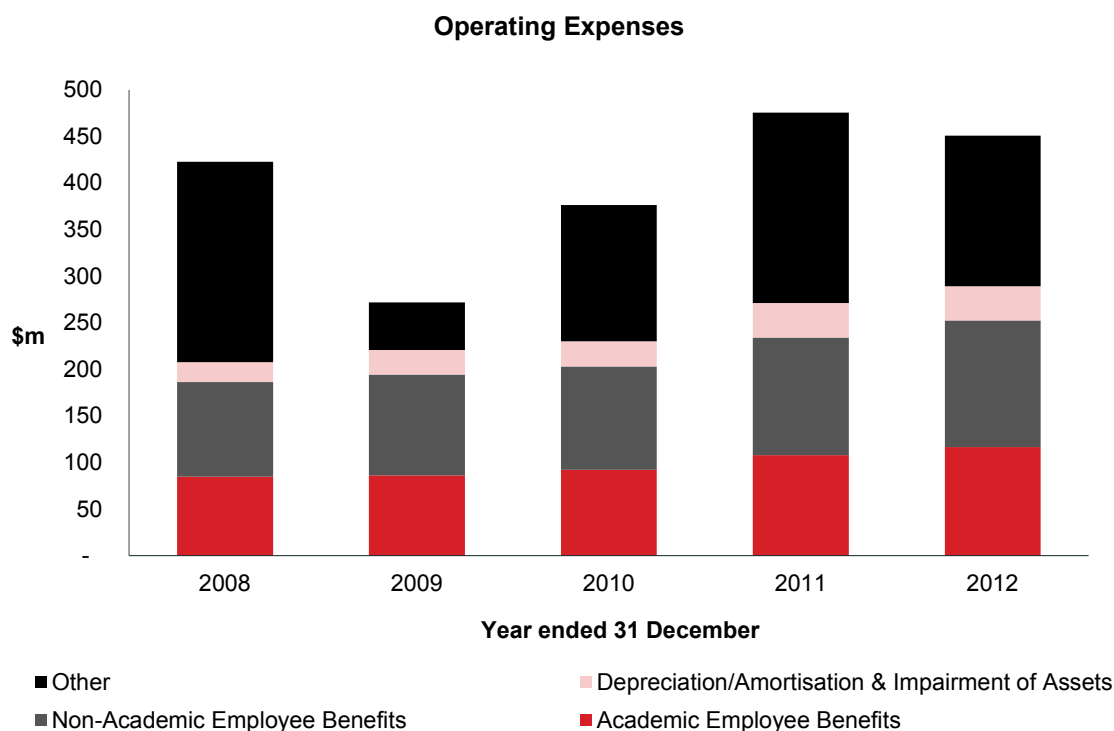
Sources: Student load - 2008 to 2011 Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education (unaudited), Student load - 2012 Charles Sturt University (unaudited).

Note: Numbers in the table are for the University excluding controlled entities.

## Operating Expenses

Operating expenses have fluctuated between 2008 and 2012. This fluctuation is primarily due to changes in deferred superannuation expense. Over the same time, academic and general employee costs rose from \$186 million to \$253 million (35.5 per cent) due to higher staff numbers and award increases. Staff numbers grew to match higher student numbers.

The University's cost of depreciation, amortisation and impairment of assets increased from \$21.4 million in 2008 to \$36.5 million in 2012 (70.6 per cent) due to more assets and higher depreciable asset values.



Source: Financial statements (audited).

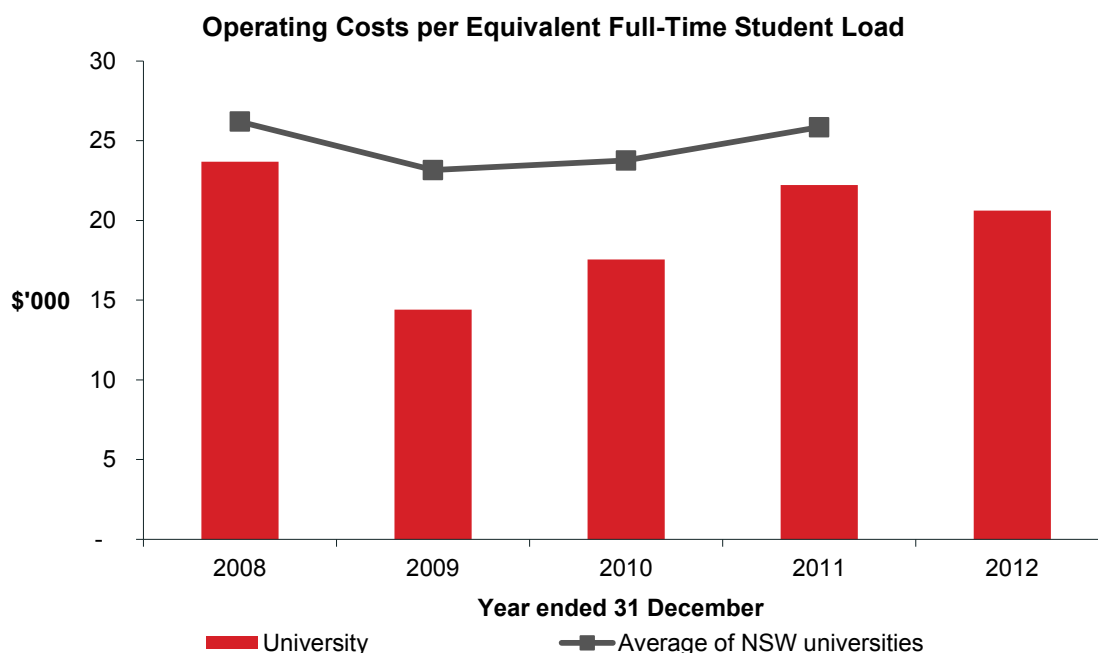
## Operating Costs per Student

Operating costs averaged \$20,615 per student in 2012 compared to \$22,218 in 2011. Over the four years 2008 to 2011 the University consistently incurred less operating costs per student compared to the average for all NSW universities. The average cost for 2012 for all NSW universities was not available at the time of finalising this report as student numbers were not yet published by the Department.



Operating cost per EFTSL can be impacted by indirect expenditure, such as research. For example, universities with large research programs are likely to have a higher operating cost per EFTSL than a university with lower research expenditure.

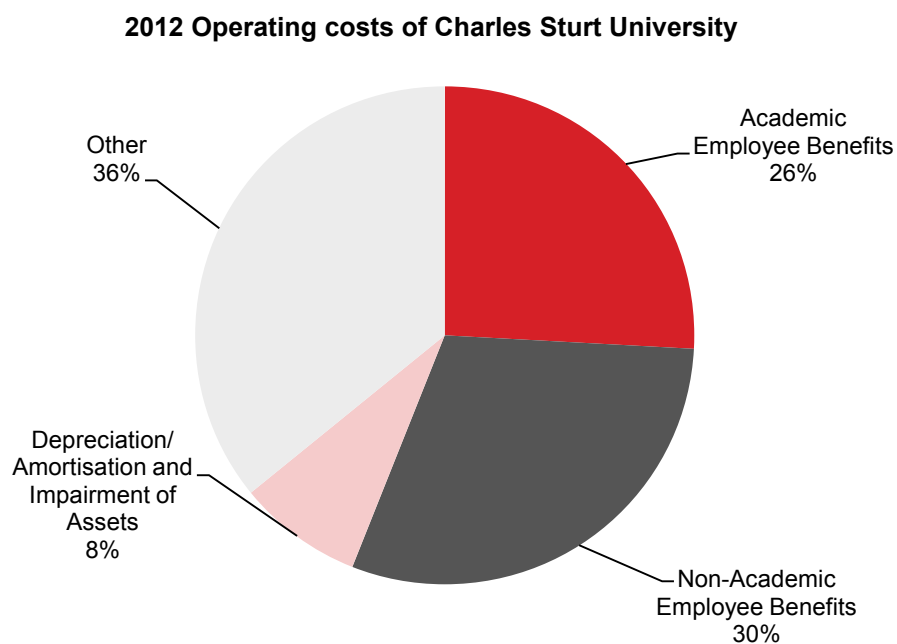
The above commentary relates to the University and excludes its controlled entities.



Sources: Student load - 2008 to 2011 Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education (unaudited), Student load - 2012 Charles Sturt University (unaudited); Operating costs - Financial statements (audited).

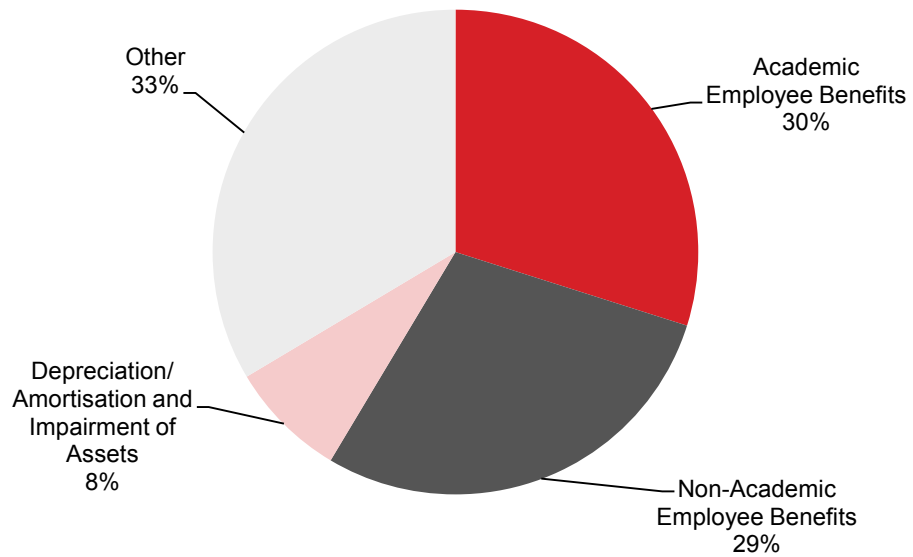
## Where do the dollars go?

At 31 December 2012, the University had a slightly lower percentage of its operating expenses attributed to employee benefits compared to the average of NSW universities. In 2012, the cost of employee benefits represented 56 per cent of the University's total operating costs (59 per cent for the NSW average).



Source: Financial statements (audited).

## 2012 Average Operating Costs of all NSW universities

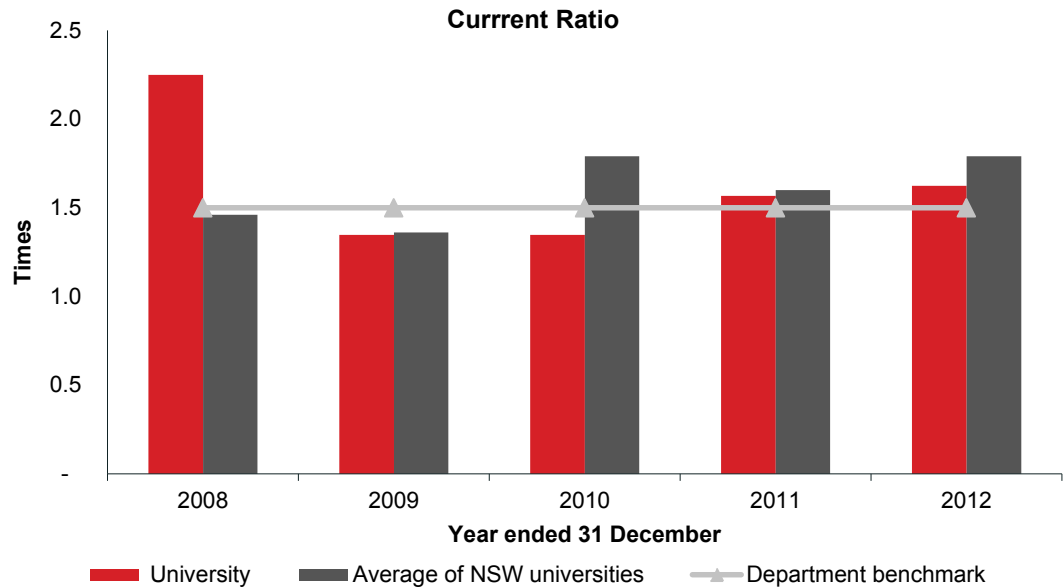


Source: Financial statements (audited)

## Current Ratio

The University's 2012 current ratio of 1.6 is higher than the 1.5 good practice guideline set by the Department. The University's current ratio is above the average for NSW universities.

The University meets the liquidity good practice guideline for paying its short term debts



Sources: Financial statements (audited), Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education (unaudited).

The current ratio measures the University's ability to pay its short term debts using short term assets. It is calculated by dividing current assets by current liabilities, excluding long service leave liabilities expected to be settled after 12 months of year end. A higher ratio usually indicates a greater ability of an entity to pay its short term debt. A ratio lower than one indicates an entity may have difficulty meeting its short term obligations.

## Investment Portfolio Performance

The University had \$142 million in investments and deposits at call at 31 December 2012 (\$93.2 million at 31 December 2011). During 2012, the University's investments achieved returns above its benchmarks.

Fund	2012		2011		2010	
	Actual return %	Benchmark return %	Actual return %	Benchmark return %	Actual return %	Benchmark return %
Long-term	5.2	4.9	6.3	4.9	5.7	4.9
Short-term	5.2	4.2	5.1	4.5	6.6	4.6

Source: Charles Sturt University (unaudited).

The University has an asset allocation strategy to reduce investment risks.

## Major Projects

Capital expenditure totalled \$49.6 million (\$77.4 million in 2011), a \$27.8 million decrease on the previous year. The table below shows major projects recently completed or still under construction.

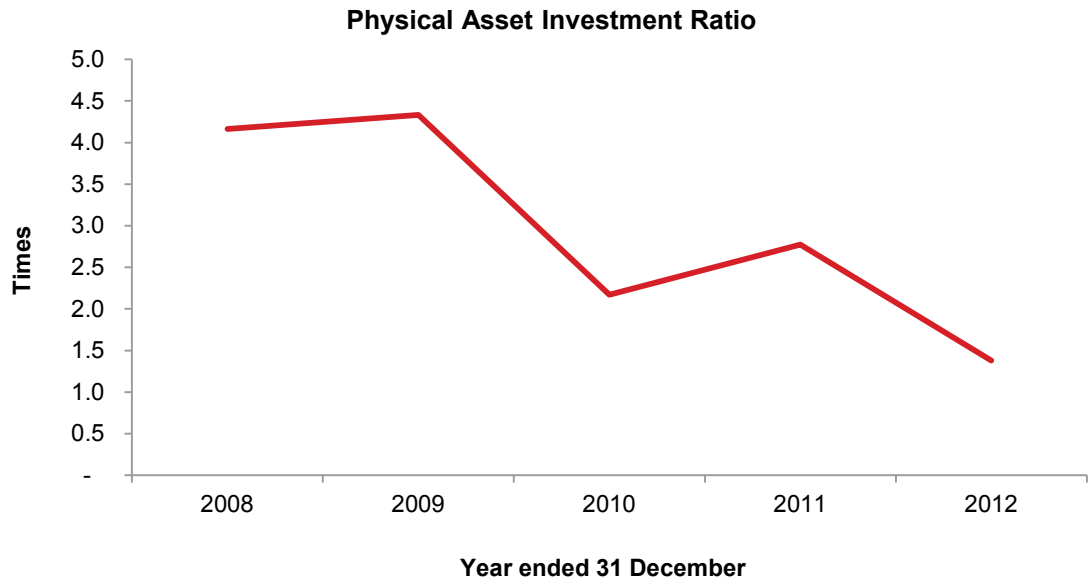
Project	Forecast completion date	Forecast final cost \$m
National Life Sciences Hub (Wagga campus) - completed	August 2012	46.9
Stage 3 Student Residences (Wagga Campus)	31 December 2013	16.8
Port Macquarie Campus Development	30 June 2015	12.9
Student Residences (Orange campus)	31 December 2013	10.0

Source: Charles Sturt University (unaudited).

The University completed the National Life Sciences Hub building in August 2012 and opened it in September 2012. The University has a strategic goal to achieve significant outcomes in the national priority area of life sciences. The National Life Sciences Hub is part of that strategic goal.

## Physical Asset Investment Ratio

The University's physical asset investment ratio has fluctuated over time, from 4.2 in 2008 to 1.4 in 2012. This indicates asset additions have been greater than the rate at which they are being used.



Source: Financial statements (audited).

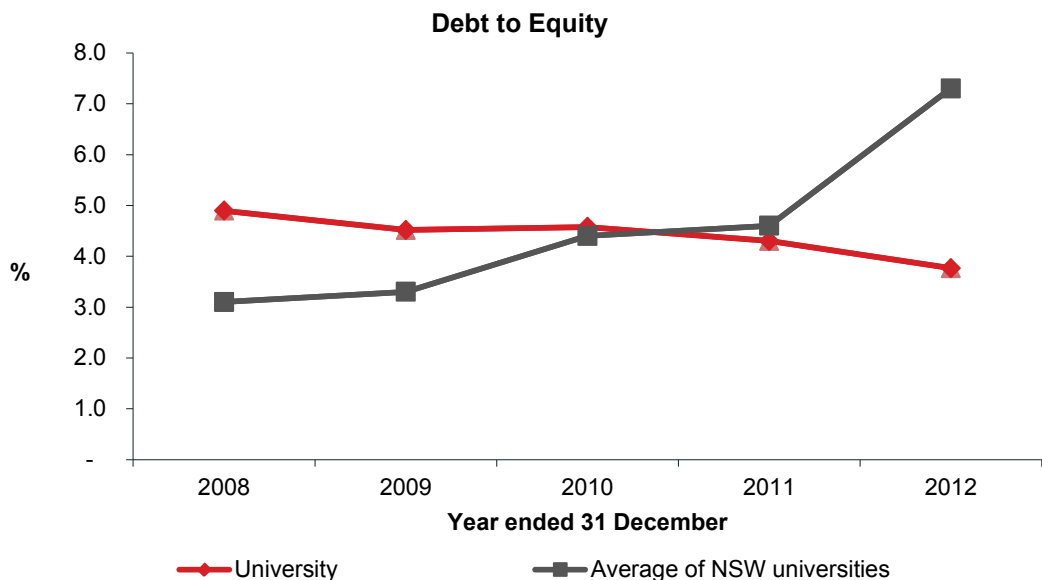
The University's ratio was high in 2008 and 2009, the start of its five-year \$270 million capital development plan. The ratio is expected to ease back towards one in 2013 after major planned works and developments are completed.

The physical asset investment ratio shows the extent to which an organisation renews or grows its physical assets, as measured by depreciation expense. This is important to the University which has major capital facilities. A ratio below one may indicate under-investment in renewing facilities, which may lead to higher maintenance expenditure in the future.

### Debt to Equity Ratio

The University's debt to equity ratio has fallen from 4.9 per cent in 2008 to 3.8 per cent in 2012, lower than the average of its NSW university counterparts.

The University's debt to equity ratio was lower than the NSW universities' average for the past two years



Source: Financial statements (audited).

The University's debt has been stable over time whilst its equity has increased. At 31 December 2012, its debt was \$28.0 million. Equity has grown over time due to asset revaluations and operating surpluses.

The debt to equity ratio shows total borrowings as a percentage of equity.

Employee entitlement liabilities increased by 9.2 per cent in 2012. The largest, superannuation, increased by 10.7 per cent to \$285 million

The University is reducing excessive annual leave balances

## Employee Entitlements

	2012 \$'000	2011 \$'000	2010 \$'000	2009 \$'000	2008 \$'000
Net liability for defined benefit superannuation	285,389	257,625	175,225	156,447	190,027
Annual leave liability	16,800	17,262	17,365	16,627	16,092
Long service leave liability	33,381	32,288	26,503	25,484	24,759
<b>Total</b>	<b>335,570</b>	<b>307,175</b>	<b>219,093</b>	<b>198,558</b>	<b>230,878</b>

Source: Financial statements (audited).

Employee entitlement liabilities increased by 9.2 per cent in 2012. Defined benefit superannuation liabilities grew from \$257 million at 31 December 2011 to \$285 million at 31 December 2012, a 10.7 per cent increase. The increase was mainly due to a decrease in the discount rate used to calculate the present value of the liability from 3.7 per cent to 3.3 per cent. The Australian Government is expected to fund most of these liabilities, minimising the impact on the University's operating result and cash flows. The University is responsible for funding defined benefit superannuation liabilities of \$4.2 million (\$4.1 million at 31 December 2011).

The provision for excess annual leave fell from \$2.8 million last year to \$2.5 million, a 10.7 per cent decrease. Of the University's 2,076 (1,966) full-time equivalent employees at 31 December 2012, 128 or six per cent (151 or eight per cent), held annual leave balances greater than allowed by the University's leave policy. The highest employee leave balance in 2012 was 146 days (121 days). The University has agreed leave plans with these employees. Under these plans, the balances will reduce to comply with the leave policy.

The long service leave liability increased by 3.4 per cent to \$33.4 million (\$32.3 million), mainly due to the decrease in the discount rate from 3.9 per cent to 3.1 per cent used to calculate the present value of the liability.

## Other Information

### Overseas Operations

The University's Canadian Ontario campus reported revenue of \$3.9 million (\$4.4 million in 2011).

The University assessed the financial and operational viability of the Ontario campus during 2011-12 and is continuing its Ontario campus operations.

## 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	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Australian Government grants	196,869	191,434	196,869	191,434
Higher Education Contribution Scheme	89,349	90,841	89,349	90,841
Fees and charges	88,254	75,135	88,254	75,135
Other	71,639	74,436	70,192	72,445
Deferred income – superannuation	27,764	82,400	27,764	82,400
<b>Total revenue*</b>	<b>473,875</b>	<b>514,246</b>	<b>472,428</b>	<b>512,255</b>
Employee benefits and on-costs	252,645	234,306	247,299	229,382
Depreciation	35,919	27,928	35,919	27,928
Other	134,587	130,924	138,535	134,422
Deferred expense – superannuation	27,764	82,400	27,764	82,400
<b>Total expenses</b>	<b>450,915</b>	<b>475,558</b>	<b>449,517</b>	<b>474,132</b>
<b>Surplus</b>	<b>22,960</b>	<b>38,688</b>	<b>22,911</b>	<b>38,123</b>
<b>Other comprehensive income</b>				
Net increase in revaluation of assets	13,642	6,039	13,642	6,039
Fair value gain/(loss) on available for sale financial assets	9,740	(2,654)	8,446	(2,110)
Exchange gain/(loss) on translation of foreign operations	21	(94)	21	(94)
<b>Total other comprehensive income</b>	<b>23,403</b>	<b>3,291</b>	<b>22,109</b>	<b>3,835</b>
<b>Total comprehensive income</b>	<b>46,363</b>	<b>41,979</b>	<b>45,020</b>	<b>41,958</b>

Source: Financial statements (audited).

\* The revenue sources table shown earlier classifies revenue differently for analytical purposes.

Australian Government grants revenue increased by \$5.4 million mainly due to an increase of \$29.4 million from the Commonwealth Grant Schemes and a fall of \$25.0 million in capital funding.

The fall in deferred income and expense is due to changes in employee superannuation liabilities and fund assets. An actuary values employee superannuation liabilities and fund assets every year and movements in the net liability are reflected as corresponding deferred income and expenses.

Employee benefits and on costs increased due to a rise in staff numbers by 110 full-time equivalent employees and a salary award increase of four per cent.

## Abridged Statements of Financial Position

At 31 December	Consolidated		Parent	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Current assets	95,900	80,930	93,958	79,233
Non-current assets	1,045,391	978,546	1,038,758	973,022
<b>Total assets</b>	<b>1,141,291</b>	<b>1,059,476</b>	<b>1,132,716</b>	<b>1,052,255</b>
Current liabilities	78,177	69,384	78,395	69,604
Non-current liabilities	319,334	292,675	319,085	292,435
<b>Total liabilities</b>	<b>397,511</b>	<b>362,059</b>	<b>397,480</b>	<b>362,039</b>
<b>Net assets</b>	<b>743,780</b>	<b>697,417</b>	<b>735,236</b>	<b>690,216</b>

Source: Financial statements (audited).

Current assets increased due to a higher cash level largely due to higher cash receipts from the Australian Government.

Non-current assets increased \$66.8 million from 31 December 2011 to 31 December 2012. This is due to capital expenditure of \$49.6 million and a \$27.8 million growth in deferred superannuation benefits. The University's receivable for deferred superannuation benefits is due from the Australian Government.

The increase in current liabilities reflects an increase in student fees and other income received in advance.

The change in non-current liabilities is due to a higher superannuation liability. The Australian Government largely funds this liability.

## 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](http://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 Campus Services Limited	*
Charles Sturt Services Limited	*
Charles Sturt University Foundation Trust	<a href="http://www.csu.edu.au/special/foundation">www.csu.edu.au/special/foundation</a>

\* This entity does not have a website.

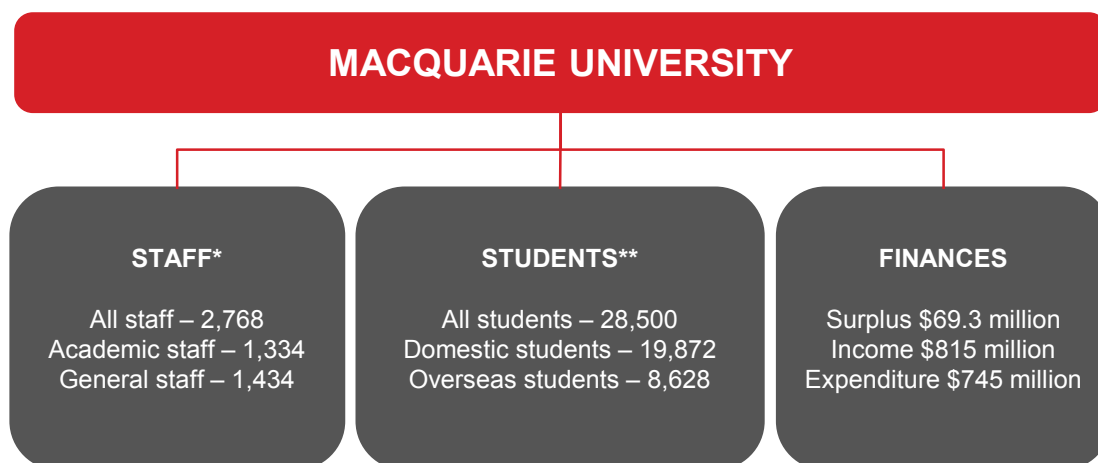
# Macquarie University

## Audit Opinion

I issued unqualified audit opinions on the University and its controlled entities' 31 December 2012 financial statements.

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

## Operational Snapshot



Source: Macquarie University.

\* Full-Time Equivalent (unaudited).

\*\* Equivalent Full-Time Student Load (unaudited).

## Performance Information

### Operating Margin

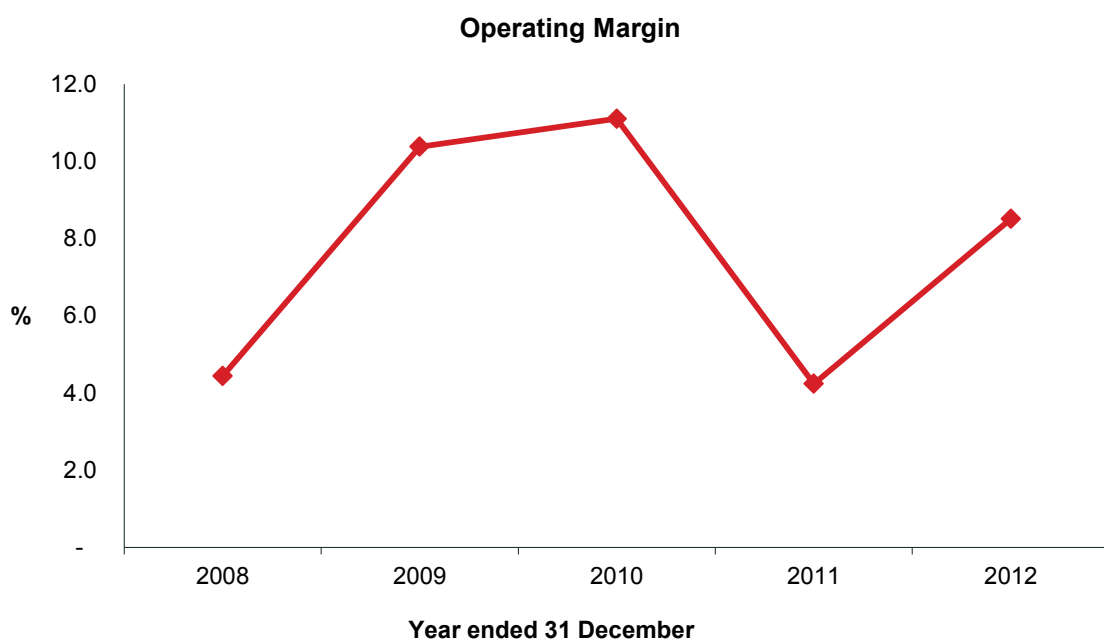
Operating margin was 8.5 per cent for 2012 compared to 4.2 per cent for 2011

The University continued to make a surplus from its operations. The surplus for the year ended 31 December 2012 was \$69.3 million (\$31.3 million in 2011) resulting in an operating margin of 8.5 per cent (4.2 per cent).

The operating margin fell significantly in 2011 mainly due to redundancies, general salary increases and depreciation expenses on new buildings.

The operating margin shows the operating surplus as a percentage of total revenue. It should be noted that total revenue includes Australian Government grants for recurrent and capital expenditure of \$205 million (\$174 million).

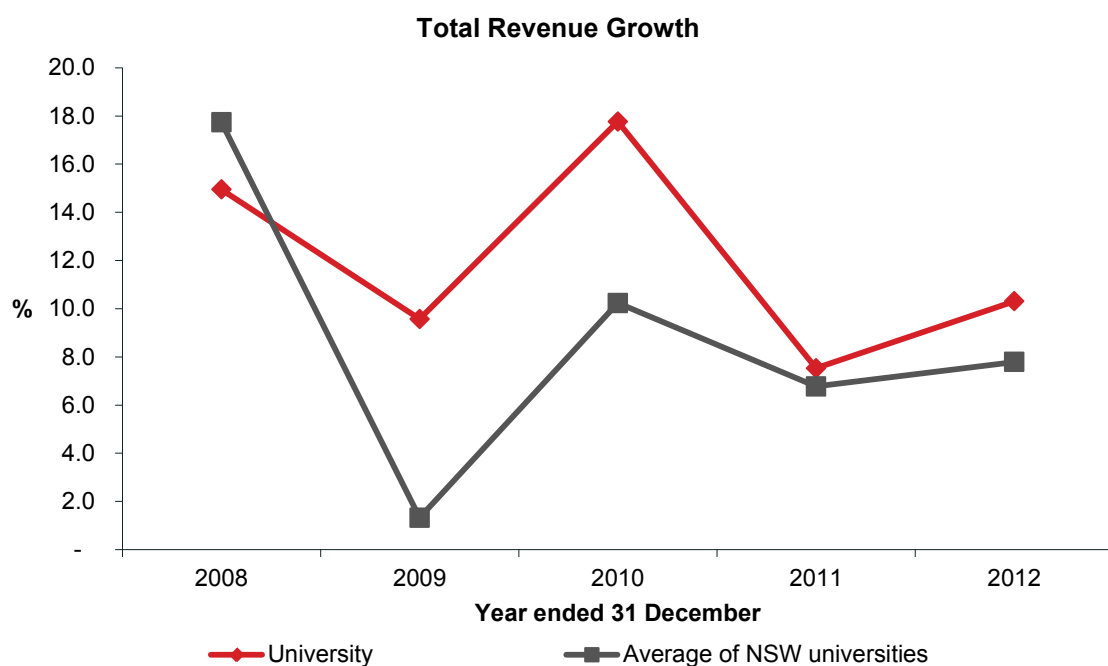




Source: Financial statements (audited).

## Revenue Growth

Revenue growth shows the movement in revenue compared to the prior year.



Source: Financial statements (audited).

The University's revenue growth was above the average for NSW universities in 2012. Revenue grew by 10.3 per cent in 2012 (7.5 per cent in 2011) mainly due to increases in Australian Government grants, domestic student course fees and from the disposal of University investments.

The University's  
revenue growth  
was above the  
average for  
NSW  
universities in  
2012

## Revenue Sources

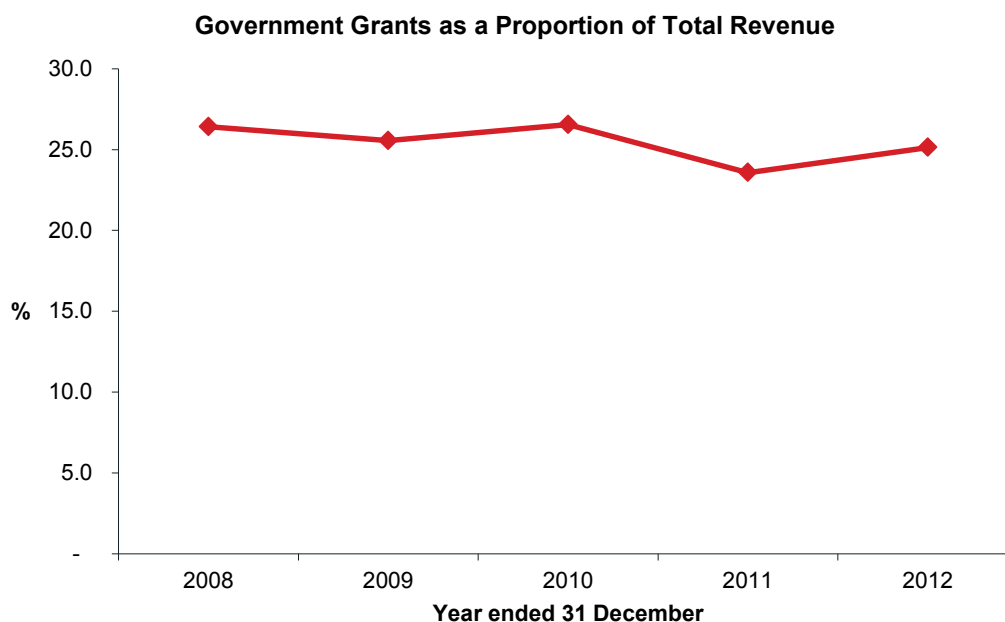
Year ended 31 December	2012 \$m	2011 \$m	2010 \$m	2009 \$m	2008 \$m
<b>Student course fees</b>					
Domestic students	174,757	149,879	145,402	132,205	117,187
Overseas students	215,000	229,234	214,964	172,792	147,588
<b>Total student course fees</b>	<b>389,757</b>	<b>379,113</b>	<b>360,366</b>	<b>304,997</b>	<b>264,775</b>
Australian Government grants	204,726	174,097	182,298	148,997	140,581
Consultancy and contracts	19,513	22,798	17,194	19,902	15,087
Investment income	11,052	15,395	12,168	12,052	20,635
Other	189,523	147,079	114,768	97,227	91,160
<b>Total revenue</b>	<b>814,571</b>	<b>738,482</b>	<b>686,794</b>	<b>583,175</b>	<b>532,238</b>

Source: Financial statements (audited).

## Australian Government Funding

Australian Government grants are a major source of the University's revenue. Over the last five years the University's reliance on Australian Government grants has remained below 27 per cent of total revenue, as shown below.

Reliance on Australian Government grants remained below 27 per cent of total revenue



Sources: Financial statements (audited).

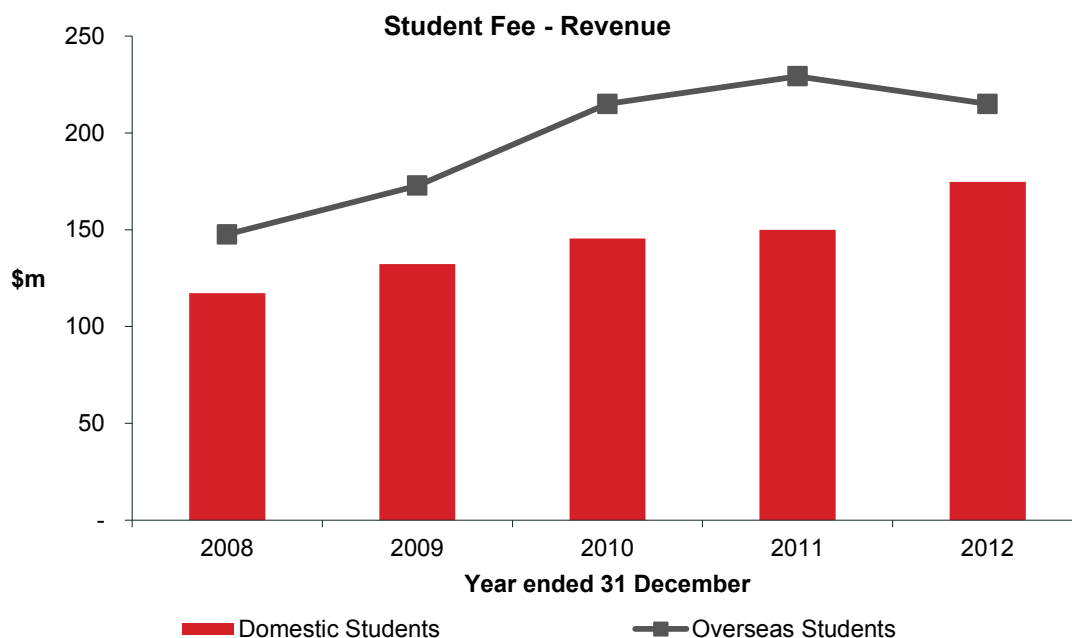
In the analysis above, Australian Government grants (including operating and capital) exclude Higher Education Loan Programs. These revenues are included in student fees.

## Student Fees

Student fees comprise:

- domestic student fees including those paid directly by students and fee payments from the Australian Government on behalf of students from Higher Education Loan Programs, such as the Higher Education Contribution Scheme
- fees from overseas students studying at the University.

Fees from overseas students in 2012 were 6.2 per cent lower than in 2011



Source: Financial statements (audited).

Fees from overseas students decreased by 6.2 per cent to \$215 million (\$229 million). Over the last five years, revenue from overseas students increased by 45.7 per cent whilst the revenue from domestic students rose by 49.1 per cent.

## Student Numbers

The University's equivalent full-time student load (EFTSL) has risen by 26.8 per cent over the last five years. The overseas student EFTSL has increased by 2.4 per cent since 2008, while the domestic student EFTSL has increased by 41.4 per cent over the same period.

The number of overseas students has continued to decline since 2010, while the number of domestic students has continued to increase.

The table below shows the University's EFTSL by type over the past five years.

Year ended 31 December	2012	2011	2010	2009	2008
Domestic	19,872	17,499	16,658	15,545	14,058
Overseas	8,628	9,582	10,003	9,337	8,422
<b>Total</b>	<b>28,500</b>	<b>27,081</b>	<b>26,661</b>	<b>24,882</b>	<b>22,480</b>

Sources: Student load - 2008 to 2011 Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education (unaudited), Student load - 2012 Macquarie University (unaudited).

Numbers in the table are for the University excluding controlled entities.

Total student numbers for 2012 increased by 5.2 per cent compared to 2011. Domestic students increased by 13.6 per cent and overseas students decreased by 10.0 per cent.

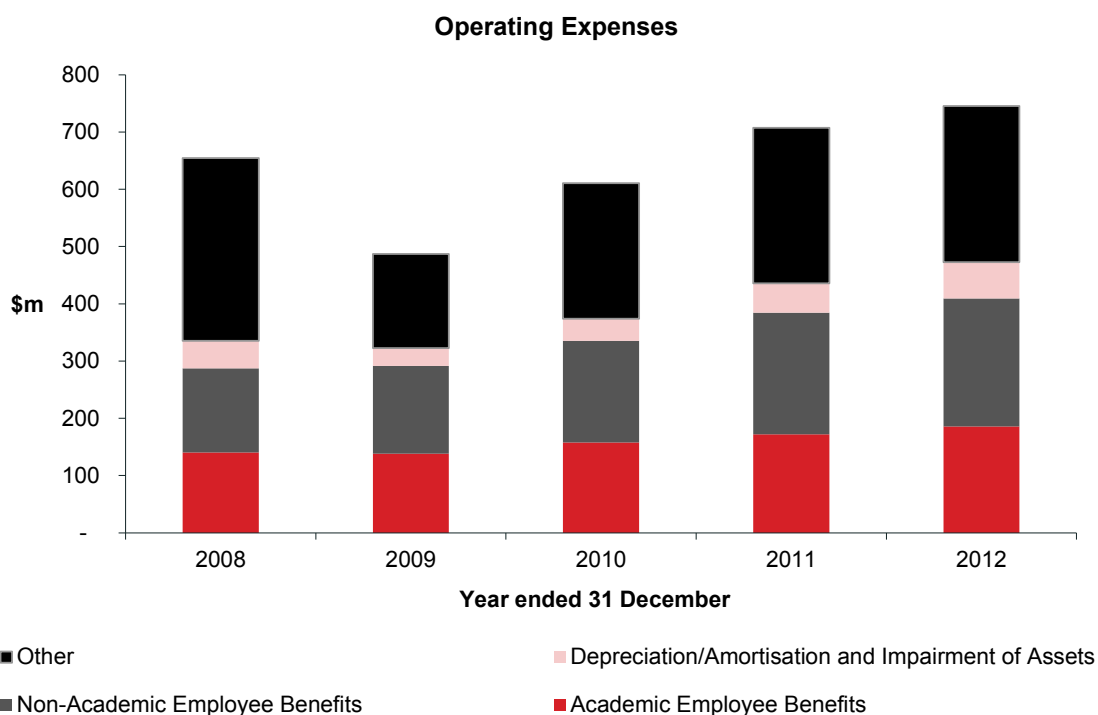
Most overseas students (86 per cent) are from Asia. Students from Europe, America, Africa and the Middle East each represent less than five per cent of the overseas student population.

Total student numbers for 2012 increased by 5.2 per cent compared to 2011. Domestic students increased by 13.6 per cent and overseas students decreased by 10.0 per cent

## Operating Expenses

Operating expenses have gradually increased each year between 2009 and 2012.

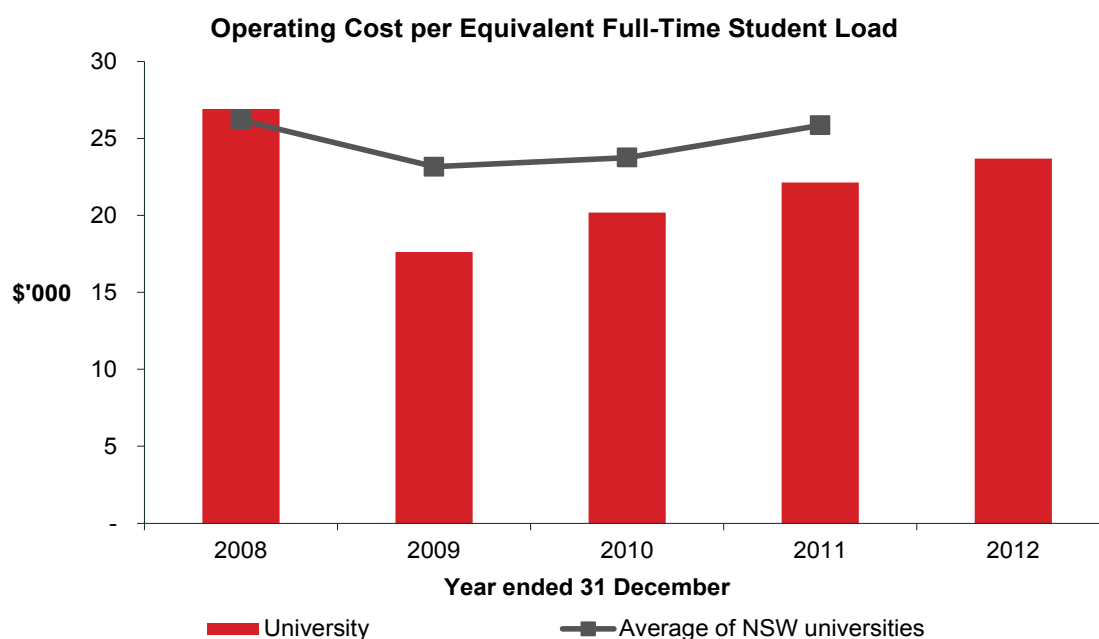
The greatest impact on operating expenses in 2012 has been a 6.5 per cent increase in employee related costs from \$384 million in 2011 to \$409 million. This has resulted from an increase in staff numbers, salary increments awarded to staff and consequential increases in employee benefits and on-costs.



Source: Financial statements (audited).

In 2012, total operating costs increased by 5.4 per cent to \$745 million (\$707 million).

Operating costs per student averaged \$23,693 in 2012 compared to \$22,137 in 2011. The University consistently incurred less operating costs per student compared to the average for all NSW universities for the three years 2009 to 2011. The average cost for 2012 for all NSW universities was not available at the time of finalising this report as student numbers were not yet published by the Department.



Sources: Student load – 2008 to 2011 Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education (unaudited), Student load - 2012 Macquarie University (unaudited); Operating costs – Financial statements (audited).

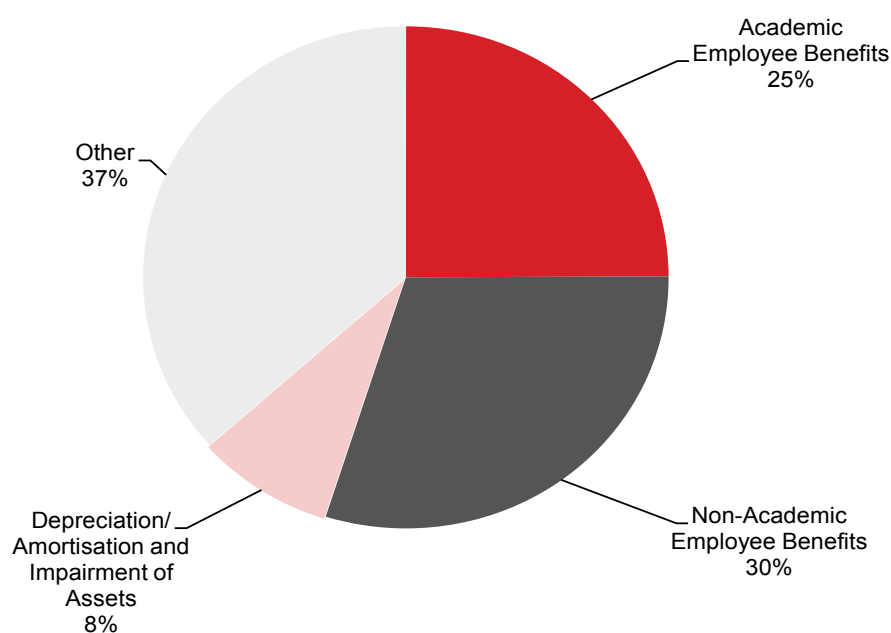
The commentary above relates to the University and excludes its controlled entities.

## Where do the dollars go?

At 31 December 2012, the University recorded a lower percentage of operating expenses attributable to employee benefits compared to the average of NSW universities.

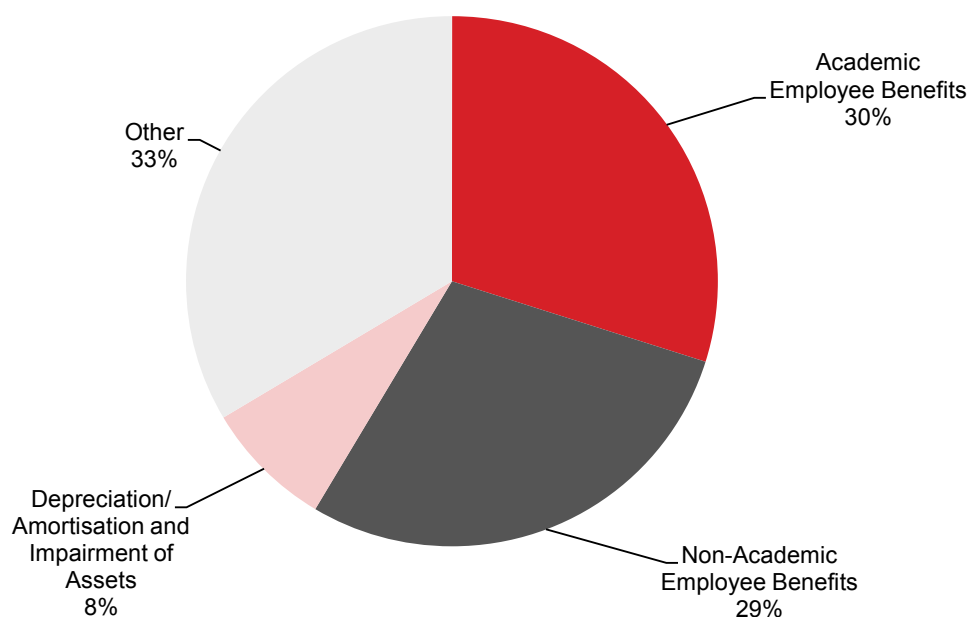
In 2012, the cost of employee benefits represented 54.9 per cent of the total operating costs (59 per cent for the NSW average). The University has a slightly higher percentage of operating expenses attributable to consumables and non-capitalised equipment compared to the average of NSW universities.

### 2012 Operating Costs of Macquarie University



Source: Financial statements (audited).

### 2012 Operating Costs of all NSW universities

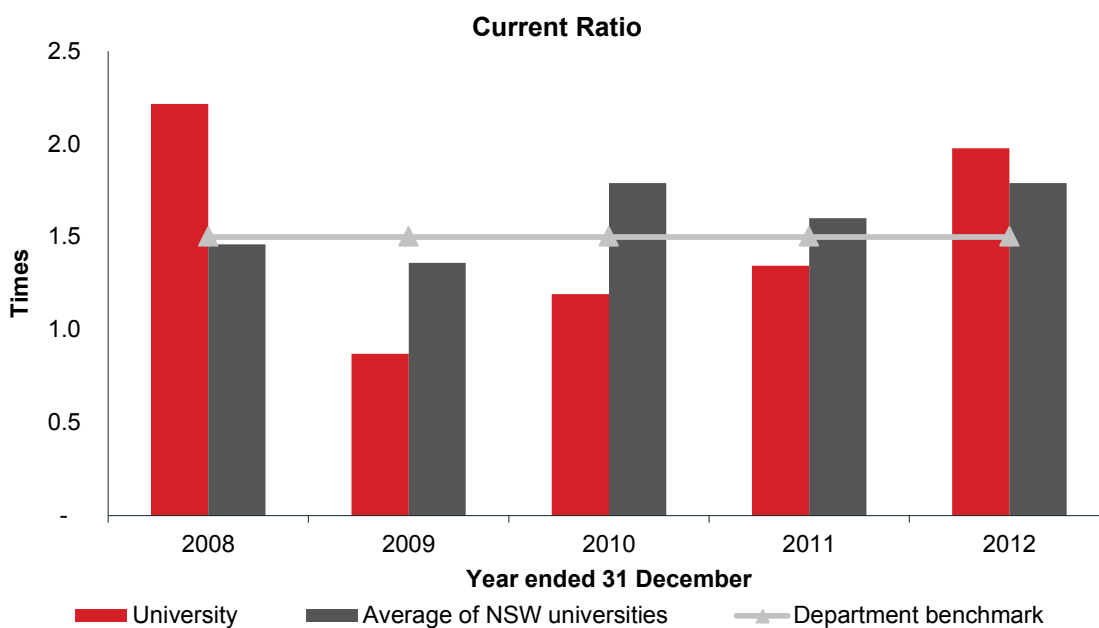


Source: Financial statements (audited).

### Current Ratio

The University's 2012 current ratio of 2.0 is well above the 1.5 good practice guideline set by the Department and the average for NSW universities, although this was not the case over the three years 2008 to 2011.

The University is above the liquidity good practice guideline for paying its short term debts



Sources: Financial statements (audited), Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education (unaudited).

The current ratio measures the University's ability to pay its short term debts using short term assets. It is calculated by dividing current assets by current liabilities, excluding long service leave liabilities expected to be settled after 12 months of year end. A ratio lower than one indicates an entity may have difficulty meeting its short term obligations.

## Investment Portfolio Performance

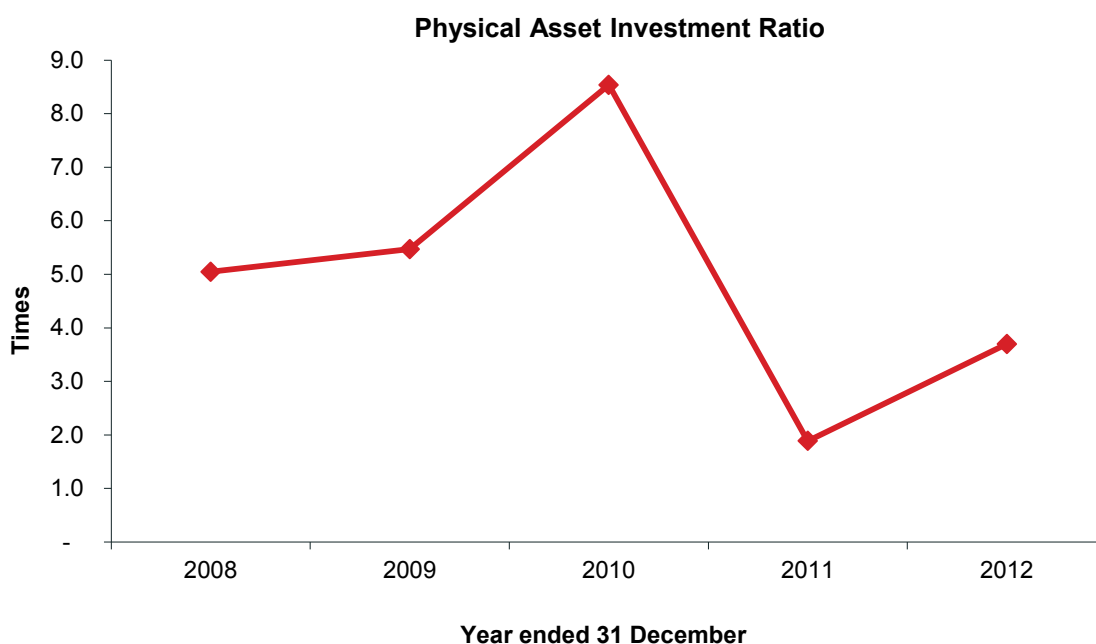
The University had \$55.7 million in investments at 31 December 2012 (\$94 million at 31 December 2011). Investments performance compared to the University's benchmarks is shown below.

Fund	2012		2011		2010	
	Actual return %	Benchmark return %	Actual return %	Benchmark return %	Actual return %	Benchmark return %
Cash and Cash equivalents	3.72	3.54	5.24	5.16	5.20	5.16
Australian Equities	10.71	19.74	(9.54)	(10.98)	2.36	1.90
International Equities	na	na	23.46	(7.07)	(6.74)	9.24
Debt Securities	5.40	7.72	7.23	11.35	13.42	6.04
Property	34.53	32.79	(5.42)	(1.56)	1.26	(0.68)

Source: Macquarie University (unaudited).

## Physical Asset Investment Ratio

The University's physical asset investment ratio has fallen from 5.0 to 3.7 over the last five years.

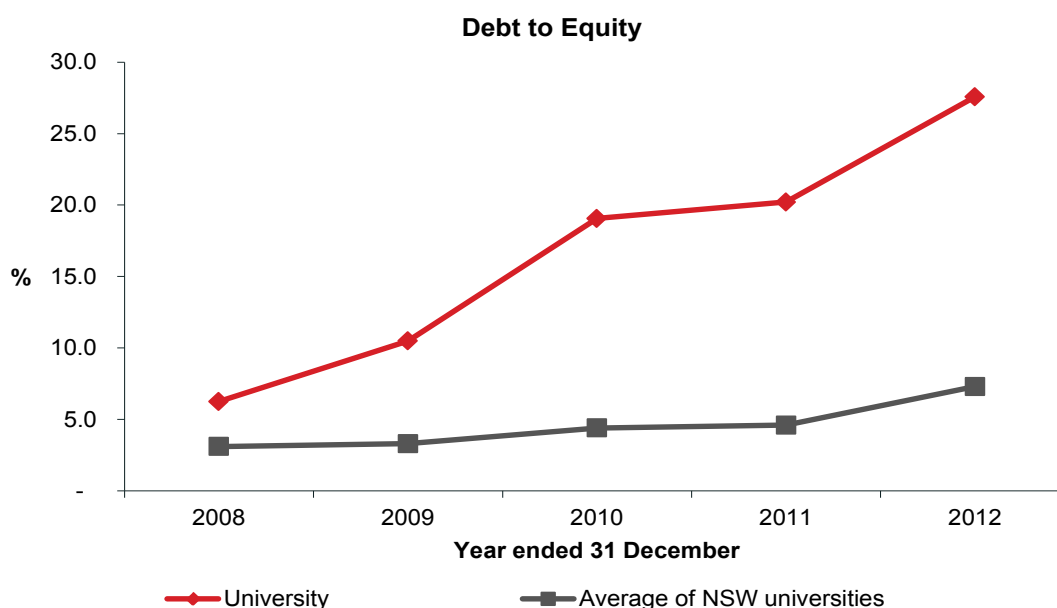


Source: Financial statements (audited).

The physical asset investment ratio shows the extent to which an organisation renews or grows its physical assets, as measured by depreciation expense. This is important to the University as it has several high valued physical assets. A ratio below one may indicate under-investment in renewing physical assets, which may lead to higher maintenance expenditure in the future.

## Debt to equity ratio

The debt to equity ratio shows total borrowings as a proportion of equity.



Source: Financial statements (audited).

The University's dependence on debt has increased from 6.2 per cent of equity in 2008 to 27.6 per cent in 2012.

The percentage of debt to equity is significantly higher than that for its NSW university counterparts. The University advises this was due to loans and bonds of \$398 million at 31 December 2012 required to fund its capital program.

## Employee Entitlements

	2012 \$'000	2011 \$'000	2010 \$'000	2009 \$'000	2008 \$'000
Net liability for defined benefit superannuation	407,025	372,960	266,200	239,564	281,480
Annual leave liability	26,670	24,994	22,397	20,228	18,536
Long service leave liability	48,860	41,700	35,462	35,805	36,252
<b>Total</b>	<b>482,555</b>	<b>439,654</b>	<b>324,059</b>	<b>295,597</b>	<b>336,268</b>

Source: Financial statements (audited).

Employee entitlement liabilities increased by 9.8 per cent in 2012. The largest, superannuation, increased by 9.1 per cent to \$407 million. Defined benefit superannuation liabilities increased from \$373 million at 31 December 2011 to \$407 million at 31 December 2012. The increase is mainly due to a fall in the discount rate used to calculate the present value of the liability from 3.7 per cent to 3.3 per cent. The Australian Government is expected to fund most of these liabilities, minimising the impact on the University's operating result and cash flows. The University is responsible for funding State defined benefit superannuation liabilities of \$9.5 million (\$10.5 million at 31 December 2011).

The University is effectively addressing employee excessive annual leave balances. Employees with excess annual leave balances have fallen over the last five years from 221 to 113 as at 31 December 2012. Of 2,768 (2,711) employees, 113 (198), held annual leave balances exceeding the maximum thresholds allowed under the University's leave policy.

The long service leave liability has increased by 17.2 per cent over the previous year to \$48.9 million at 31 December 2012 (\$41.7 million). The increase of \$7.2 million reflects the increasing tenure of the employee base, coupled with annual salary increments.

The University's debt to equity ratio was higher than the NSW universities average

Employee entitlements liabilities increased by 9.8 per cent in 2012. The largest, superannuation increased by 9.1 per cent to \$407 million

The University is reducing excessive employee annual leave balances



## Other Information

### Macquarie University Hospital

The hospital's business activities are operated through a company controlled by the University, MUH Operations No. 2 Limited.

It has two main purposes, to support the Australian School of Advanced Medicine (ASAM) and provide patient care and hospital facilities to the public. Most doctors working in the hospital are associated with ASAM.

The company is largely funded by interest bearing debt from the University. The company rents all property, plant and equipment used in the business from the University.

The University has provided loans to the hospital totalling \$99.4 million at 31 December 2012 (\$68.4 million at 31 December 2011).

The hospital commenced business activities in June 2010 and is in a growth phase. For the year ended 31 December 2012, the hospital incurred a loss of \$31.4 million (\$36 million for 2011).

At 31 December 2012, the University assessed the recoverability of its loans to the company and impaired them by \$50.2 million.

The University impaired its \$99.4 million loan to Macquarie University Hospital by \$50.2 million

## Financial Information

### Abridged Statements of Comprehensive Income

Year ended 31 December	Consolidated		Parent	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Australian Government grants	204,726	174,097	204,672	174,043
Higher Education Contribution Scheme	148,732	124,299	148,732	124,299
Fees and charges	280,238	291,913	272,849	280,095
Other	180,875	148,173	95,229	86,219
<b>Total revenue*</b>	<b>814,571</b>	<b>738,482</b>	<b>721,482</b>	<b>664,656</b>
Employee benefits and on-costs	409,420	384,383	331,959	314,187
Depreciation	53,388	50,343	52,183	48,949
Other	281,805	271,839	290,458	235,722
Deferred expense – superannuation	655	637	655	637
<b>Total expenses</b>	<b>745,268</b>	<b>707,202</b>	<b>675,255</b>	<b>599,495</b>
<b>Surplus</b>	<b>69,303</b>	<b>31,280</b>	<b>46,227</b>	<b>65,161</b>
<b>Other comprehensive income</b>				
Loss on revaluation of available for sale financial assets	(5,763)	(11,745)	(5,763)	(11,745)
Net increase/(decrease) in revaluation of assets	877	(14,057)	868	(14,299)
Other gains	--	270	--	270
Actuarial loss from defined benefit superannuation plans	(1,012)	(4,219)	(1,012)	(4,219)
<b>Total other comprehensive expense</b>	<b>(5,898)</b>	<b>(29,751)</b>	<b>(5,907)</b>	<b>(29,993)</b>
<b>Total comprehensive income</b>	<b>63,405</b>	<b>1,529</b>	<b>40,320</b>	<b>35,168</b>

Source: Financial statements (audited).

\* The revenue sources table shown earlier classifies revenue differently for analytical purposes.

Australian Government grants increased mainly due to an increase in funded enrolments. The decrease in fees and charges was due to an accounting reclassification in 2012.

## Abridged Statements of Financial Position

At 31 December	Consolidated		Parent	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Current assets	268,978	162,888	196,404	106,516
Non-current assets	2,163,689	2,033,184	2,210,243	2,099,521
<b>Total assets</b>	<b>2,432,667</b>	<b>2,196,072</b>	<b>2,406,647</b>	<b>2,206,037</b>
Current liabilities	164,823	145,751	130,623	125,038
Non-current liabilities	823,796	669,678	822,938	668,233
<b>Total liabilities</b>	<b>988,619</b>	<b>815,429</b>	<b>953,561</b>	<b>793,271</b>
<b>Net assets</b>	<b>1,444,048</b>	<b>1,380,643</b>	<b>1,453,086</b>	<b>1,412,766</b>

Source: Financial statements (audited).

Cash in current assets and non-current liabilities increased due to the loans the University obtained to fund capital projects.

The increase in non-current assets is driven by an increase in property, plant and equipment and increase in the employee superannuation benefit receivable.

The University completed its Hearing Hub building at a cost of \$92.8 million and acquired two commercial buildings for \$85.5 million.

## University Activities

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

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

For further information on the University, refer to [www.mq.edu.au](http://www.mq.edu.au).

## Controlled Entities

### Controlled Entities Submission of Financial Statements

All controlled entities submitted their financial statements on time.

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

Year ended 31 December	2012 \$'000	2011 \$'000
Revenue	74,617	49,764
Expenses	106,022	85,764
Loss	31,405	36,000
Net liabilities (at 31 December)	94,909	63,504

Source: Macquarie University Hospital and Clinic financial statements (audited).

For further information on the company, refer to [www.muh.org.au](http://www.muh.org.au).

## 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	<a href="http://www.accessmq.com.au">www.accessmq.com.au</a>
MUH Operations No.2 Limited	*
Macquarie Graduate School of Management Pty Limited	<a href="http://www.mgsm.edu.au">www.mgsm.edu.au</a>
MGSM Ltd (formerly ACN 153 973 481)	*
Australian Proteome Analysis Facility Limited	<a href="http://www.proteome.org.au">www.proteome.org.au</a>
CMBF Limited	*
LAMS Foundation Limited	*
LAMS International Pty Limited	<a href="http://www.lamsinternational.com">www.lamsinternational.com</a>
Macquarie University Property Investment Company Pty Limited	*
Macquarie University Property Investment Trust	*
Risk Frontiers Flood (Australia) Pty Limited	<a href="http://www.riskfrontiers.com">www.riskfrontiers.com</a>
Risk Frontiers Group Pty Limited	<a href="http://www.riskfrontiers.com">www.riskfrontiers.com</a>
U@MQ Limited	<a href="http://www.campuslife.mq.edu.au">www.campuslife.mq.edu.au</a>
Macquarie Education South Africa NPC	*
<b>Dormant entities</b>	
COH Property Trust	*
Macquarie University Property Investment Company No. 2 Pty Limited	*
Macquarie University Property Investment Company No. 3 Pty Limited	*
MU Hospital Pty Limited	*
MUH Operations Pty Limited	*
MUPH Clinic Pty Limited	*
MUPH Hospital Pty Limited	*

\* This entity does not have a website.

## 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
Sydney Educational Broadcasting Limited	<a href="http://www.2ser.com">www.2ser.com</a>
Bequest from the estate of the late FJ Walsh	*
Nippon Fellowship Fund for Japanese Language Education	*

\* This entity does not have a website.

# Southern Cross University

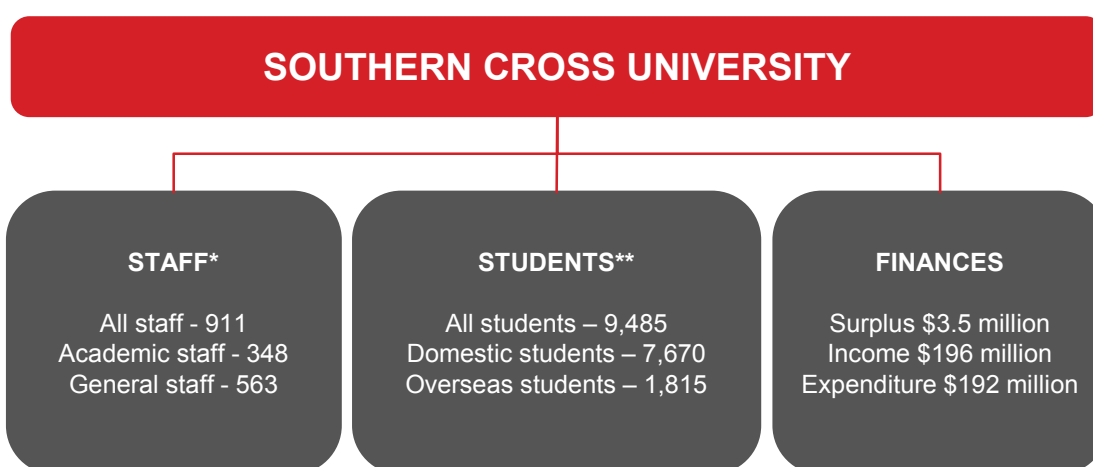
## Audit Opinion

I issued unqualified audit opinions on the University and its controlled entities' 31 December 2012 financial statements.

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

## Operational Snapshot

The University has campuses at Lismore, the Gold Coast and Coffs Harbour. It also operates The Hotel School Sydney in partnership with Mulpha Australia. The University has students from more than 80 countries and offers undergraduate and postgraduate courses. It also has a large number of students who study by distance education.



Source: Southern Cross University.

\* Full-Time Equivalent (unaudited). The figure does not include sessional or casual FTE.

\*\* Equivalent Full-Time Student Load (unaudited).

## Performance Information

### Operating Margin

The University made a surplus from operations of \$3.5 million for the year ended 31 December 2012 (\$7.6 million at 31 December 2011), resulting in an operating margin of 1.8 per cent (4.1 per cent in 2011).

The operating margin shows the operating surplus as a percentage of total revenue. It should be noted total revenue includes Australian Government grants for recurrent and capital expenditure of \$107 million (\$98.6 million).

Operating margin was 1.8 per cent for 2012 compared to 4.1 per cent for 2011



Source: Financial statements (audited).

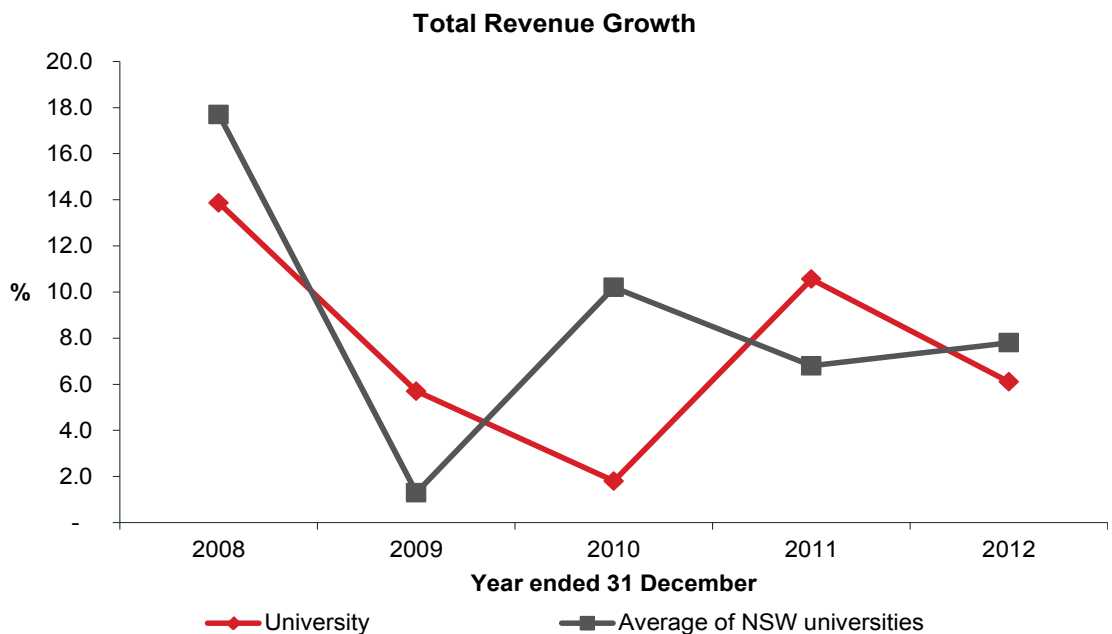
The University's operating margin has fluctuated over time largely because expense levels have not changed in the same proportion as changes in revenue. Revenue has been more volatile than expenditure, partly due to fluctuations in the level and timing of capital grants from the Australian Government.

The University has implemented strategic initiatives to ensure it maintains an appropriate operating margin. The University advises it is:

- looking at opportunities to increase on-shore and off-shore revenues and is in the process of identifying potential markets and/or partners to help broaden the market sphere in which the University operates
- containing staff appointments and driving greater efficiencies throughout its administration processes to help reduce costs.

## Revenue Growth

The University's revenue growth was below the average for NSW universities in 2012



Source: Financial statements (audited).

Total revenue for 2012 was \$196 million, an increase of 6.1 per cent on 2011 mostly resulting from additional Australian Government grants, including the Diversity and Structural Adjustment Fund \$3.7 million, and the Commonwealth Grant Scheme \$9.1 million. This was offset by a reduction in Capital Development Pool grants of \$6.3 million.

## Revenue Sources

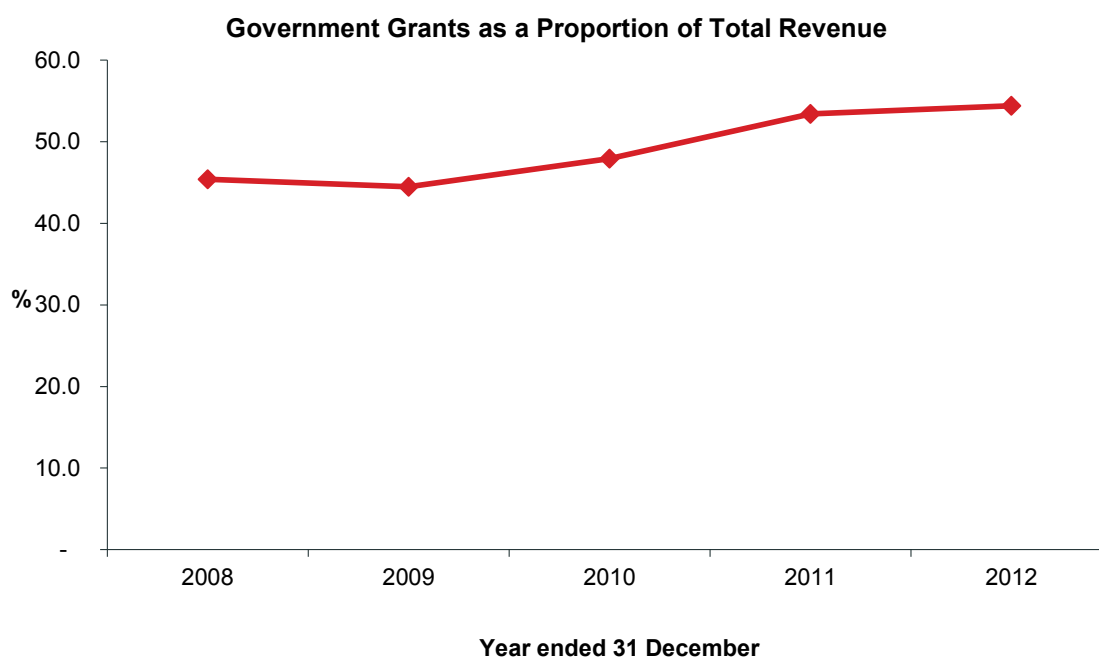
Year ended 31 December	2012 \$m	2011 \$m	2010 \$m	2009 \$m	2008 \$m
<b>Student course fees</b>					
Domestic students	50.5	46.5	46.7	46.1	40.3
Overseas students	15.6	17.9	19.1	19.6	17.4
<b>Total student course fees</b>	<b>66.1</b>	<b>64.4</b>	<b>65.8</b>	<b>65.7</b>	<b>57.7</b>
Australian Government grants	106.6	98.6	80.0	73.0	70.4
Consultancy and contracts	7.2	5.6	4.5	5.3	6.8
Investment income	1.4	3.0	2.5	4.0	4.8
Other	14.6	13.1	14.2	16.0	15.4
<b>Total operating revenue</b>	<b>195.9</b>	<b>184.7</b>	<b>167.0</b>	<b>164.0</b>	<b>155.1</b>

Source: Financial statements (audited).

## Australian Government Funding

Australian Government grants are a major source of the University's revenue. Over the last five years the University's reliance on Australian Government grants has increased from 45.4 per cent to 54.4 per cent.

Reliance on  
Australian  
Government  
grants is  
increasing



Source: Financial statements (audited).

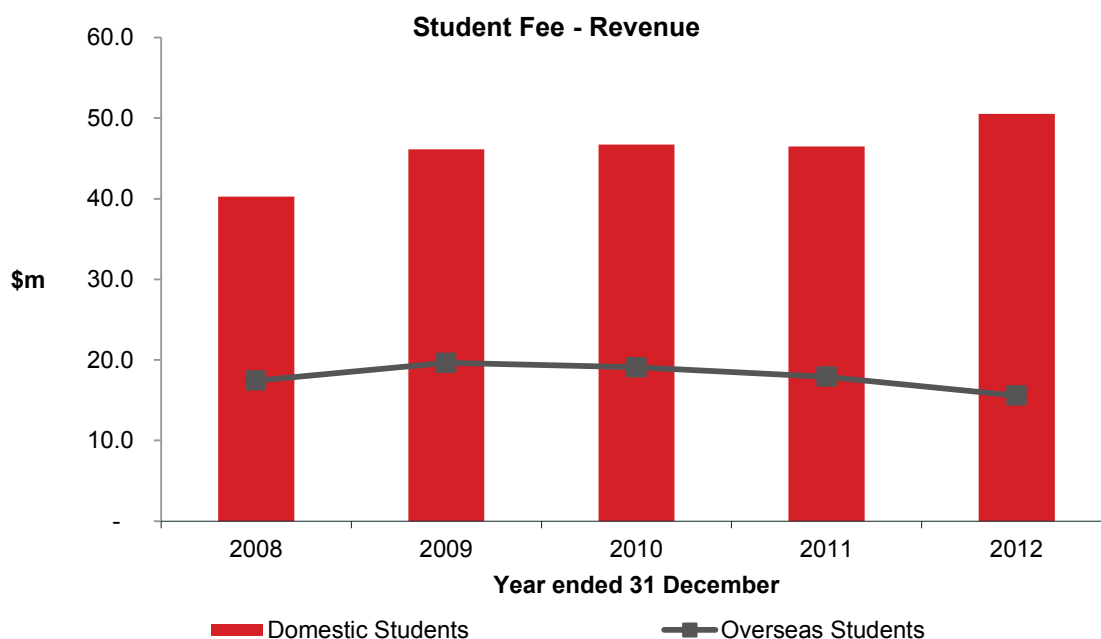
In the analysis above, Australian Government grants (including operating and capital) excludes Higher Education Loan Programs. These revenues are included in student fees.

## Student Fees

Student fees comprise:

- domestic student fees including those paid directly by students and fee payments from the Australian Government on behalf of students from Higher Education Loan Programs, such as the Higher Education Contribution Scheme
- fees from overseas students studying at the University.

Fees from overseas students in 2012 were 10.3 per cent lower than for 2011



Source: Financial statements (audited).

Over the last five years, revenue from overseas students has decreased by 10.3 per cent, while revenue from domestic students grew by 25.3 per cent.

## Student Numbers

The University's equivalent full-time student load (EFTSL) has risen by one per cent over the last five years. Since 2008, the overseas student EFTSL has decreased by 28 per cent while the domestic student EFTSL has increased by 11.6 per cent.

The table below shows the EFTSL by type over the past five years.

Year ended 31 December	2012	2011	2010	2009	2008
Domestic	7,670	7,506	7,509	7,547	6,872
Overseas	1,815	2,081	2,441	2,616	2,521
<b>Total</b>	<b>9,485</b>	<b>9,587</b>	<b>9,973</b>	<b>10,163</b>	<b>9,393</b>

Source: Student load 2008 to 2011 from Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education (unaudited), Student load 2012 from Southern Cross University (unaudited).

Note: Numbers in the table above are for the University excluding controlled entities.

Total student numbers for 2012 decreased by 1.1 per cent compared to 2011. Domestic students increased by 2.2 per cent and overseas students decreased by 12.8 per cent.

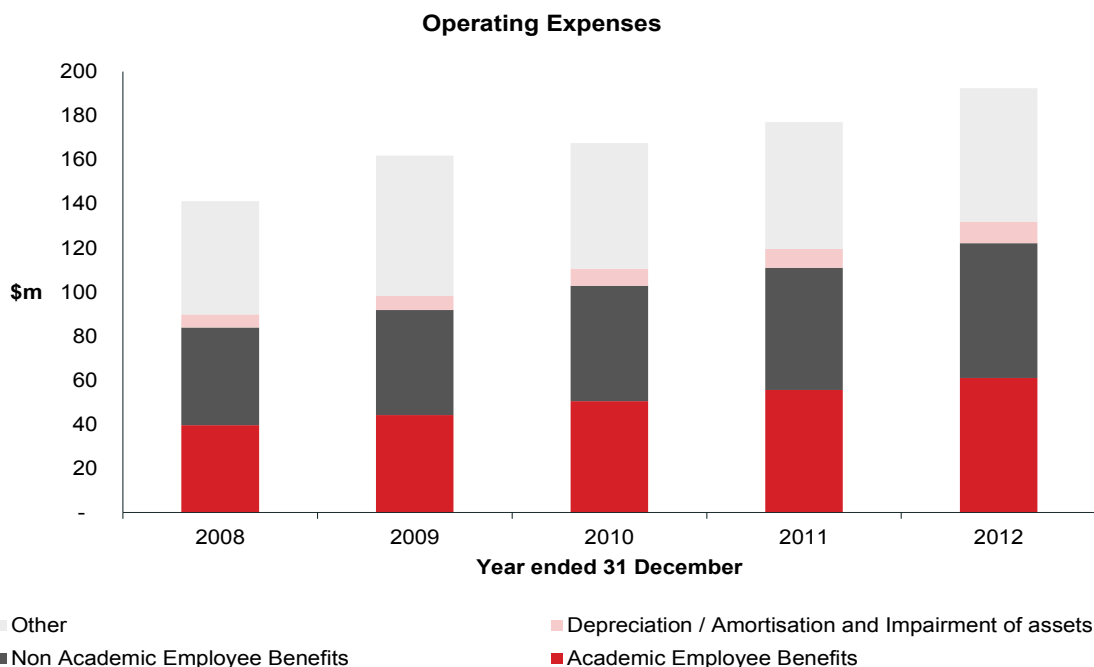
Total student numbers for 2012 decreased by 1.1 per cent compared to 2011. Domestic students increased by 2.2 per cent and overseas students decreased by 12.8 per cent



## Operating Expenses

Operating expenses grew each year between 2008 and 2012.

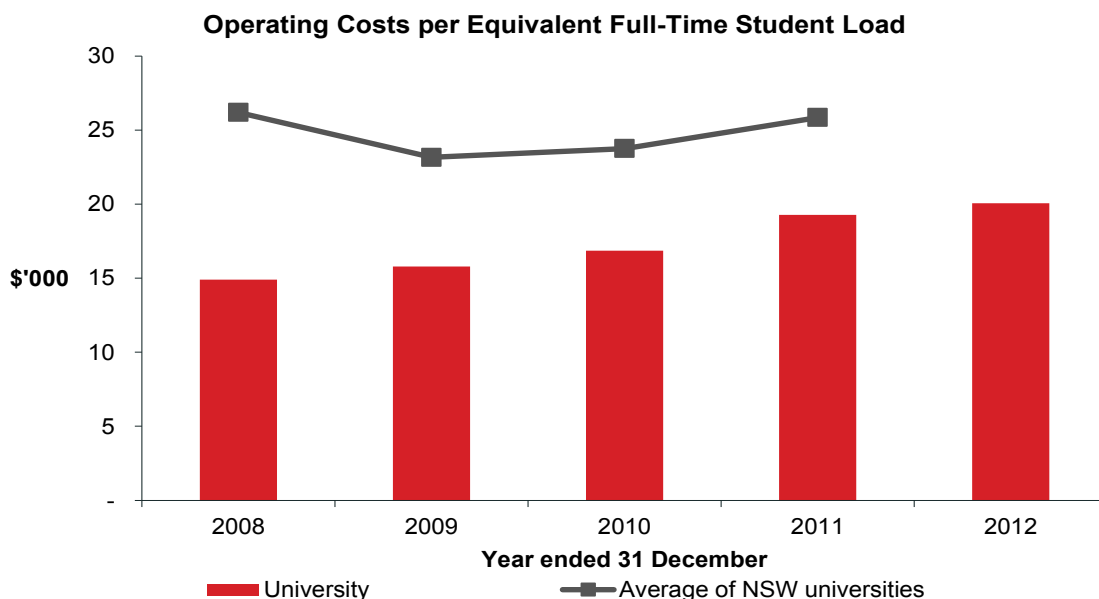
Employee related costs grew by 10 per cent from 2011 as a result of 21 additional full time equivalent employees, increases in long service leave expenses due to the sharp decrease in the discount factor used to calculate the present value of the liability, and a four per cent award increase.



Source: Financial Statements (audited).

In 2012, total operating costs increased by 8.5 per cent to \$192 million (\$177 million in 2011).

Operating costs averaged \$20,052 per student in 2012 compared to \$19,282 in 2011. Over the four years 2008 to 2011, the University consistently incurred less operating costs per student compared to the average for all NSW universities. The average cost for 2012 for all NSW universities was not available at the time of finalising this report as student numbers were not yet published by the Department.



Source: Student load - 2008 to 2011 from Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education, Student load 2012 from Southern Cross University (unaudited), Operating costs – Financial statements (audited).

The University advises comparisons between operating costs and student load may be affected by:

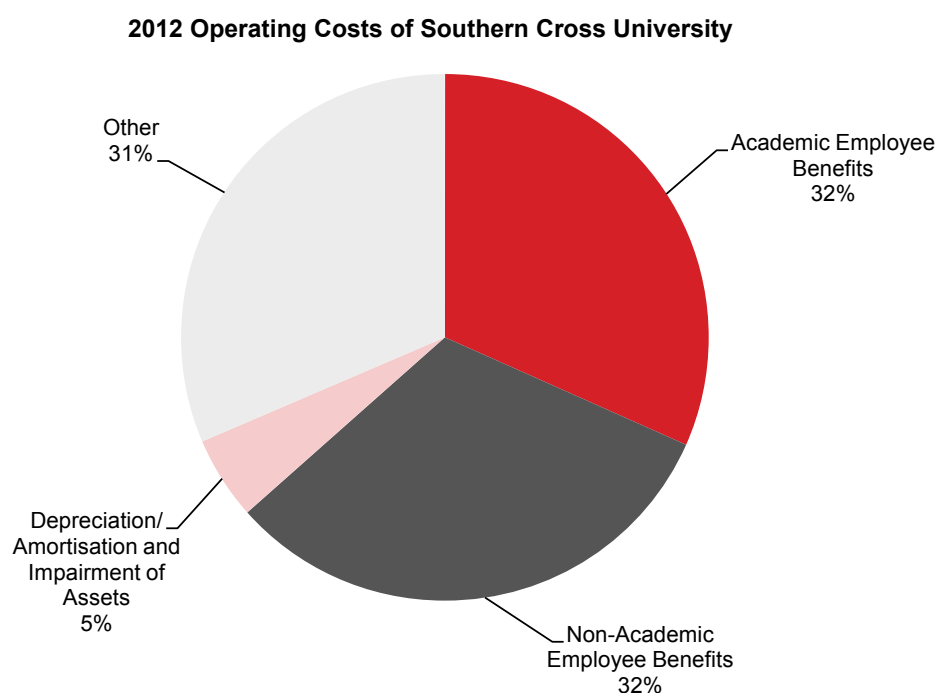
- the proportion of students who study part time as administrative costs are incurred on a 'head count' basis
- the teaching load for offshore students which can vary compared to onshore students, and also between different institutions.

The commentary above relates to the university and excludes its controlled entities.

### Where do the dollars go?

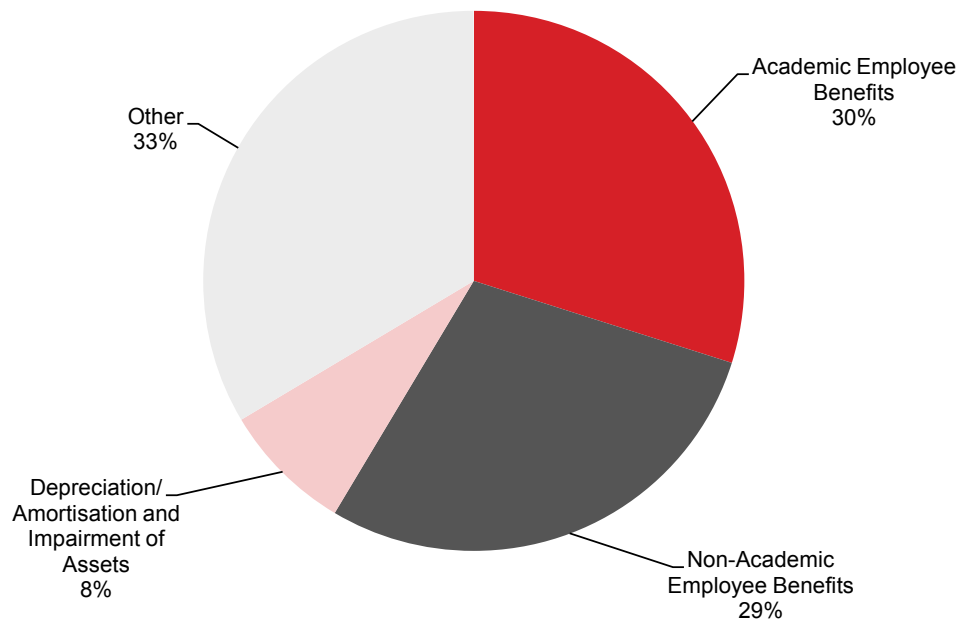
At 31 December 2012, the University had a higher percentage of its operating expenses attributed to employee costs compared to the average of NSW universities. In 2012, the cost of employee benefits represented 64 per cent of the University's total operating costs (59 per cent for the NSW average).

The University had a lower percentage of depreciation expense compared to the average of NSW universities because its physical assets are recorded at original cost rather than fair value. Other NSW universities value their physical assets either by reference to the cost of replacing the asset with a modern day equivalent, or a market value. This generally increases the value of the asset and the depreciation expense.



Source: Financial statements (audited).

### 2012 Operating Costs of all NSW universities

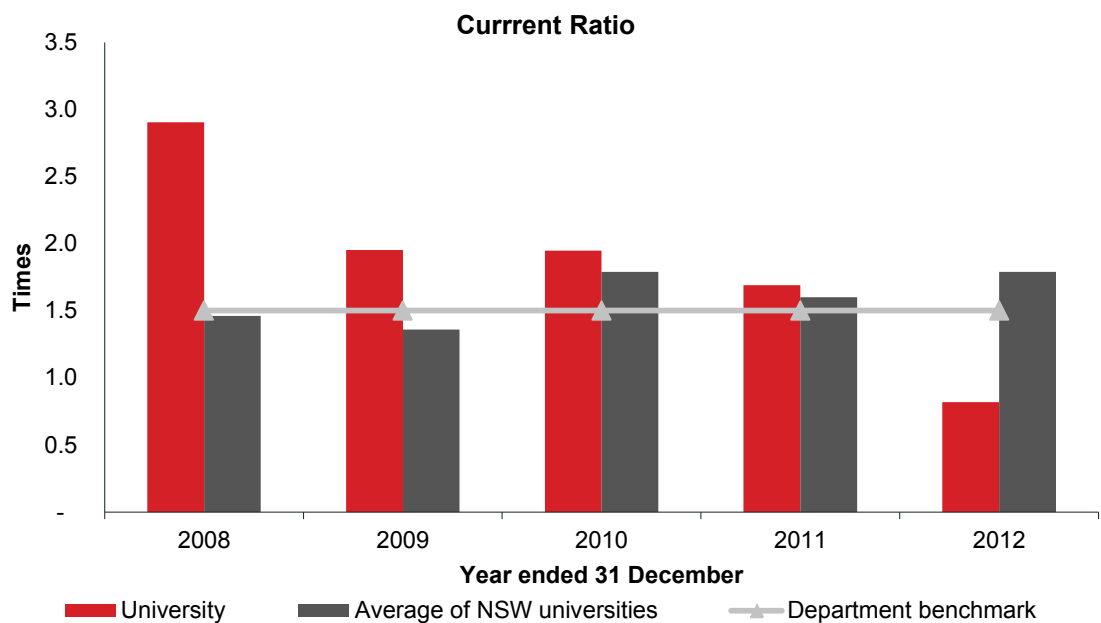


Source: Financial Statements (audited).

### Current Ratio

The University's 2012 current ratio of 0.8 is well below the 1.5 good practice guideline set by the Department. For the first time, the University's current ratio is below the NSW universities' average.

The University is below the liquidity good practice guideline for paying its short term debts



Sources: Financial statements (audited), Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education (unaudited).

The current ratio measures the University's ability to pay its short term debts using short term assets. It is calculated by dividing current assets by current liabilities, excluding long service leave liabilities expected to be settled after 12 months of year end. A higher ratio usually indicates a greater ability of an entity to pay its short term debt. A ratio lower than one indicates an entity may have difficulty meeting its short term obligations.

The University opened its \$50.0 million 10-storey building at the Gold Coast campus

The University advises it does not have a significant liquidity risk as it has an approved borrowing facility of \$45.0 million, which had not been used at 31 December 2012. The University is using existing cash reserves, as opposed to drawing against this facility, to minimise borrowing costs. The loan facility is expected to be drawn down later in 2013.

## Major Projects

The University completed construction of Building B at the Gold Coast campus in February 2013. The total project costs for Building B were \$48.6 million, which was within the approved budget of \$50.0 million.

In 2011, the University was successful in securing \$32.0 million through the Australian Government's Structural Adjustment Fund, which will be partly used on the Gold Coast campus.

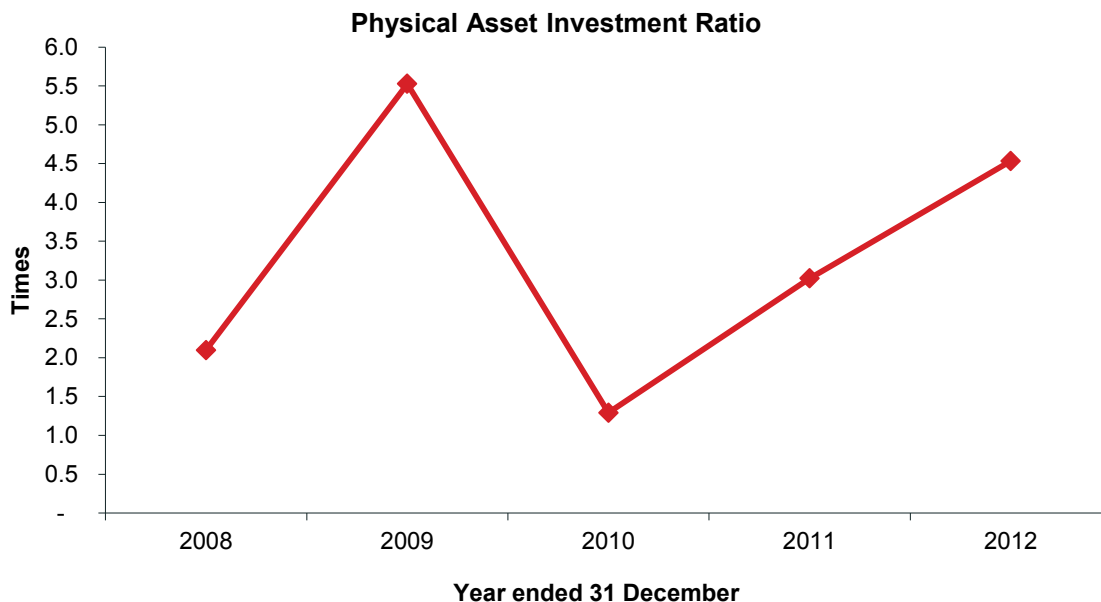
Construction of the next stages, Buildings C and D, has been delayed due to the extended and complex approval process for construction on airport land. Construction is expected to be completed in 2015.

The University was also successful in securing \$27.9 million from the Australian Government to support a \$38.0 million redevelopment of the Lismore campus including:

- stage 1 of the Science and Engineering Precinct
- construction of a new Learning Centre.

## Physical Asset Investment Ratio

The University's physical asset investment ratio has increased significantly from 2.1 to 4.5 over the last five years, indicating asset additions have been greater than the rate at which they are being used.



Source: Financial statements (audited).

The physical asset investment ratio shows the extent to which an organisation renews or grows its physical assets, as measured by depreciation expense. This is important to the University, which has major capital facilities. A ratio below one may indicate under-investment in renewing facilities, which may lead to greater maintenance expenditure in the future.

Employee entitlement liabilities increased by 16.8 per cent in 2012. The largest, superannuation increased by 17.0 per cent to \$66.8 million

## Employee Entitlements

	2012 \$'000	2011 \$'000	2010 \$'000	2009 \$'000	2008 \$'000
Net liability for defined benefit superannuation	66,841	57,148	37,168	30,683	40,161
Annual leave liability	7,564	7,266	7,226	6,833	6,327
Long service leave liability	17,314	14,157	12,817	12,320	11,527
<b>Total</b>	<b>91,719</b>	<b>78,571</b>	<b>57,211</b>	<b>49,836</b>	<b>58,015</b>

Source: Financial statements 2008-2012 (audited).

Employee entitlement liabilities increased by 16.8 per cent in 2012. Defined benefit superannuation liabilities grew by 17.0 per cent from \$57.1 million at 31 December 2011 to \$66.8 million at 31 December 2012. This increase is mainly due to a fall in the discount rate used to calculate the present value of the liability from 3.7 per cent to 3.3 per cent. The Australian Government is expected to fund most of these liabilities, minimising the impact on the University's operating result and cash flows. The University is responsible for funding State defined benefit superannuation liabilities of \$0.8 million (\$0.7 million).

The University is reducing excessive employee annual leave balances

The University is effectively addressing employee excessive annual leave balances. Employees with excess annual leave balances have fallen from 44 at 31 December 2011 to 37 at 31 December 2012 or 16 per cent. Four per cent (five per cent) of employees held annual leave balances exceeding the maximum thresholds allowed under the University's leave policy.

The long service leave liability has increased by 21.8 per cent to \$17.3 million (\$14.2 million), mainly due to the sharp decrease in the discount factor used to calculate the present value of the liability from 5.7 per cent to 3.2 per cent. This resulted in the liability increasing by \$2.1 million. The increase is also due to changes in the employee profile, including an increase in the value of nominal accrued long service leave.

## 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	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Australian Government grants	106,594	98,617	106,594	98,617
Higher Education Contribution Scheme	44,962	40,743	44,962	40,743
HECS-HELP - Student Payments	3,077	3,062	3,077	3,062
Fees and charges	19,174	21,385	19,174	21,385
Other	22,105	20,840	20,399	30,691
<b>Total revenue</b>	<b>195,912</b>	<b>184,647</b>	<b>194,206</b>	<b>194,498</b>
Employee benefits and on-costs	122,101	111,040	120,702	110,012
Depreciation and amortisation	8,674	8,295	8,655	8,278
Other	61,676	57,745	60,823	66,570
<b>Total expenses</b>	<b>192,451</b>	<b>177,080</b>	<b>190,180</b>	<b>184,860</b>
<b>Surplus</b>	<b>3,461</b>	<b>7,567</b>	<b>4,026</b>	<b>9,638</b>
<b>Other comprehensive income</b>				
Net actuarial losses recognised in respect of defined benefit superannuation plans	(200)	(237)	(200)	(237)
<b>Total comprehensive income</b>	<b>3,261</b>	<b>7,330</b>	<b>3,826</b>	<b>9,401</b>

Source: Financial statements (audited).

\* The revenue sources table shown earlier classifies revenue differently for analytical purposes.

Funding received from the Australian Government increased by 8.1 per cent, mainly due to additional Australian Government grants, including the Diversity and Structural Adjustment Fund \$3.7 million, and the Commonwealth Grant Scheme \$9.1 million. This was offset by a reduction in Capital Development Pool grants of \$6.3 million.

Employee benefits and on-costs rose by ten per cent from 2011 as a result of 21 additional full time equivalent employees, increases in long service leave expenses due to the sharp decrease in the discount factor used to calculate the present value of the liability, and a four per cent award increase.

### Abridged Statement of Financial Position

At 31 December	Consolidated		Parent	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Current assets	23,237	47,296	23,706	47,627
Non-current assets	294,180	254,790	295,674	255,834
<b>Total assets</b>	<b>317,417</b>	<b>302,086</b>	<b>319,380</b>	<b>303,461</b>
Current liabilities	40,035	37,661	39,824	37,454
Non-current liabilities	69,391	59,695	69,391	59,668
<b>Total liabilities</b>	<b>109,426</b>	<b>97,356</b>	<b>109,215</b>	<b>97,122</b>
<b>Net assets</b>	<b>207,991</b>	<b>204,730</b>	<b>210,165</b>	<b>206,339</b>

Source: Financial statements (audited).

Current assets decreased as term deposits were used to finance capital expenditure at the Gold Coast campus.

Non-current assets increased by 15.5 per cent or \$39.4 million predominantly due to additional capital expenditure \$39.8 million and an increase in the deferred government contribution for superannuation \$9.6 million. This was offset by asset disposals and depreciation expenses \$9.3 million.

Current liabilities increased by 6.3 per cent primarily due to changes in actuarial assumptions in calculating long service leave obligations.

Non-current liabilities increased by 16.2 per cent largely due to a \$9.7 million increase in defined benefit superannuation liabilities from \$57.1 million at 31 December 2011 to \$66.8 million at 31 December 2012.

## 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](http://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
Asia Pacific Football Institute Operations Pty Ltd	<a href="http://www.apfi.net.au">www.apfi.net.au</a>
Norsearch Limited	<a href="http://www.norsearch.scu.edu.au">www.norsearch.scu.edu.au</a>
SCU College Pty Ltd	<a href="http://www.scu.edu.au">www.scu.edu.au</a>

# The University of Sydney

## Audit Opinion

I issued unqualified audit opinions on the University and five of its controlled entities' 31 December 2012 financial statements. The audit of one controlled entity, Sport Knowledge Australia Pty Limited, is incomplete.

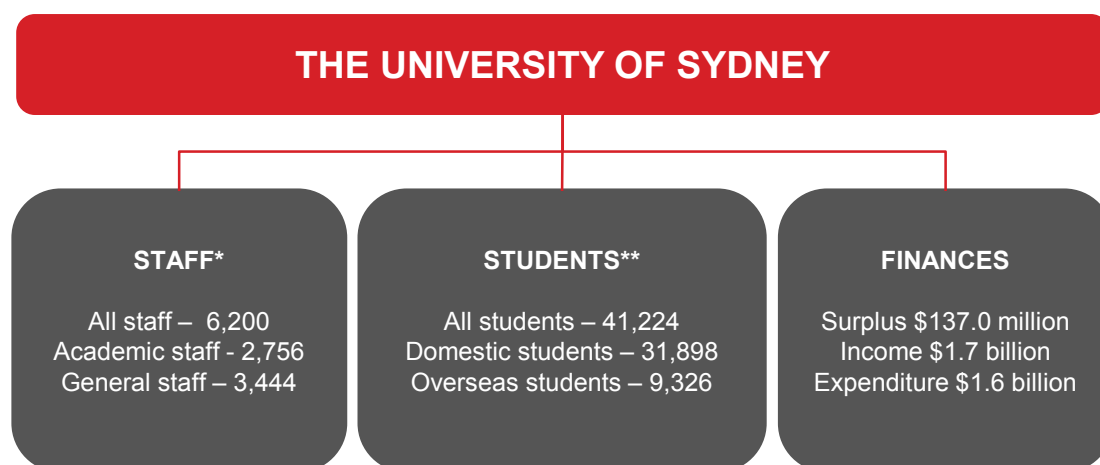
I also issued unqualified audit opinions on two other entities associated with the University for the year ended 31 December 2012. Further details on the University's controlled and associated entities appear later in this report.

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

## Operational Snapshot

The University of Sydney was established in 1850 and is one of Australia's leading research universities.

Below is a snapshot of the University's operations.



Source: The University of Sydney.

\* Full-Time Equivalent (unaudited and excludes controlled entities).

\*\* Equivalent Full-Time Student Load (unaudited and excludes controlled entities).

## Key Issues

### Strategic Plan and Restructure

The University implemented a cost reduction strategy to ensure it could meet its 2011–15 Strategic Plan initiatives. The strategy was required because the original plan's emphasis on continued revenue growth was not considered achievable in light of reduced demand from overseas students.

The outcomes of the cost reduction strategy are:

Cost reduction strategy aims	Outcomes advised by the University
Reduce 2012 non-salary expenditure by \$28.0 million from original forecast	Target achieved
Restrict employment costs of general staff, casual staff and contractors	Target achieved
Reduce underlying academic and general staff costs by \$36 million per annum from 2013	Target achieved

The University is reducing costs to strengthen its future viability



The University broadened its strategy from the original focus on involuntary redundancy to include a range of additional strategies, including voluntary redundancies, flexible employment contracts, natural attrition, early retirement and reassessment of newly created positions.

The University is still negotiating a new Enterprise Bargaining Agreement following expiry of the previous agreement in 2012.

The University's Strategic Plan includes 17 key strategies to address future challenges and focuses on mutual accountability and engaged enquiry, including:

- University governance, and the size and shape of the University
- integrated education and research
- developing local and international partnerships
- resources, costs and services.

The University advises implementation of the Strategic Plan is progressing well and it expects the objectives will be achieved within the proposed timeframe.

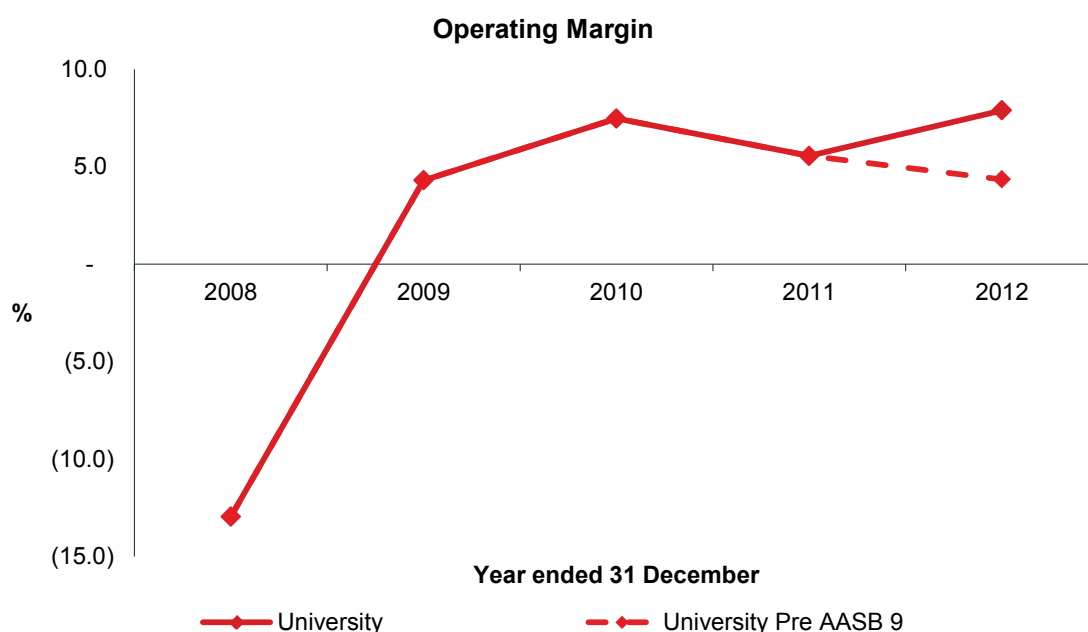
## Performance Information

### Operating Margin

In 2008, the University had a negative operating margin of 13.0 per cent due to \$211 million in losses from the impairment of available-for-sale assets. Excluding the impact of the impairment losses, caused by the downturn in investment markets during the global financial crisis, the operating margin was 3.3 per cent in 2008.

The operating margin shows the operating surplus as a percentage of total revenue. It should be noted that total revenue includes Australian Government grants for recurrent and capital expenditure of \$761 million (\$692 million).

Operating margin was 7.9 per cent for 2012 compared to 5.6 per cent for 2011

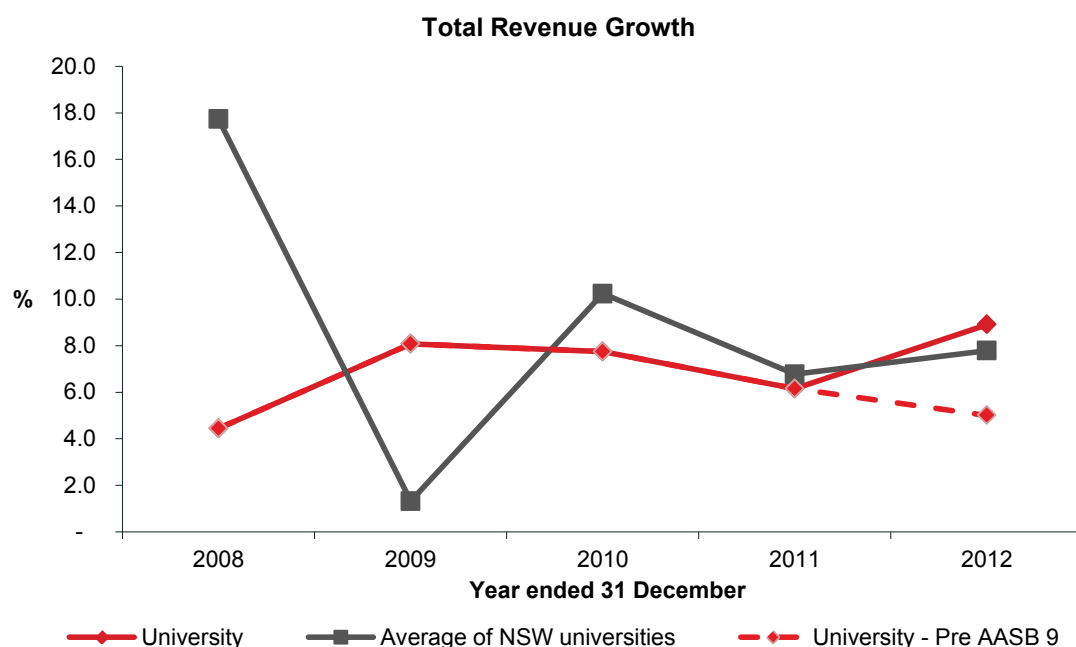


Source: Financial statements (audited).

In 2012, the operating margin was 7.9 per cent, an increase of 42.1 per cent from 2011. The surplus for 2012 was \$137 million (\$88.5 million for 2011). The increase included the impact of a change in accounting policy with the early adoption of accounting standard AASB 9 'Financial Instruments' (AASB 9). If the University had not early adopted AASB 9, its operating margin would have been below the 2011 result, as indicated by the dotted line in the graph above.

The University assessed AASB 9's criteria best reflected the nature and strategic position of its financial assets. Early adoption of the accounting standard resulted in the recognition of \$61.6 million additional investment income for the year ended 31 December 2012. AASB 9 has not yet been adopted by other NSW Universities.

## Revenue Growth



Source: Financial statements (audited).

Over the last five years, revenue growth rate fluctuated between 4.4 per cent in 2008 and 8.9 per cent in 2012 (6.1 per cent for 2011). The largest increase in revenue over the last five years was in 2012 and resulted from large increases in Australian Government grants, student fees and investment income. If the University had not early adopted AASB 9, as discussed earlier, its revenue growth in 2012 would have been 5.1 per cent.

As shown in the revenue sources table below, the University received \$761 million (\$692 million) from Australian Government grants, an increase of 10.0 per cent from 2011. The University also received \$601 million (\$548 million) from student course fees, an increase of 9.7 per cent from 2011.

## Revenue Sources

Year ended 31 December	2012 \$m	2011 \$m	2010 \$m	2009 \$m	2008 \$m
<b>Student course fees</b>					
Domestic Students	317	271	277	240	243
Overseas students	284	277	261	242	208
<b>Total student course fees</b>	<b>601</b>	<b>548</b>	<b>538</b>	<b>482</b>	<b>451</b>
Australian Government grants	761	692	642	610	565
Consultancy and contracts	81	81	88	93	91
Investment income	116	76	89	81	32
Other	179	198	146	129	152
<b>Total revenue</b>	<b>1,738</b>	<b>1,595</b>	<b>1,503</b>	<b>1,395</b>	<b>1,291</b>

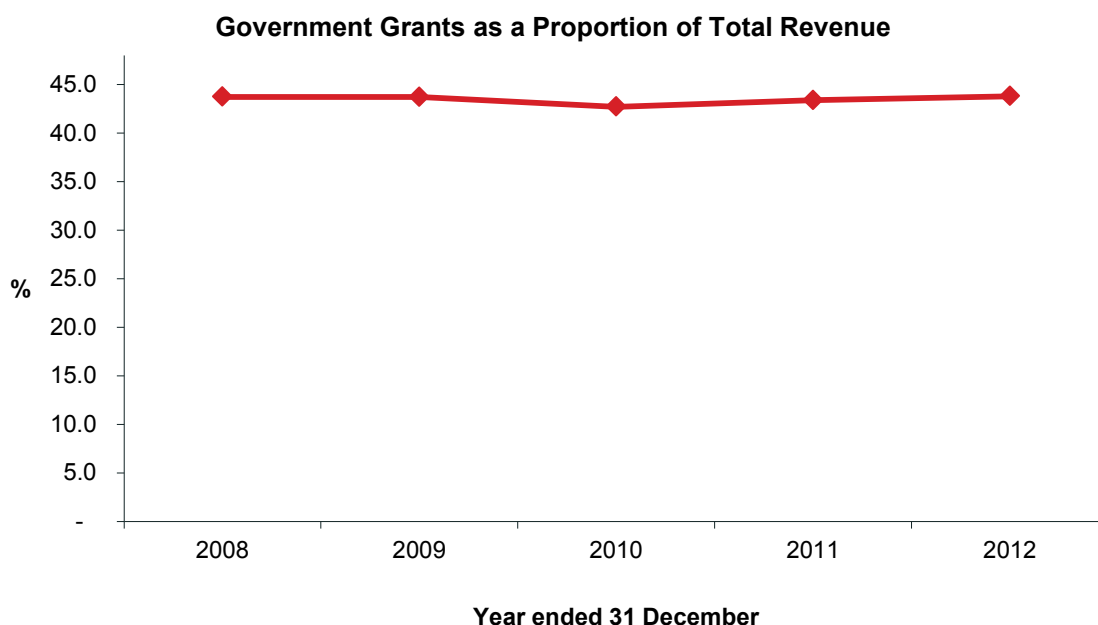
Source: Financial statements (audited).

The University's revenue growth was above the average for NSW universities in 2012

## Australian Government Funding

Although Australian Government grants are a major source of the University's revenue it has successfully limited its reliance on this source of revenue over the last five years. In 2012, government funding represented 43.8 per cent of its total revenue. This rate has remained relatively stable over the last five years.

Australian Government grants reliance is stable



Source: Financial statements (audited).

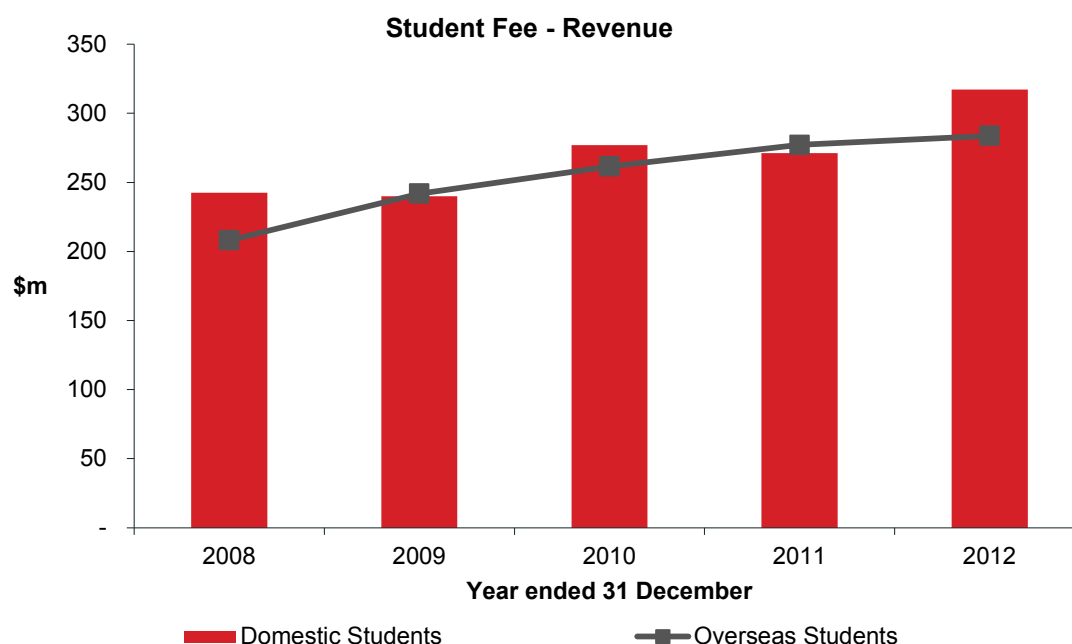
For the purposes of the above analysis, Australian Government grants include operating and capital grants and exclude Higher Education Loan Programs. These revenues are included in student fees.

## Student Fees

Since 2008, revenue from overseas students has increased by 36.5 per cent and from domestic students by 30.5 per cent. Revenue received from fee paying overseas students comprised 47.3 per cent of total student fees, even though the overseas student population is less than a quarter of total students.

Fees from domestic students in 2012 were 17.0 per cent higher than in 2011. In 2012, revenue received from fee paying overseas students was \$284 million (\$277 million in 2011) and revenue from domestic students was \$317 million (\$271 million).

Fees from domestic students in 2012 were 17.0 per cent higher than in 2011



Source: Financial statements (audited).

Student fees comprise:

- domestic students fees including those paid directly by students and fee payments from the Australian Government on behalf of students from Higher Education Loan Programs, such as the Higher Education Contribution Scheme
- fees paid by overseas students studying at the University.

## Student Numbers

The University's equivalent full-time student load (EFTSL) has risen by 10.9 per cent over the last five years. The overseas student EFTSL has increased by 8.7 per cent since 2008, while domestic EFTSL has increased by 11.6 per cent over the same period. 2012 saw the highest annual increase in domestic EFTSL at 5.2 per cent.

While the overseas student EFTSL has increased since 2008, it registered very slight decreases in the last 2 years.

Total student numbers for 2012 increased by 3.9 per cent compared to 2011. Domestic students increased by 5.2 per cent and overseas students declined by 0.2 per cent.

The table below shows the EFTSL by type over the past five years.

Year ended 31 December	2012	2011	2010	2009	2008
Domestic	31,898	30,319	30,270	29,553	28,586
Overseas	9,326	9,343	9,526	9,270	8,579
<b>Total</b>	<b>41,224</b>	<b>39,662</b>	<b>39,796</b>	<b>38,823</b>	<b>37,165</b>

Source: 2008 to 2011 Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education (unaudited), 2012 from The University of Sydney (unaudited).

Numbers in the table are for the University and exclude its controlled entities.

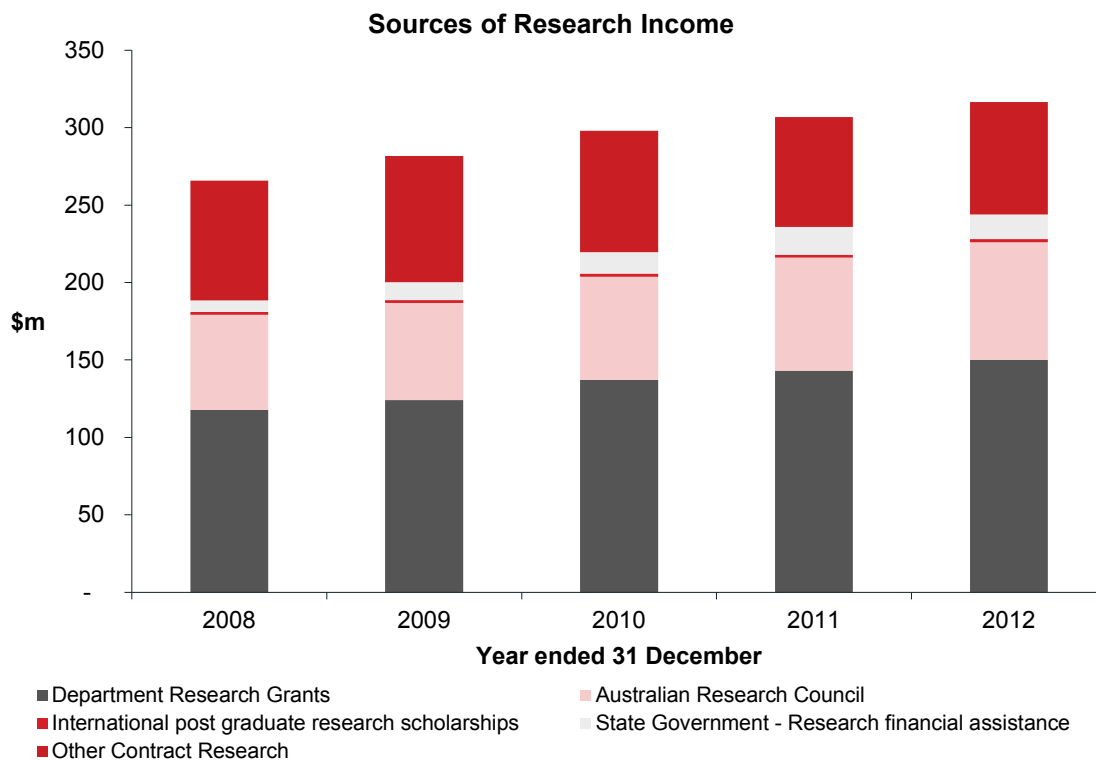
For the year ended 31 December 2012, 48.5 per cent of overseas students came from China (including Hong Kong). Students from Korea, the United States of America, Singapore, Malaysia, Canada and Indonesia made up 27.2 per cent of overseas students, while the remaining 24.3 per cent came from other countries.

Total student numbers for 2012 increased by 3.9 per cent compared to 2011. Domestic students increased by 5.2 per cent and overseas students declined by 0.2 per cent

## Research Income

Research income continued to grow in 2012, with a 3.3 per cent increase. In 2012, the University's research income amounted to \$317 million (\$307 million in 2011). Research income has increased by 19.1 per cent over the last five years, with most coming from the Australian government sector in the form of grants.

Research income continued to grow with a 3.3 per cent increase in 2012



Source: Financial statements (audited).

The University attracted 47.4 per cent of its research funds in 2012 from the Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education (the Department) in the form of research grants. These grants have increased from \$118 million in 2008 to \$150 million in 2012 (27.1 per cent). The University attributes much of the increase to the Sustainable Research Excellence program initiated by the Department in 2009-10. This program aims to help fund shortfalls associated with Australian Competitive Grant research activities and to support universities build and maintain research excellence. In 2012, the University received \$20.0 million from this program.

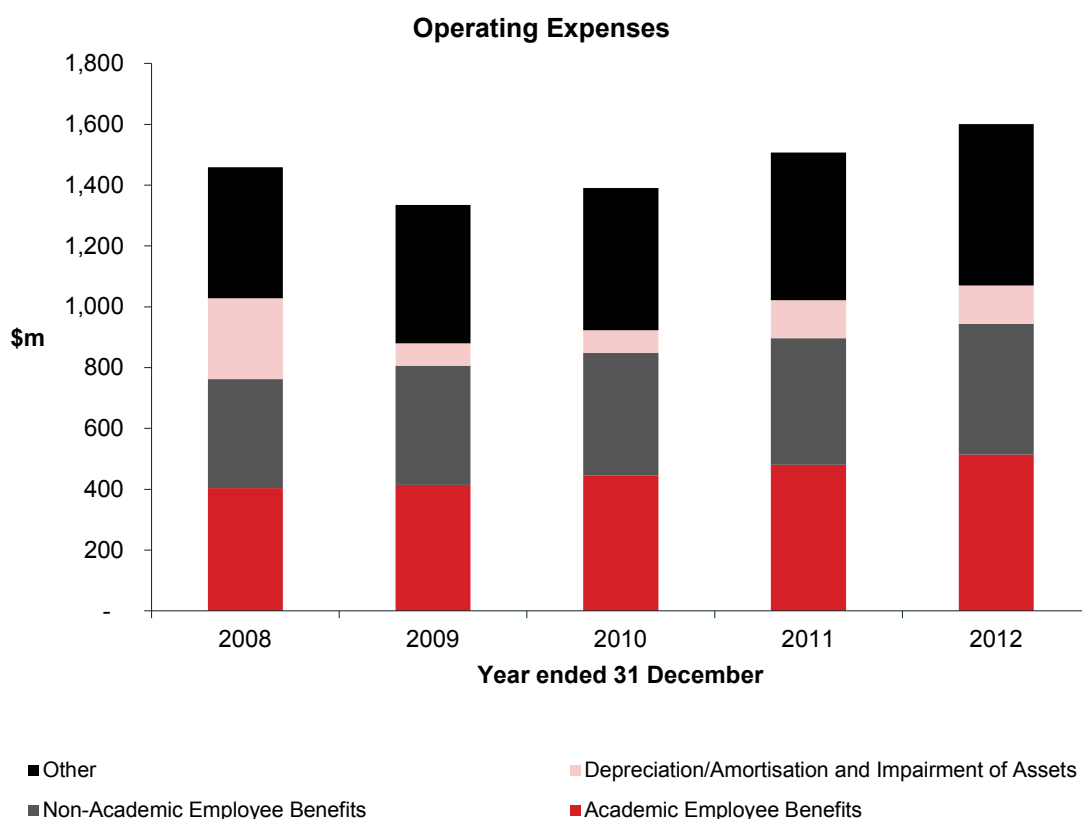
The University attracted 24.0 per cent of its research funds from the Australian Research Council and 22.9 per cent from other contract research. These percentages have remained relatively stable over the last five years.

The University advises initiatives are in place to attract further research funds, including initiatives in the University's Strategic Plan 2011-15. The University has implemented new governance structures and funding mechanisms to support research activities.

## Operating Expenses

Operating expenses decreased 8.5 per cent in 2009 and consistently increased each year thereafter. Operating expenses each year have been impacted the extent of impairment losses from its investments. These losses have ranged from a high of \$211 million in 2008 to a low of \$3.9 million in 2010.

Employee benefits are the largest component of operating expenses. Academic employee benefits have increased from \$381 million in 2008 to \$516 million in 2012, an increase of 35.4 per cent. Non-academic employee benefits increased \$72.3 million (20.2 per cent) over the five years. As discussed earlier, the University acted to restrict increases in employee benefit expenses in 2012, but these still increased by 5.3 per cent and include \$26.0 million for redundancy and severance costs.



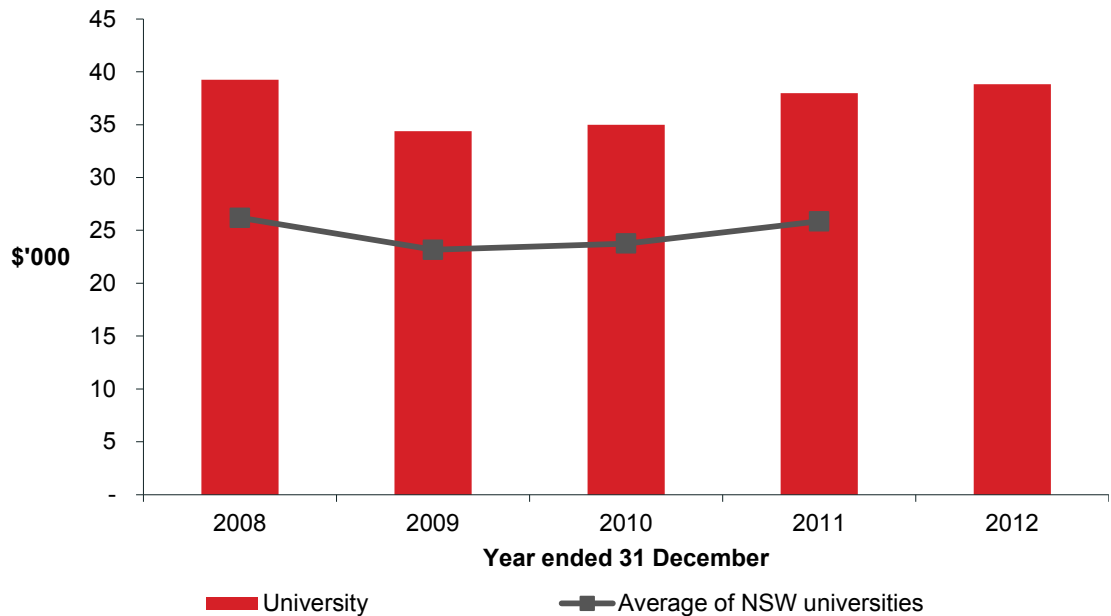
Source: Financial statements (audited).

In 2012, total operating costs increased by 6.7 per cent to \$1.6 billion (\$1.5 billion).

## Operating Costs per Student

Operating costs averaged \$38,828 per student in 2012 compared to \$37,934 in 2011. Over the four years 2008 to 2011, the University consistently spent more in operating costs on a per student basis compared to the average for NSW universities. This reflects the costs of its higher than average level of research activity. The average cost for 2012 for all NSW universities was not available at the time of finalising this report as student numbers were not yet published by the Department.

### Operating Costs per Equivalent Full-Time Student Load



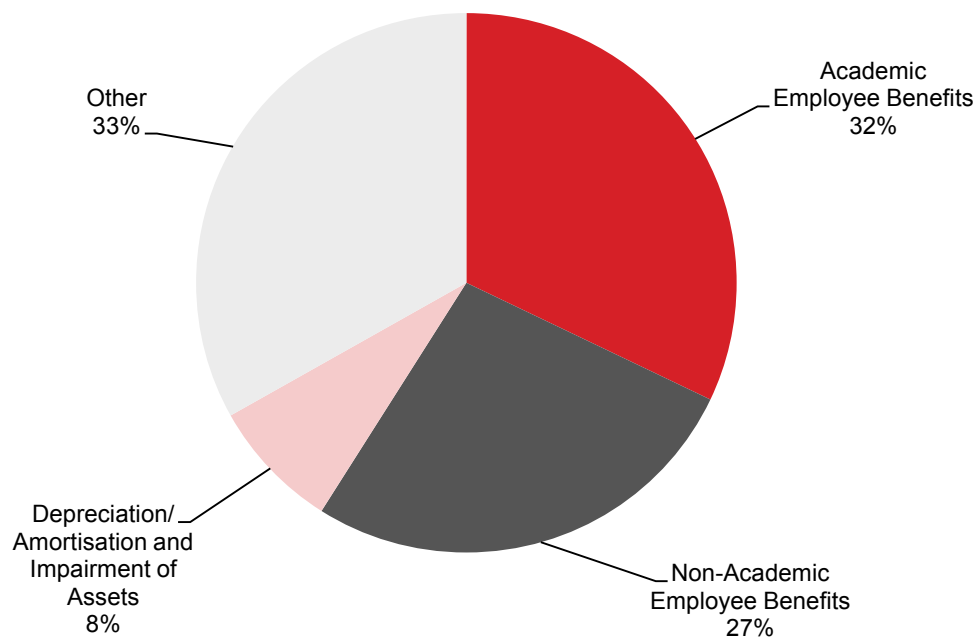
Source: Student load - 2008 to 2011 from Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education (unaudited), Student load - 2012 The University of Sydney (unaudited); Operating costs – Financial statements (audited).

The above commentary relates to the University and excludes its controlled entities.

### Where do the dollars go?

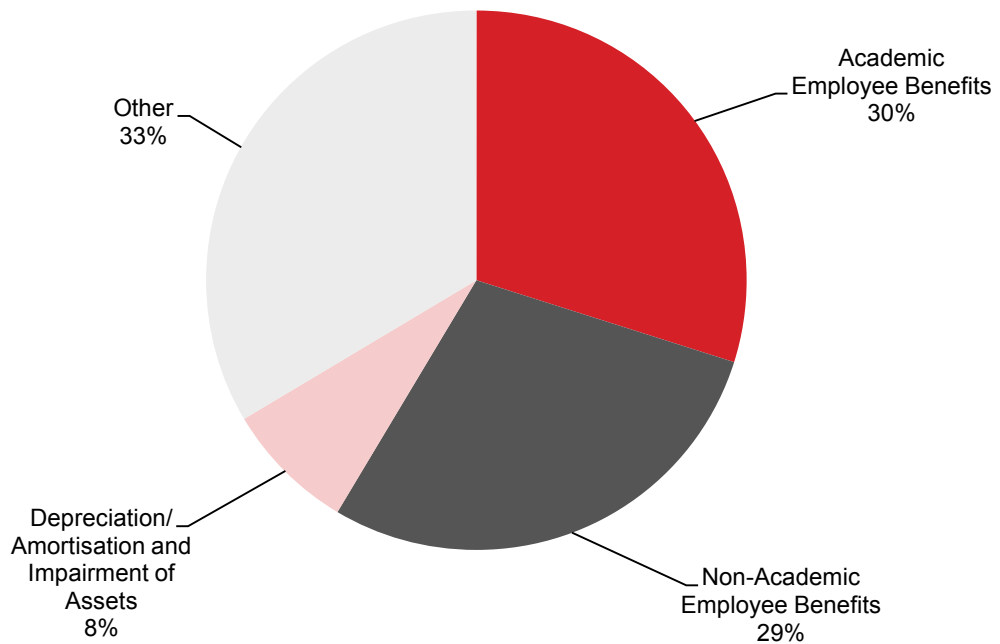
At 31 December 2012, the University's percentage of operating expenses attributed to employee benefits was the same as the average for NSW universities at 59 per cent. The University has a slightly higher percentage for academic employee benefits compared to the NSW University average, and lower non-academic employee benefits.

### 2012 Operating Costs of the University of Sydney



Source: Financial statements (audited).

## 2012 Average Operating Costs of all NSW universities

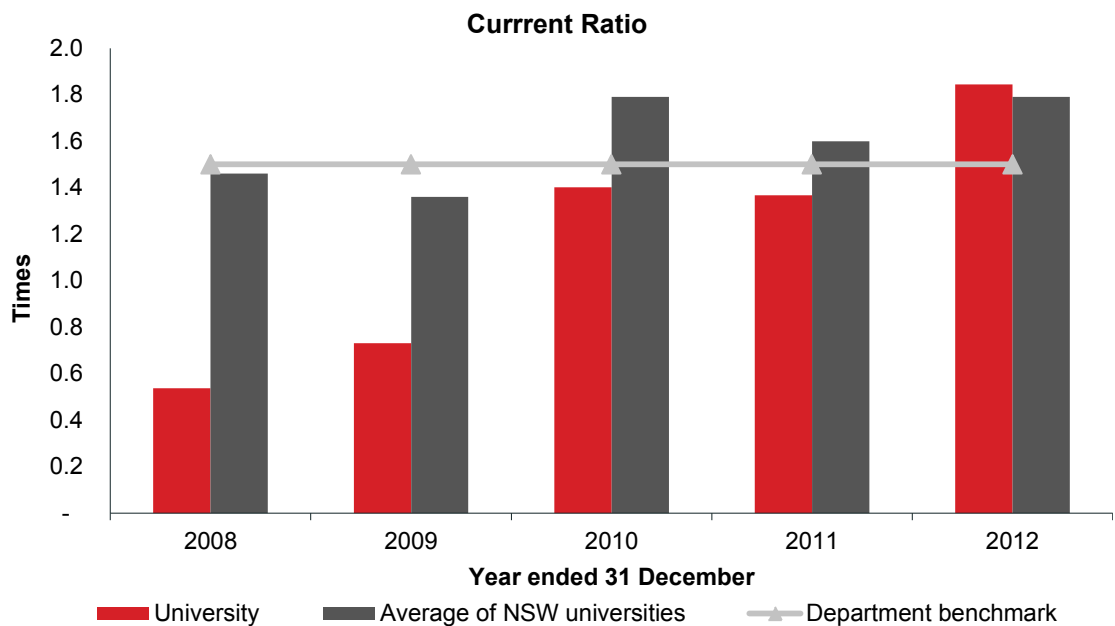


Source: Financial statements (audited).

## Current Ratio

The University's 2012 current ratio of 1.8 is above the 1.5 good practice guideline set by the Department. This was also slightly above the average for NSW Universities. For the previous four years the University was below the average and the Department's benchmark.

The University is above the liquidity good practice guideline for paying its short term debts



Source: Financial statements (audited), Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education (unaudited).



The current ratio measures the University's ability to pay its short term debts using short term assets. It is calculated by dividing current assets by current liabilities, excluding long service leave liabilities expected to be settled after 12 months of year end. A higher ratio usually indicates a greater ability of an entity to pay its short term debt. Ratios lower than one indicate an entity may have difficulty meeting its short term obligations.

As at 31 December 2012, the University's current assets of \$491 million were significantly higher than its current liabilities of \$266 million (excluding long service leave of \$73.0 million expected to be settled after 12 months of year-end). This indicates the University would have little difficulty meeting its short term obligations.

## Investment Portfolio Performance

The University had \$1,094 million in investments and cash equivalents at 31 December 2012 (\$897 million at 31 December 2011), held in three portfolios. The investments performed favourably during 2012 compared to the University's benchmarks.

Investment returns for 2012 were better than the University's benchmarks

Fund	2012		2011		2010	
	Actual return %	Benchmark return %	Actual return %	Benchmark return %	Actual return %	Benchmark return %
Long-term Endowment Funds	13.5	13.1	1.0	0.2	5.9	3.5
Foundation Funds	n/a	n/a	6.1	6.1	7.5	5.3
Medium-term Funds	10.1	8.4	5.9	6.8	7.5	5.1
Short-term Funds	5.3	4.0	5.3	5.0	4.8	4.7

Source: The University of Sydney (unaudited).

na not applicable.

The benchmark for investment performance is the weighted composite of asset sector indices. The improved returns in 2012 are primarily due to the rally in global equity markets.

The investment portfolio is made up of \$850 million in long term funds, \$39.0 million in medium term funds and the balance is in short term assets. In 2012, the University restructured its investment funds and its Foundation Funds were absorbed into the other three funds.

## Major Projects

Capital expenditure totalled \$237 million in 2012 (\$198 million in 2011), a \$38.7 million increase. The table below shows major projects in progress.

Project	Current forecast completion date	Forecast final cost \$m
Charles Perkins Centre	February 2014	385
Abercrombie Precinct Redevelopment	February 2015	250
Australian Institute of Nanoscience	December 2014	130
Sydney Student System	Under assessment	>56

Source: The University of Sydney (unaudited).

The Charles Perkins Centre and the Abercrombie Precinct Redevelopment are expected to be completed on time and within budget.

The Charles Perkins Centre aims to deliver world-class research into obesity, diabetes and cardiovascular disease, the leading causes of death and disease in Australia. The new facility will be located within the grounds of the University, close to the Royal Prince Alfred Hospital. When complete, it will house up to 950 researchers and 1,455 undergraduate students. During 2012, \$88.7 million was spent on this project.

The Sydney Student System has been delayed and costs will exceed the original budget

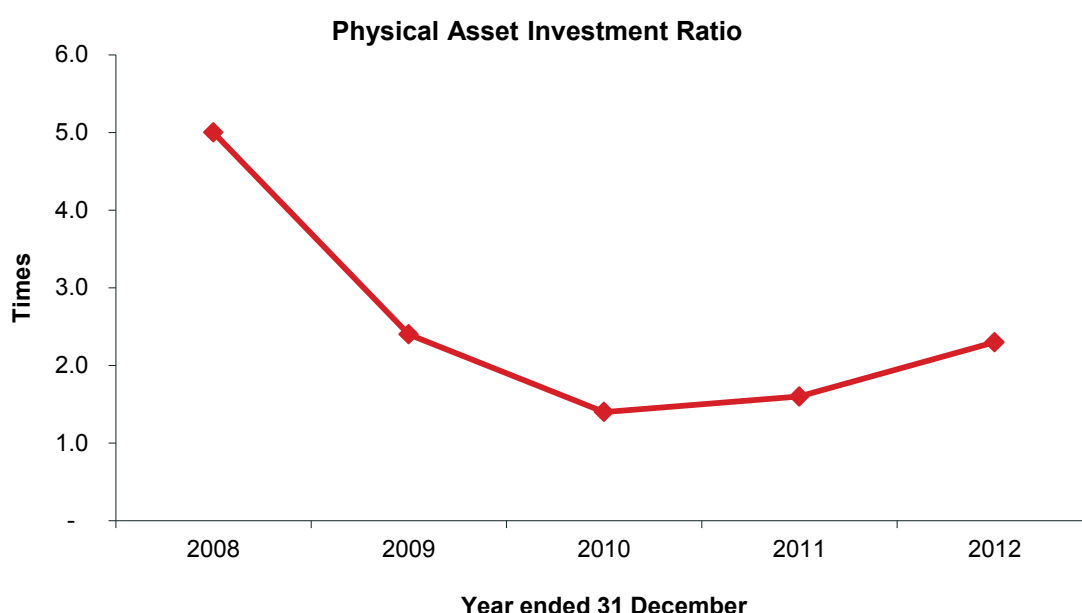
The Abercrombie Precinct Redevelopment project aims to create a world-leading Business School on the Darlington campus. The new facilities will include a 500 seat lecture theatre, three lecture theatres with 300 seats each, eight 100 seat case study rooms, 40 seminar rooms, a learning hub and 1,500 square metres of informal learning space. This project was formally approved in November 2012 and work started in December 2012. During 2012, \$7.5 million was spent on this project.

The Australian Institute of Nanoscience (AIN) project aims to deliver a new building for research in the physical sciences, focussing on nanoscience. Work started in November 2012.

The Sydney Student System has been delayed and the total cost will exceed the budget of \$56.0 million. The project is being reprogrammed with the University yet to confirm a revised go-live date. The project team is currently recalculating the cost to complete given the program changes, and expects a revised budget to be approved in June 2013.

### Physical Asset Investment Ratio

The University's physical asset investment ratio has increased since 2010 indicating capital additions are exceeding the rate at which the assets are being used.



Source: Financial statements (audited)

The physical asset reinvestment ratio calculates the extent to which capital renewal and growth is taking place compared to the use of the physical asset, as measured by the depreciation expense. This is especially important for organizations with significant capital facilities. A ratio above one indicates increasing investment in physical assets, while a lower ratio may indicate under-investment in the maintenance of facilities and unplanned expenditure in the future.

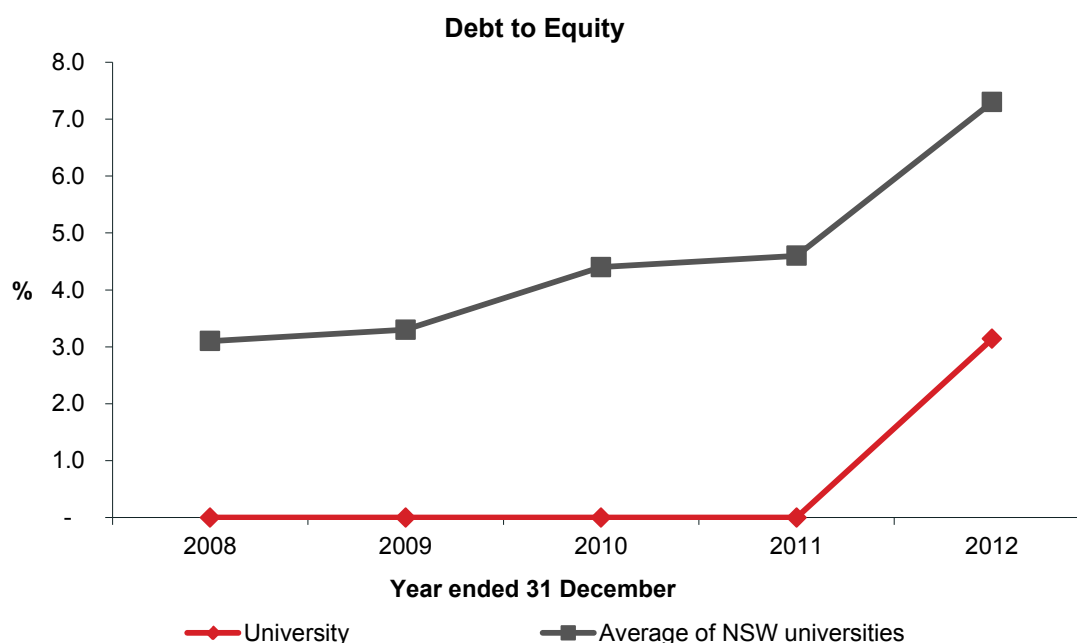
For the last two years the University has increased capital expenditure and in 2012 the ratio was 2.3, below the peak of 5.0 in 2008.

## Debt to equity ratio

The University's debt totalled \$110 million at 31 December 2012 (nil at 31 December 2011), 3.1 per cent of total equity. In 2011, the University entered into a \$500 million debt facility to fund its major capital program and started borrowing from this facility in 2012. In the previous four years the University had no debt.

The University's debt to equity ratio continues to be well below the NSW universities average.

The University's debt to equity ratio was lower than the NSW universities average



Source: Financial statements (audited).

## Employee Entitlements

	2012 \$'000	2011 \$'000	2010 \$'000	2009 \$'000	2008 \$'000
Net liability for defined benefit superannuation	1,191,640	1,090,828	770,115	684,276	800,774
Annual leave liability	63,072	53,848	53,627	54,983	48,849
Long service leave liability	120,961	114,734	98,549	92,449	89,312
Severance payments	6,268	--	--	--	--
<b>Total</b>	<b>1,381,941</b>	<b>1,259,410</b>	<b>922,291</b>	<b>831,708</b>	<b>938,935</b>

Source: Financial statements (audited).

Defined benefit superannuation liabilities increased from \$1.1 billion in 2011 to \$1.2 billion in 2012, mainly due to a decrease in the discount rate used to calculate the present value of the liability from 3.7 per cent to 3.3 per cent. The Australian Government is expected to fund most of these liabilities, minimising the impact on the University's operating result and cash flows. The University is responsible for funding other defined benefit superannuation liabilities of \$38.2 million (\$43.6 million in 2011).

The University continues to address excessive annual leave balances of employees. However, the current strategy implemented in 2010, does not appear to be effective. The University had 540 employees with leave balances exceeding 40 days at 31 December 2010, but this had increased to 612 at 31 December 2012 (13.3 per cent) representing 9.9 per cent of full time equivalent employees.

The long service leave liability increased by 5.4 per cent to \$121 million (\$115 million in 2011), mainly due to a decrease in the discount factor used to calculate the present value of the liability from 4.2 per cent to 3.4 per cent.

Employee entitlement liabilities increased by 9.7 per cent in 2012. The largest, superannuation, increased by 9.2 per cent to \$1.2 billion

The University continues to address excessive annual leave balances of employees

## Financial Information

The University's surplus increased by \$48.5 million to \$137 million. Total revenue increased by \$142 million, which was offset by higher costs, including increases of \$47.9 million in employee benefits and \$60.5 million in other expenses.

As discussed earlier, the University was the first university in New South Wales to early adopt accounting standard AASB 9 – Financial Instruments. The early adoption resulted in a \$61.6 million increase in the surplus for the year. Had the University applied the previous accounting standard the surplus would have been \$75.4 million.

A change in accounting policy resulted in an increase in the operating surplus by \$61.6 million

### Abridged Statement of Comprehensive Income

Year ended 31 December	Consolidated		Parent	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Australian Government grants	761,121	692,312	761,121	692,300
Higher Education Contribution Scheme, FEE-HELP & SA-HELP	193,935	159,988	193,935	159,988
Fees and charges	377,373	370,199	377,015	369,929
Other	405,098	372,986	404,431	374,923
<b>Total revenue*</b>	<b>1,737,527</b>	<b>1,595,485</b>	<b>1,736,502</b>	<b>1,597,140</b>
Employee benefits and on-costs	944,344	896,490	943,258	894,061
Depreciation and amortisation	109,219	104,171	108,953	103,830
Other	546,956	486,500	548,147	486,837
Impairment of available-for-sale assets	--	19,808	--	19,808
<b>Total expenses</b>	<b>1,600,519</b>	<b>1,506,969</b>	<b>1,600,358</b>	<b>1,504,536</b>
<b>Surplus</b>	<b>137,008</b>	<b>88,516</b>	<b>136,144</b>	<b>92,604</b>
<b>Other comprehensive income:</b>				
Fair value loss on available for sale financial assets	--	(32,193)	--	(32,193)
Gain on revaluation of land and buildings, net of tax	10,250	8,548	10,250	8,548
Defined benefit superannuation actuarial loss	(420)	(11,286)	(420)	(11,286)
Valuation loss on hedge reserve	(4,652)	--	(4,652)	--
Net reserve transfers	--	(3,544)	--	(4,833)
<b>Total other comprehensive income/(expense)</b>	<b>5,178</b>	<b>(38,475)</b>	<b>5,178</b>	<b>(39,764)</b>
<b>Total comprehensive income</b>	<b>142,186</b>	<b>50,041</b>	<b>141,322</b>	<b>52,840</b>

Source: Financial statements (audited).

\* The revenue sources table shown earlier classifies revenue differently for analytical purposes.

Australian Government grants increased 9.9 per cent due to a rise in Commonwealth, capital and research grants. Higher Education Contribution Scheme, FEE-HELP and SA-HELP revenue increased by 21.2 per cent, mainly due to a change in the enrolment pattern and student mix, with a particularly significant increase of 1,579 in domestic student numbers. Total full-time equivalent student numbers increased from 39,662 to 41,224. Fees and charges increased slightly by 1.9 per cent primarily due to an increase in fees and charges for subjects undertaken by fee paying students.

Employee benefits and on-cost expenses increased by 5.3 per cent mainly due to an increase in salary rates and employee termination payments.

No impairment for available-for-sale assets was recognised this year due to improvements in investment markets and the change in accounting standard application.

## Abridged Statement of Financial Position

At 31 December	Consolidated		Parent	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Current assets	490,629	322,524	490,529	323,811
Non-current assets	4,695,698	4,464,884	4,690,224	4,459,345
<b>Total assets</b>	<b>5,186,327</b>	<b>4,787,408</b>	<b>5,180,753</b>	<b>4,783,156</b>
Current liabilities	339,016	305,493	339,169	306,087
Non-current liabilities	1,338,616	1,115,892	1,338,560	1,115,853
<b>Total liabilities</b>	<b>1,677,632</b>	<b>1,421,385</b>	<b>1,677,729</b>	<b>1,421,940</b>
<b>Net assets</b>	<b>3,508,695</b>	<b>3,366,023</b>	<b>3,503,024</b>	<b>3,361,216</b>

Source: Financial statements (audited).

The \$399 million increase in total assets was predominantly due to a \$108 million increase in the deferred government contribution for superannuation, a \$154 million increase in cash and cash equivalents, a \$92.5 million rise in capital work in progress and a \$44.7 million increase in the value of property, plant and equipment.

The \$256 million increase in total liabilities was mainly due to a \$101 million increase in deferred liabilities for superannuation schemes and a \$110 million increase in borrowings.

## University Activities

The University was 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 [www.sydney.edu.au](http://www.sydney.edu.au).

## Controlled Entities

### Sport Knowledge Australia Pty Ltd

The audit of Sport Knowledge Australia Pty Limited's financial statements for the year ended 31 December 2012 is incomplete. This company was placed in liquidation on 29 October 2012 and is expected to be deregistered shortly.

As I reported last year, the audits of Sport Knowledge Australia Pty Limited's 2010 and 2011 financial statements were delayed due to difficulties in obtaining information from third parties. For the years 2010 and 2011, I issued disclaimers of opinion on Sport Knowledge Australia Pty Limited's financial statements due to significant limitations on the scope of my audits.

My Independent Auditor's Reports also drew attention to the financial statements being prepared on a liquidation basis.

## Other Controlled Entities of the University

Other controlled entities of the University 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.

Wentworth Annexe Limited ceased to be a controlled entity of the University in 2012. This company was dormant and did not trade during 2011 and 2012 while it was controlled by the University.

For further financial and other information on the controlled entities I have listed their websites.

Entity Name	Website
Bandwidth Foundry International Pty Ltd	<a href="http://www.bwfoundry.com">www.bwfoundry.com</a>
Sport Knowledge Australia Pty Limited <sup>^</sup>	*
Sydney Talent Pty Limited	<a href="http://www.sydneytalent.com.au">http://www.sydneytalent.com.au</a>
SydneyLearning Pty Limited	<a href="http://www.sydneylearning.com.au">http://www.sydneylearning.com.au</a>
The Warren Centre for Advanced Engineering Limited	<a href="http://www.warren.usyd.edu.au">www.warren.usyd.edu.au</a>
Wayahead Pty Limited (dormant <sup>#</sup> )	*

<sup>^</sup> Sport Knowledge Australia Pty Ltd is in the process of deregistration, a liquidator was appointed on 29 October 2012.

<sup>#</sup> Wayahead Pty Limited is not active and did not trade in 2011 or 2012.

\* This entity does not have a website.

## Other Bodies Associated with the University

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

For further financial and other information on these entities we have listed their website.

Entity Name	Website
United States Studies Centre Limited	<a href="http://www.ussc.edu.au">www.ussc.edu.au</a>
University of Sydney Professorial Superannuation System	*

\* This entity does not have a website.

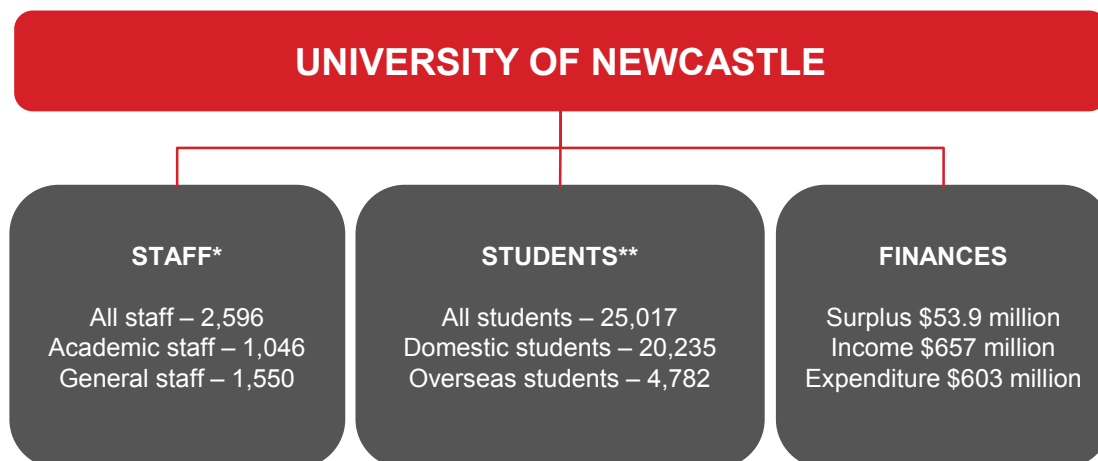
# University of Newcastle

## Audit Opinion

I issued unqualified audit opinions on the University and its controlled entities' 31 December 2012 financial statements.

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

## Operational Snapshot



Source: University of Newcastle.

\* Full-Time Equivalent positions occupied by full-time and part-time staff (unaudited).

\*\* Equivalent Full-Time Student Load (unaudited).

As stated in its Annual Report, an important focus for the University is for students with ability and determination to enter and succeed in higher education. The University also has higher rates of indigenous participation than the sector average, with 761, or 2.6 per cent indigenous enrolments in 2012, well above the sector average of 1.4 per cent.

## Key Issues

We did not identify any key issues in 2012. The following is an update on key issues raised in my 2011 report.

### Contribution to the Clinical Research Facility

Last year, I recommended the University prepare business cases to support all major financial decisions because it had not prepared a business case to support a \$26.0 million contribution to a research facility on the John Hunter Hospital Campus.

I am pleased to note the University has implemented a new process in 2012 to support all major financial decisions.

### Proposal to Build a New Campus in Newcastle City

Last year, I recommended the University prepare a business case for the proposed \$562 million city campus project. The University had not prepared a cost/benefit analysis to support its proposal for this project.

I am pleased to note the University developed and approved a comprehensive business case for the City Campus Proposal in 2012 and included it in the second round Education Investment Fund Application to the Australian Government.

In March 2012, the University submitted a funding application to the Australian Government's Education Investment Fund Regional Priorities Round for \$65 million. The University was successful with this bid and, in April 2013, the Government announced funding of \$30.0 million would be granted to the University for the project.

## **Credit Cards**

Last year, I recommended the University:

- conduct a complete review of issued credit cards to determine whether all 1,001 employees who had credit cards needed them
- review its credit card 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 two months of the statement date
- consider following up on and taking appropriate action for breaches of University credit card policy.

I am pleased to note the University's controls over credit cards have improved. In 2012, 140 employees (93 in 2011) used their credit cards for personal expenditure amounting to \$22,986 (\$20,177 in 2011). In the same period, 58 people (253 in 2011) had their credit cards suspended and eight (nine) had their cards cancelled for not following policy requirements.

Of the 925 active cards during 2012, the University placed 460 under a restricted use arrangement, and a further 182 have been identified for cancellation. A separate initiative, implemented in October 2012, reduced the overall number of cards on issue by 212. The University has approved the implementation of a new purchasing card policy.

## **Entitlement of Casual Staff to Long Service Leave**

Last year, I recommended the University should:

- ensure it identifies all employee entitlements in Workplace Agreements for financial reporting purposes
- ensure it maintains adequate records and, where applicable, reconstructs these to verify and measure long service leave and any other entitlements
- recognise these entitlements in the financial statements.

In 2011, the University did not recognise a liability for casual employee entitlements to long service leave in its financial statements, primarily because employment records were not reliable enough to measure this liability.

I am pleased to note the University reconstructed casual staff employment histories in 2012, and was able to determine and recognise its liability for casual staff long service leave in its financial statements. The liability recognised at 31 December 2012 was \$1.2 million.

## **Employment of Contractors**

Last year, I recommended the University create and maintain a single record of all engaged contractors and ensure:

- its reliance on contractors is not excessive
- its use of contractors 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
- its use of contractors continues to represent value for money.

I am pleased to note the University is implementing a module within the finance system to record and track the engagement of contractors and associated expenditure. Once it is operational, information about the cost, number and frequency of all contractors will be readily available. The new module is expected to be implemented by 30 June 2013.



## Total Asset Management Plan (Repeat Issue)

For several years, I have recommended the University implement a total asset management plan to ensure assets are planned and managed efficiently and effectively.

I am pleased to note the University developed a comprehensive Strategic Asset Management Plan (SAMP) and implemented a corporate Strategic Asset Management Plan Framework in 2012. The SAMP was developed in accordance with the Tertiary Education Facilities Management Association (TEFMA) Strategic Asset Management Guideline 2010 and includes an audit of estate performance including condition, functionality, capacity, utilisation and environmental performance. The SAMP was endorsed by the University Council and the Executive Committee in December 2012.

## Performance Information

### Operating Margin

The University continued to make a surplus from its operations. The surplus for the year ended 31 December 2012 was \$53.9 million (\$29.2 million in 2011) resulting in an operating margin of 8.2 per cent (4.9 per cent).

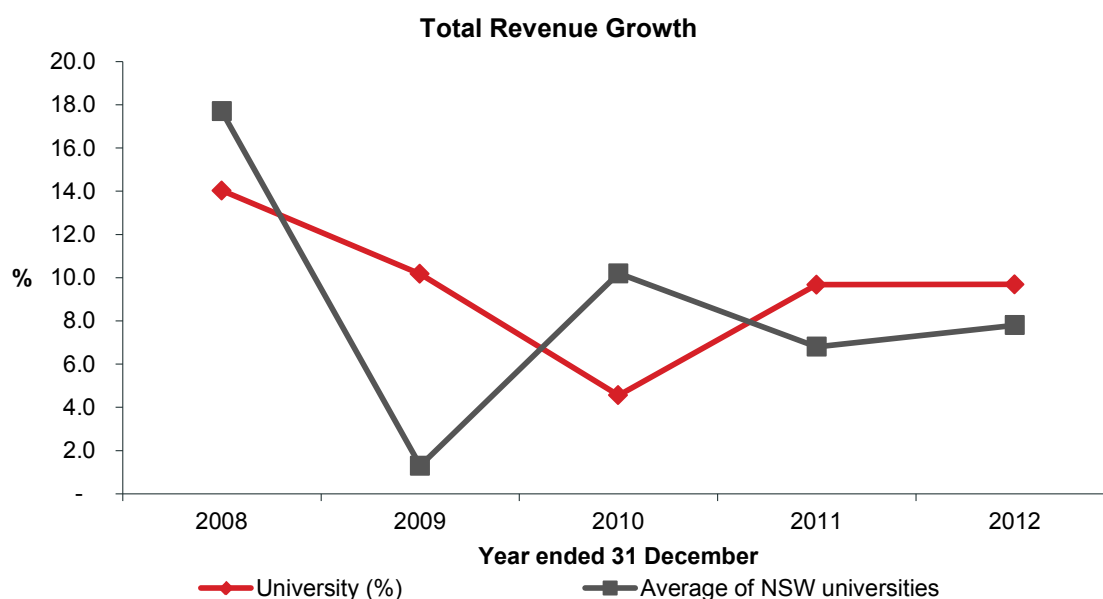
The operating margin shows the operating surplus as a percentage of total revenue. It should be noted total revenue includes Australian Government grants for recurrent and capital expenditure of \$307 million (\$280 million).

Operating margin was 8.2 per cent for 2012 compared to 4.9 per cent for 2011



Source: Financial statements (audited).

## Revenue Growth



Source: Financial statements (audited).

The University's revenue growth was above the average for NSW universities in 2012

Revenue growth remained stable from 2011 to 2012 at 9.7 per cent, significantly greater than the revenue growth in 2010 of 4.6 per cent. The largest increase in revenue was from Australian Government grants, which increased by \$27 million or 9.6 per cent in 2012. This was largely due to the uncapping of student places along with continued growth in fee paying overseas students. The largest percentage increase was in investment revenue, which increased by 43.7 per cent.

The University's annual revenue growth over the last five years has been affected by the extent and timing of capital grants.

## Revenue Sources

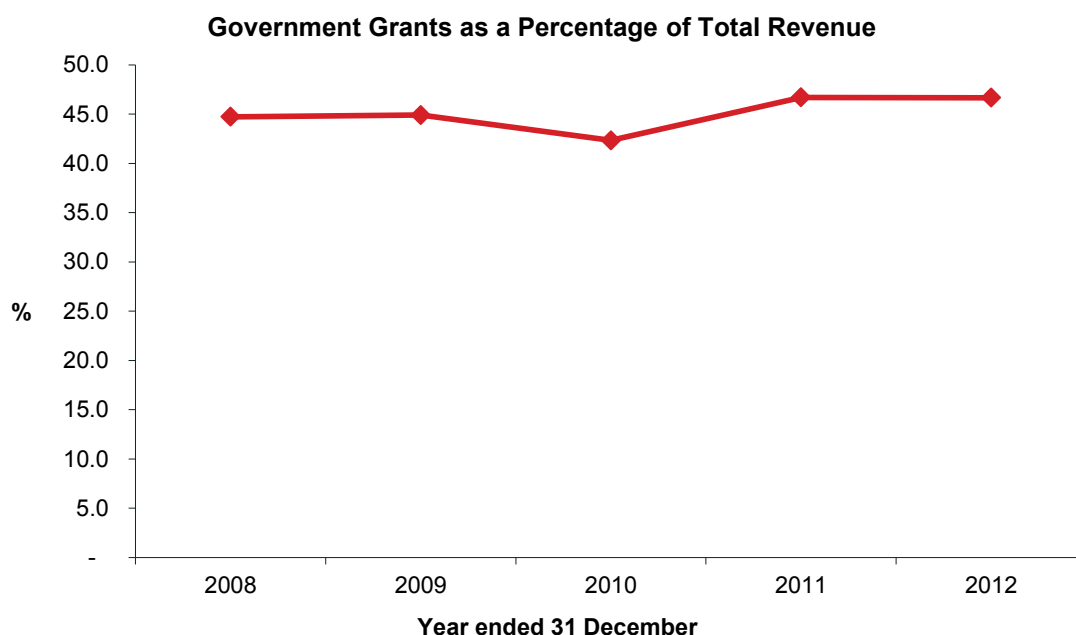
Year ended 31 December	2012 \$m	2011 \$m	2010 \$m	2009 \$m	2008 \$m
<b>Student course fees</b>					
Domestic students	133	122	117	110	117
Overseas students	73	69	67	57	44
<b>Total student course fees</b>	<b>206</b>	<b>191</b>	<b>184</b>	<b>167</b>	<b>161</b>
Australian Government grants	307	280	231	234	212
Consultancy and contracts	76	70	63	64	43
Investment income	23	16	13	8	10
Other	45	42	55	49	48
<b>Total revenue</b>	<b>657</b>	<b>599</b>	<b>546</b>	<b>522</b>	<b>474</b>

Source: Financial statements (audited).

## Australian Government Funding

Australian Government grants are a major source of the University's revenue. Over the last five years the University's reliance on Australian Government grants has remained relatively stable, fluctuating between 44.7 and 46.7 per cent of total revenue.

Reliance on Australian Government grants has remained relatively stable over the last five years



Sources: Financial statements (audited).

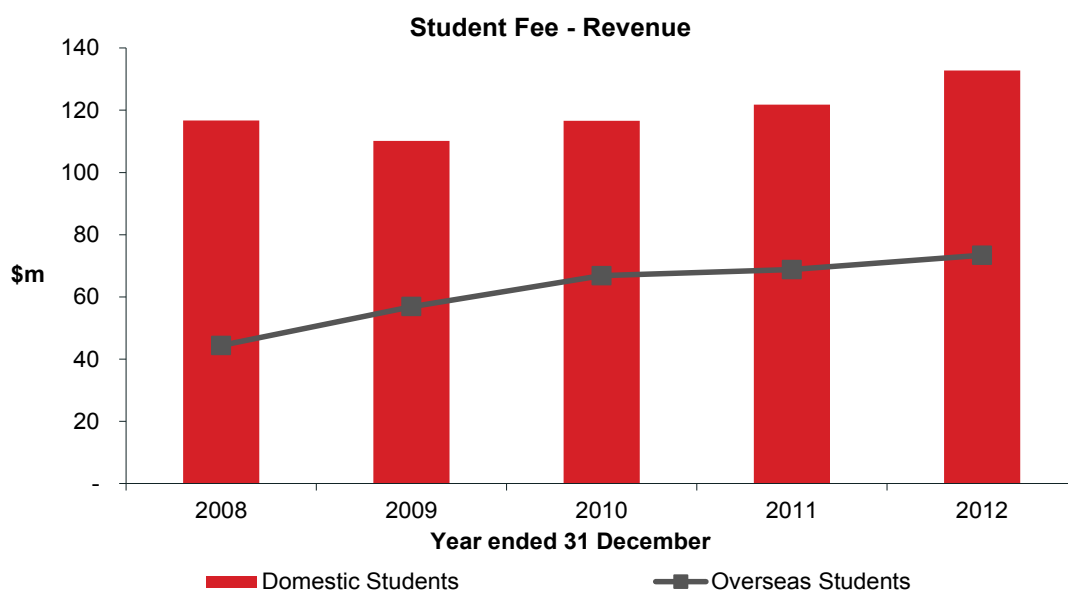
In the above analysis, Australian Government grants (operating and capital) excludes Higher Education Loan Programs. These revenues are included in student fees.

## Student Fees

Student fees comprise:

- domestic student fees including those paid directly by students and fee payments from the Australian Government on behalf of students from Higher Education Loan Programs, such as the Higher Education Contribution Scheme
- fees from overseas students studying at the University. These fees were 6.7 per cent higher than in 2011.

Fees from overseas students in 2012 were 6.7 per cent higher than in 2011



Source: Financial statements (audited).

Over the last five years revenue received from overseas students has increased by 65.3 per cent. Revenue received from domestic students increased by 13.7 per cent. Since 2008, revenue from domestic students has exceeded revenue from fee paying overseas students.

## Student Numbers

The University's equivalent full-time student load (EFTSL) has risen by 18.8 per cent over the four years 2008-2011. The overseas student EFTSL has increased by 25.1 per cent since 2008 while the domestic student EFTSL has increased by 17.4 per cent.

The University attributes the significant increase in overseas students to an expansion of international marketing and promotional activities in the global market, and recruitment activities in more than 60 countries.

The University expects numbers of overseas students to increase as the University consolidates and expands its portfolio of partnerships throughout the Asian region. China remained a key strategic partner of the University.

The table below shows the EFTSL by type over the four years 2008-2011.

Year ended 31 December	2011	2010	2009	2008
Domestic	19,514	19,097	18,076	16,616
Overseas	4,306	4,321	3,854	3,441
<b>Total</b>	<b>23,820</b>	<b>23,418</b>	<b>21,930</b>	<b>20,057</b>

Source: Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education (unaudited).

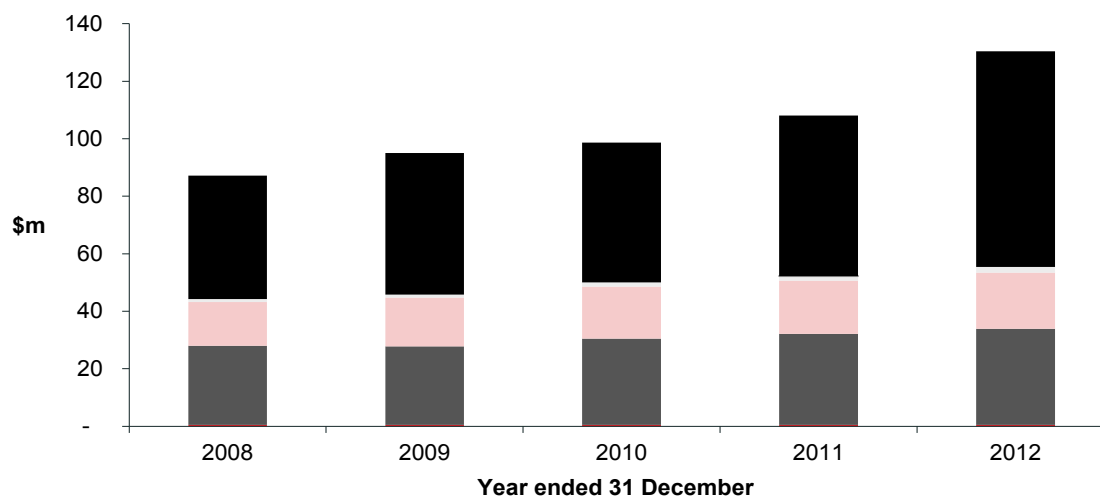
Note: Numbers in the table are for the University excluding controlled entities.

The University attributes the growth in total student numbers over the 2008-2011 period to specific management efforts to achieve growth. Most overseas students come from China and Singapore.

## Research Income

The University continued to attract strong revenues for research in 2012, attracting income of \$130 million (\$108 million in 2011). Research income has increased by 20.4 per cent in 2012 and by 49.7 per cent over the last five years.

Sources of Research Income



■ Other Contract Research  
 ■ Local Government - Research financial assistance  
 ■ State Government - Research financial assistance  
 ■ Australian Research Council  
 ■ Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education Research Grants  
 ■ International post graduate research scholarships

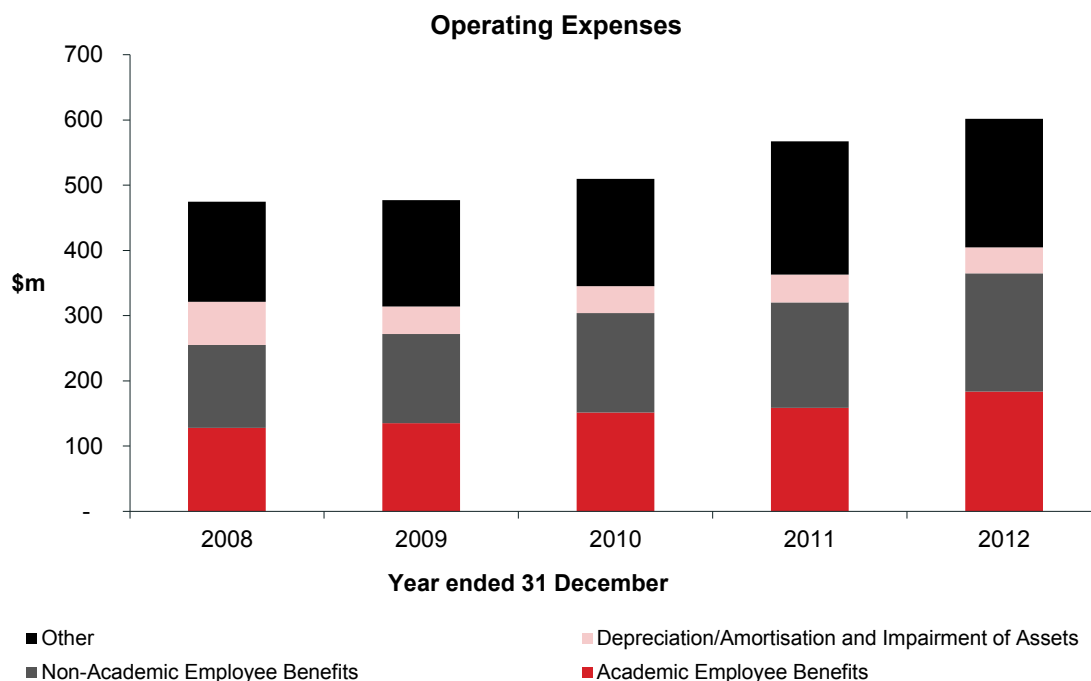
Source: Financial statements (audited).

Total student numbers have increased by 18.8 per cent between 2008 and 2011. Domestic students increased by 17.4 per cent and overseas students by 25.1 per cent in that time

Research income continued to grow with a 20.4 per cent increase in 2012

## Operating Expenses

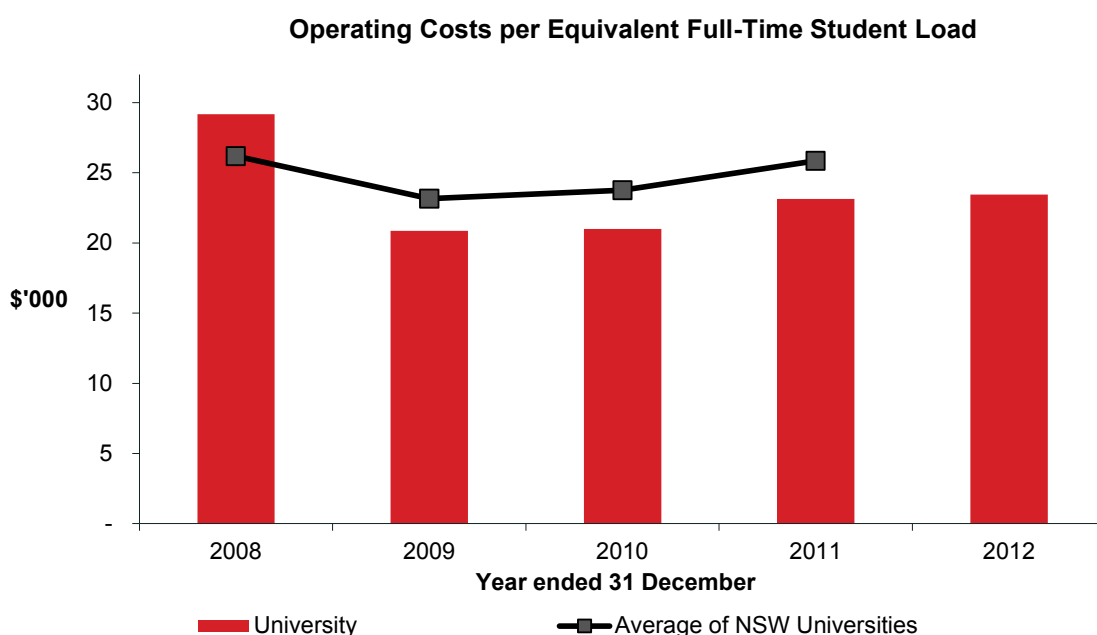
Operating expenses have increased each year between 2008 and 2012. In 2012, total operating costs increased by 5.8 per cent to \$603 million (\$570 million in 2011). The greatest impact on operating expenses has been the 15.1 per cent increase in academic employee benefits from \$159 million to \$183 million.



Source: Financial statements (audited).

## Operating Costs per Student

Operating costs per student averaged \$23,455 in 2012 (\$23,129 in 2011). Over the three years 2009 to 2011, operating costs per student have been below the average for all NSW universities. The average cost for 2012 for all universities was not available at the time of finalising this report as student numbers were not yet published by the Department.



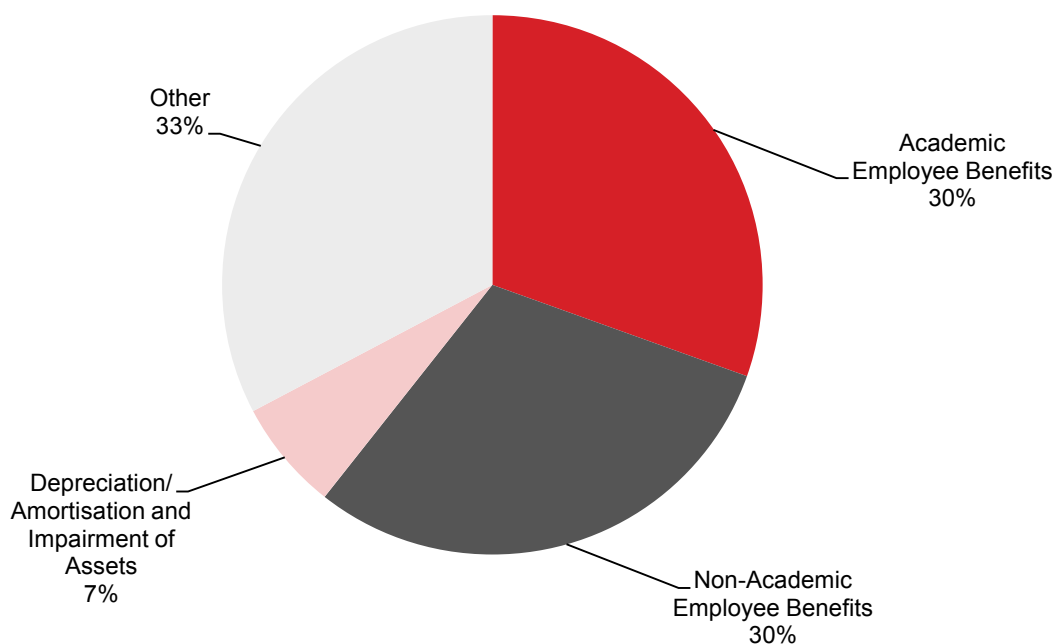
Sources: Student load - 2008 to 2011 Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education (unaudited), Student load - 2012 University of Newcastle (unaudited); Operating costs - Financial statements (audited).

The commentary above relates to the University excluding its controlled entities.

## Where do the dollars go?

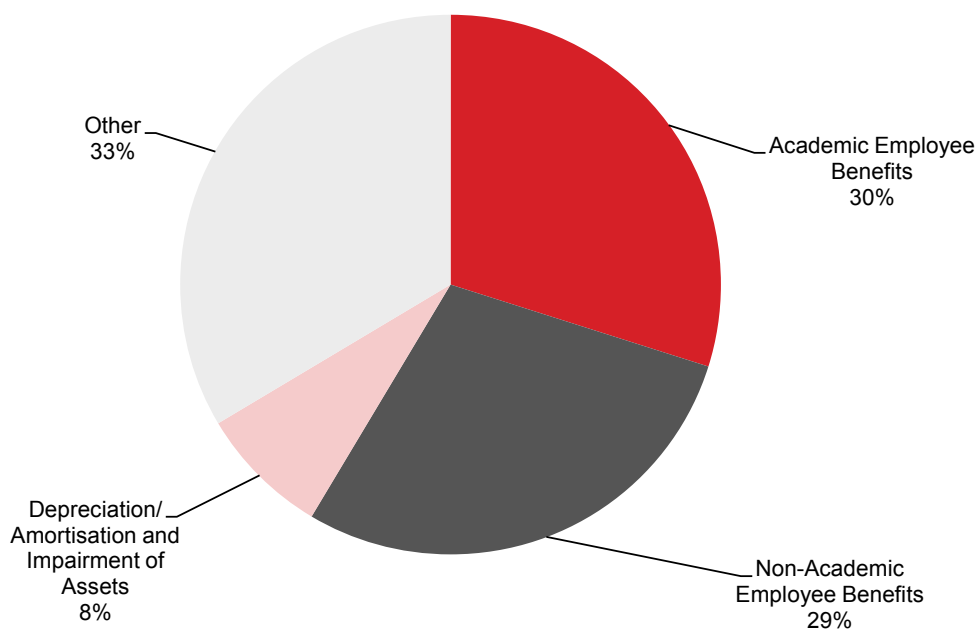
The University's 2012 operating expenditure percentages were consistent with the average for all NSW Universities. In 2012, employee benefits represented 60 per cent of the total operating costs of the University.

**2012 Operating Costs of the University of Newcastle**



Source: Financial statements (audited).

**2012 Operating Costs of all NSW universities**

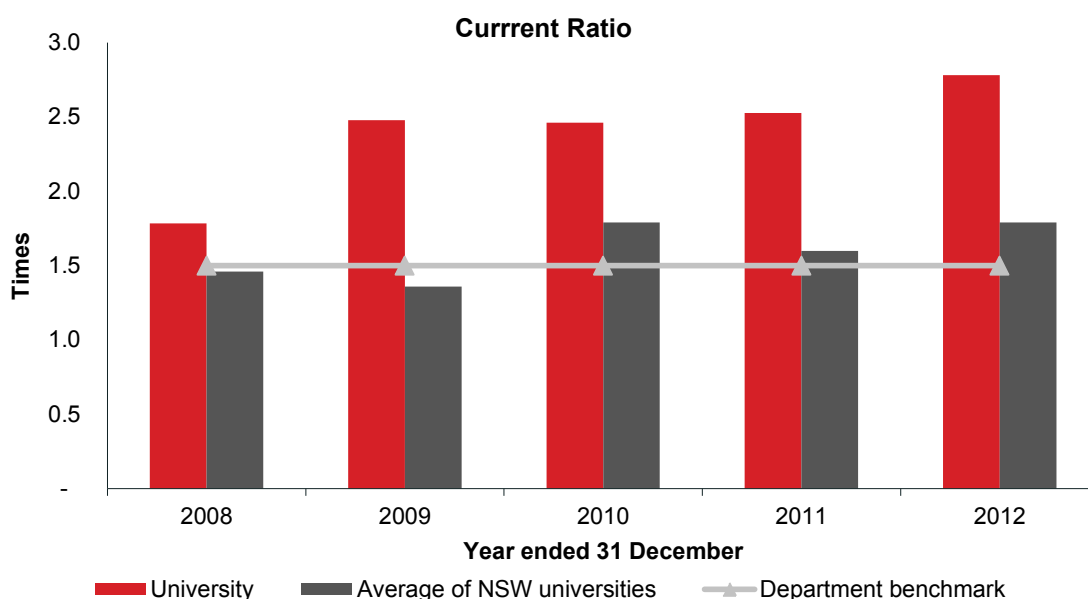


Source: Financial Statements (Audited).

The University is above the liquidity good practice guideline for paying its short term debts

## Current Ratio

The University's 2012 current ratio of 2.8 is above the 1.5 good practice guideline set by the Department. The University's current ratio has also remained well above the average for NSW universities between 2008 and 2012.



Sources: Financial statements (audited), Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education (unaudited).

The current ratio measures the University's ability to pay its short term debts using short term assets. It is calculated by dividing current assets by current liabilities, excluding long service leave liabilities expected to be settled after 12 months of year end. A higher ratio usually indicates a greater ability for an entity to pay its short term debt. Ratios lower than one indicate an entity may have difficulty meeting its short term obligations.

## Investment Portfolio Performance

The University had \$403 million in investments at 31 December 2012 (\$231 million at 31 December 2011). Investment performance in 2012 compared to benchmarks is shown below and reflects improvements in financial markets.

Fund	2012		2011		2010	
	Actual return %	Benchmark return %	Actual return %	Benchmark return %	Actual return %	Benchmark return %
Long-term	14.1	14.7	(2.7)	(4.0)	5.2	3.4
Short-term	5.9	5.2	6.4	5.2	6.0	5.2

Source: University (unaudited).

Short term investment returns for 2012 were better than the University's benchmark

## Major Projects

Capital expenditure totalled \$36.1 million (\$53.5 million in 2011), \$ 17.4 million lower than the previous year. The table below shows major projects recently completed or still under construction.

Project	Forecast completion date	Forecast final cost \$m
Student Accommodation	31 December 2014	81.0
Tamworth Education Centre	30 June 2014	18.5
Anatomy Teaching Facility (MSB West)	30 September 2013	17.3
NIER Project (BHP Site) New Research Building	30 June 2013	9.9
Port Macquarie Student Accommodation	31 March 2014	3.4

Source: University (unaudited).

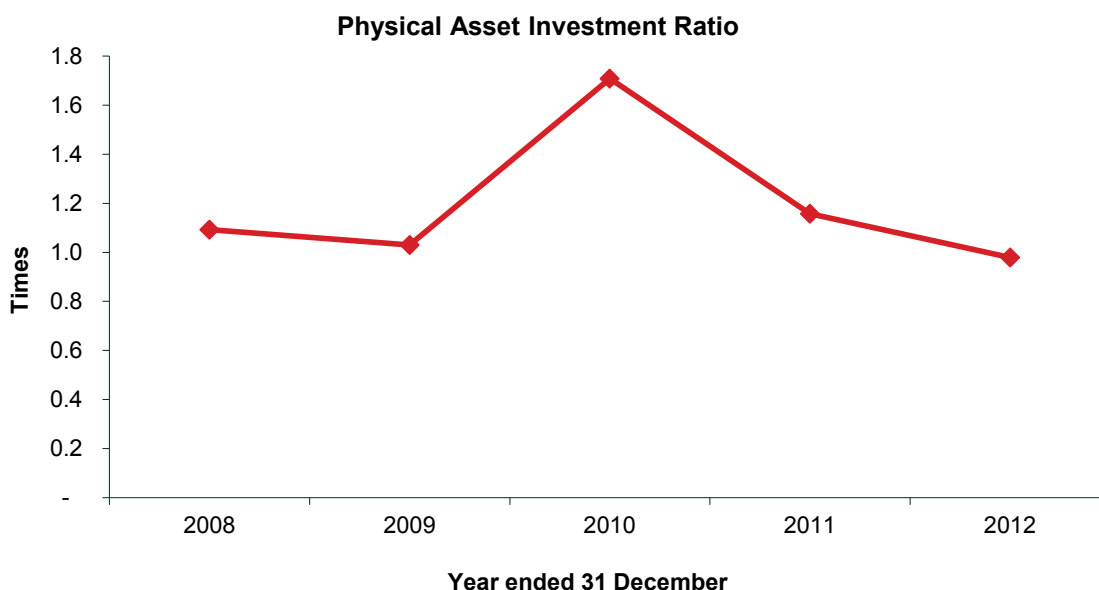
The University has started a project to build additional student accommodation for up to 750 students on the Callaghan campus for an estimated cost of \$81.0 million, which is to be funded through debt. The University expects the income generated by the accommodation will exceed the cost of funding the project over its life. The University spent \$1.2 million on this project in 2012 and has budgeted to spend \$39.0 million in 2013.

Of the \$36.1 million (\$53.5 million) spent on capital projects during 2012, \$17.5 million (\$25.7 million) was funded through grants, and \$18.6 million (\$27.8 million) was funded through operational cash flows.

The University estimates its backlog maintenance is \$61.4 million at 31 December 2012 (\$62.7 million at 31 December 2011).

## Physical Asset Investment Ratio

The University's physical asset investment ratio has been close to one over the last five years, except in 2010 where it reached a high of 1.7. The spike in 2010 was due to a large number of major capital works projects.



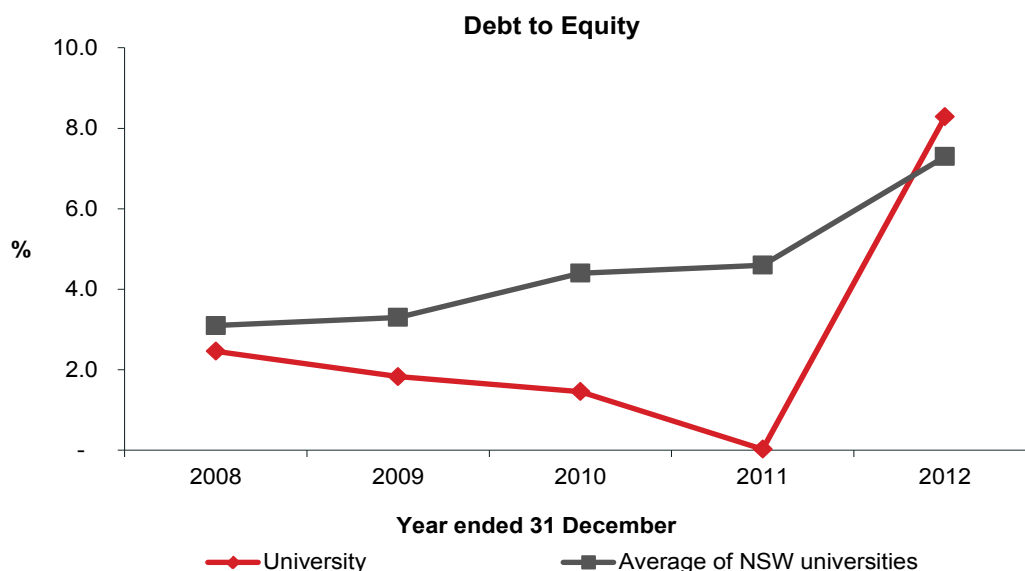
Source: Financial statements (audited).



The physical asset investment ratio calculates the extent to which an entity renews or grows its physical assets, as measured by depreciation expense. This ratio is important to entities like the University, which have significant capital facilities. A ratio above one indicates an increasing investment in physical assets, while a lower ratio may indicate under-investment in renewing facilities, which may lead to higher maintenance expenditure in the future.

## Debt to equity ratio

The University's debt to equity ratio was lower than the NSW universities average except for 2012



Source: Financial statements (audited).

The debt to equity ratio shows total borrowings as a percentage of equity.

The University's gearing ratio of 8.3 per cent at 31 December 2012 is significantly higher than the ratio of 2.5 per cent at 31 December 2008. The proportion of debt to equity is also higher than that of its NSW University counterparts due to an \$85.0 million bank loan obtained to build the new campus in 2012.

## Employee Entitlements

Employee entitlements liabilities increased by 11.6 per cent in 2012. The largest, superannuation increased by 9.1 per cent to \$312 million

	2012 \$'000	2011 \$'000	2010 \$'000	2009 \$'000	2008 \$'000
Net liability for defined benefit superannuation	311,509	285,534	194,302	172,116	206,897
Other defined benefit obligations	31,022	30,813	28,567	27,095	27,084
Annual leave liability	23,472	18,338	15,660	14,431	14,739
Long service leave liability	66,166	52,639	42,674	39,061	39,929
<b>Total</b>	<b>432,169</b>	<b>387,324</b>	<b>281,203</b>	<b>252,703</b>	<b>288,649</b>

Source: Financial statements (audited).

Employee entitlements increased by 11.6 per cent in 2012. Defined benefit superannuation liabilities increased by 9.1 per cent from \$286 million in 2011 to \$312 million in 2012, mainly due to a decrease in the discount rate used to calculate the present value of the liability from 3.7 per cent to 3.3 per cent. The Australian Government is expected to fund most of these liabilities, minimising the impact on the University's operating result and cash flows. The University is responsible for funding State defined benefit superannuation liabilities of \$3.7 million (\$3.5 million).

The long service leave liability has increased by 25.9 per cent to \$66.2 million (\$52.6 million) over the previous year, mainly due to changes in employee profiles including increases in entitlements and a decrease in the discount factor used to calculate the present value of the liability.

## Financial Information

### Abridged Statements of Comprehensive Income

Year ended 31 December	Consolidated		Parent	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Australian Government grants	306,660	279,730	306,660	279,730
Higher Education Contribution Scheme	110,460	100,623	110,460	100,623
Fees and charges	100,942	92,808	95,056	87,040
Other	139,076	125,930	134,445	112,282
<b>Total revenue*</b>	<b>657,138</b>	<b>599,091</b>	<b>646,621</b>	<b>579,675</b>
Employee benefits and on-costs	364,751	320,430	349,478	306,403
Depreciation and amortisation	38,312	42,109	37,527	41,486
Other	200,046	206,743	199,593	202,487
Deferred expense – superannuation	178	560	178	560
<b>Total expenses</b>	<b>603,287</b>	<b>569,842</b>	<b>586,776</b>	<b>550,936</b>
<b>Surplus</b>	<b>53,851</b>	<b>29,249</b>	<b>59,845</b>	<b>28,739</b>
<b>Other comprehensive income</b>				
Gain on revaluation of land and buildings	16,235	--	16,235	--
Unrealised gains/(losses) on available for sale financial assets	9,971	(8,294)	9,972	(8,297)
Exchange gains/losses on translating foreign controlled entities	129	(25)	--	--
Cash flow hedges losses	(4,649)	--	(4,649)	--
<b>Total other comprehensive income/(expense)</b>	<b>21,686</b>	<b>(8,319)</b>	<b>21,558</b>	<b>(8,297)</b>
<b>Total comprehensive income</b>	<b>75,537</b>	<b>20,930</b>	<b>81,403</b>	<b>20,442</b>

Source: Financial statements (audited).

\* The revenue sources table shown earlier classifies revenue differently for analytical purposes.

Australian Government grants increased by 9.6 per cent or \$26.9 million, mainly due to additional grants of \$33.9 million from the Commonwealth Grants Scheme.

Other revenue increased by 10.4 per cent, partly due to increases of \$6.9 million in investment income, mostly in the form of interest.

Employee benefits and on-cost expenses increased by 13.8 per cent mainly due to salary rate increases of four per cent and an increase in full-time equivalent staff positions of 6.2 per cent.

The increase in the gain in value of available for sale financial assets of \$18.3 million was due to better performance of equity investments.

## Abridged Statement of Financial Position

At 31 December	Consolidated		Parent	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Current assets	252,918	199,028	231,727	178,895
Non-current assets	1,352,607	1,190,588	1,349,955	1,187,799
<b>Total assets</b>	<b>1,605,525</b>	<b>1,389,616</b>	<b>1,581,682</b>	<b>1,366,694</b>
Current liabilities	135,068	114,198	125,120	111,181
Non-current liabilities	444,862	325,361	444,316	324,670
<b>Total liabilities</b>	<b>579,930</b>	<b>439,559</b>	<b>569,436</b>	<b>435,851</b>
<b>Net assets</b>	<b>1,025,595</b>	<b>950,057</b>	<b>1,012,246</b>	<b>930,843</b>

Source: Financial statements (audited).

Total assets increased by \$216 million in 2012, mainly due to an increase of \$121 million in non-current other financial assets. This was offset by an increase in total liabilities of \$140 million, including an increase in non-current loans of \$85.0 million.

Current liabilities increased by \$20.9 million primarily due to increases in annual and long service leave obligations and deferred government benefits for superannuation.

## 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](http://www.newcastle.edu.au).

## Controlled Entities

The following significant matters were noted in the controlled entities.

### Newcastle Innovation Limited

#### Tax Exemption Status

Last year, I recommended the company obtain a private ruling as to its tax status from the Australian Taxation Office.

In 2012, the company obtained advice from an accounting firm to support the tax exempt status.

The proposals to amend the income tax laws for tax exempt entities, expected to be enacted and apply from 1 July 2013, may impact the company's tax status. An ongoing review process should be in place to ensure the current tax concession remains valid.

Similar issues were found with UON Services Limited.

## UON Graduateschool.com Pty Limited

### Transfer of Operations of the Company

On 11 September 2012, the company ceased trading and transferred all its assets and liabilities to the University of Newcastle. After 31 December 2012, an application was made to ASIC to de-register the company.

The company is in the process of being deregistered.

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	<a href="http://www.gradschool.com.au">www.gradschool.com.au</a>
Newcastle Innovation Limited	<a href="http://www.newcastleinnovation.com.au">www.newcastleinnovation.com.au</a>
UON Services Limited	<a href="http://www.uonservices.org.au">www.uonservices.org.au</a>
UON Singapore Pte Ltd	<a href="http://www.newcastle.edu.au/location/singapore">www.newcastle.edu.au/location/singapore</a>

# University of New England

## Audit Opinion

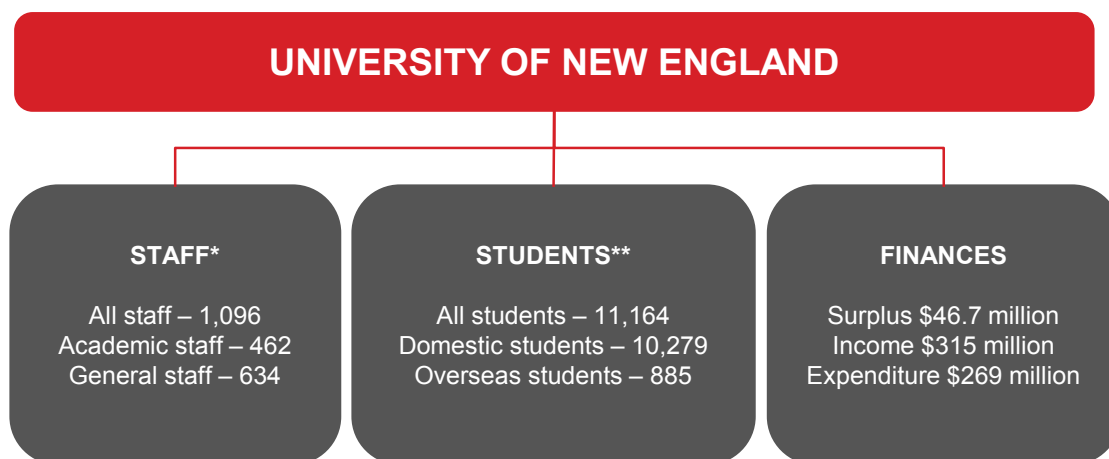
I issued unqualified audit opinions on the University and five of its controlled entities' 31 December 2012 financial statements.

I issued a qualified audit opinion on the UNE Foundation's 31 December 2012 financial statements. I was unable to express an opinion as to whether all revenues received from donations and fundraising sources were recorded in the Foundation's financial statements. This is common for entities with these sources of revenue, as it is often 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 opinion for 2011 was similarly qualified.

During 2012, the University incorporated two new entities; UNE Open Pty Ltd and UNE Physician Practice Management Company Pty Ltd. Treasury exempted these new entities from preparing financial statements for the period ended 31 December 2012 and extended the initial reporting period to 31 December 2013.

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

## Operational Snapshot



Source: University of New England.

\* Full-Time Equivalent (unaudited)

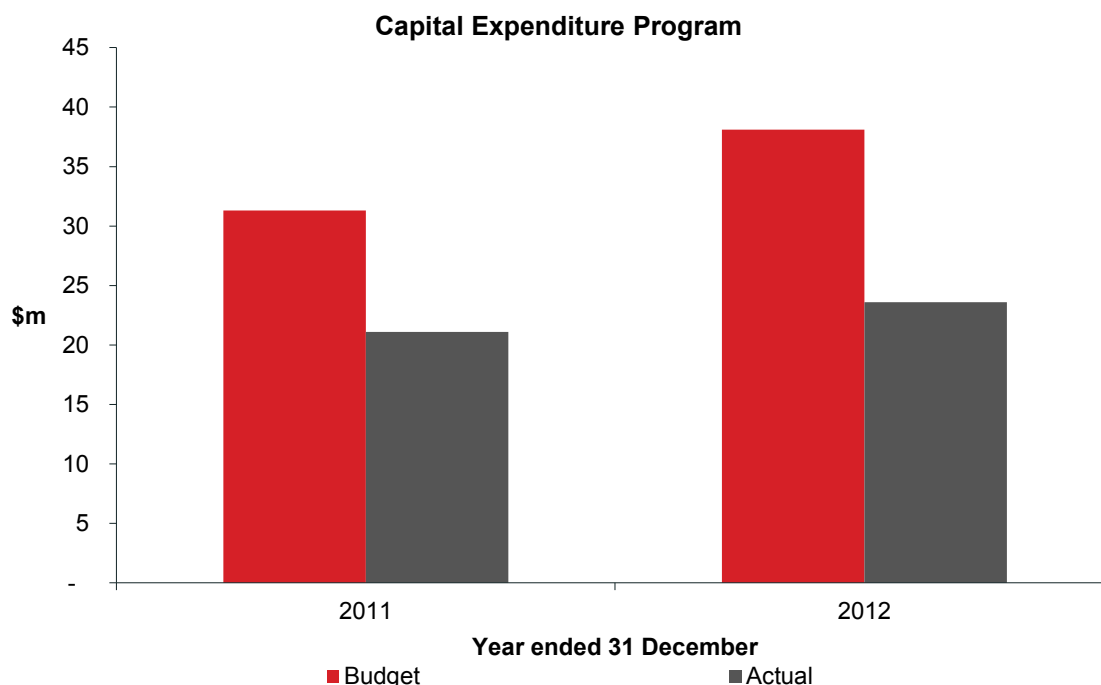
\*\* Equivalent Full-Time Student Load (unaudited)

## Key Issues

### Capital Expenditure Program

The chart below details actual capital expenditure against budget for the past two years.

In 2011 and 2012 about one-third of budgeted capital expenditure was not spent



Source: University of New England (unaudited)

Capital expenditure in 2012 totalled \$23.6 million (\$21.1 million in 2011), which was \$14.5 million (\$10.2 million) less than the budget of \$38.1 million (\$31.3 million). In the past two years, significant underspends on capital works occurred across most of the University's major projects.

The table below provides information about the University's major projects in 2012.

Project	2012 capital expenditure budget \$'000	2012 capital expenditure actual \$'000	Under/(over) spend \$'000	Approved project budget \$'000	Forecast total cost \$'000
Tablelands Clinical Education Centre	9,300	4,300	5,000	12,400	13,500
AARNet	6,300	275	6,025	6,600	6,600
Colleges Egress and Fire Upgrade	3,200	4,100	(900)	6,500	7,500
Other	19,300	14,925	4,375	42,200	45,300
<b>Total</b>	<b>38,100</b>	<b>23,600</b>	<b>14,500</b>	<b>67,700</b>	<b>72,900</b>

Source: University of New England (unaudited).

In 2012 capital expenditure on an individual project basis differed significantly from budget

Construction phase of the Tablelands Clinical Education Centre (TCEC) at Armidale Hospital was delayed in 2012 due to a reassessment of the project design and inclement weather.

The AARNet project involves the construction of a primary internet connection to the Australian Research and Education Network for all network services. The project was delayed due to an issue relating to ownership of fibre and project variations. Resolution of these matters and approval of changes to grant conditions by the Department of Industry Innovation Climate Change Science Research and Tertiary Education (the Department) caused the construction delay.

The Colleges Egress and Fire Upgrade project, started in 2011, involves multiple phases to enhance the University residential college's fire protection and compliance. In 2012, the project progressed faster than expected and included significant works, such as the installation of fire sprinkler systems, previously planned for 2013.

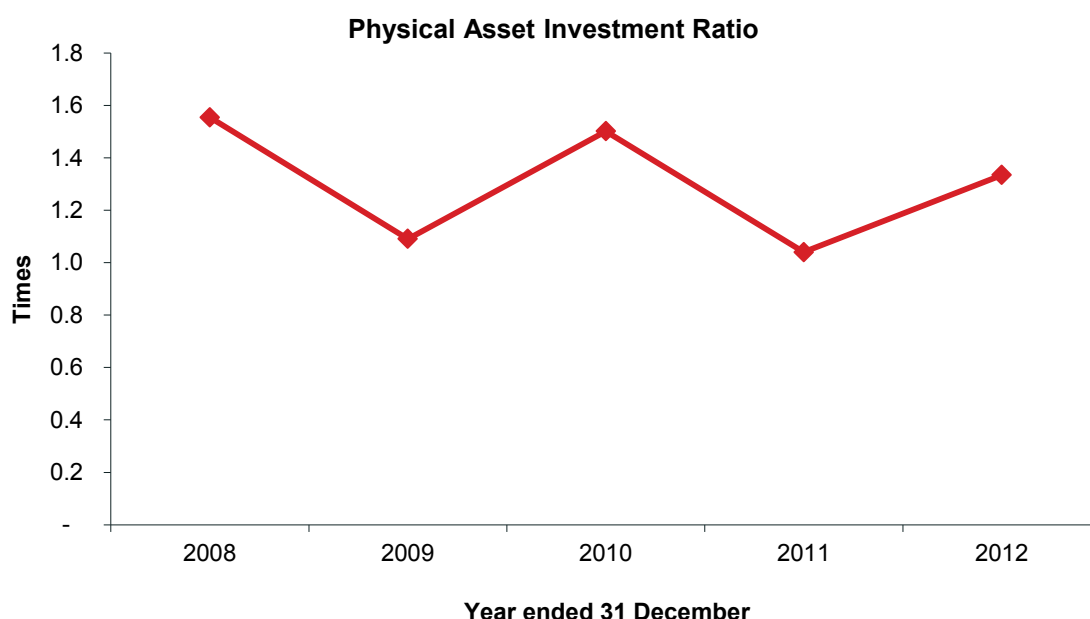
'Other' projects in the table above include many other minor capital works.

The University continues to strategically review its infrastructure needs to determine its capital program for the future. It looks to develop a clear strategy, which optimises the use of capital funds between replacement or maintenance outlays for old buildings.

For 2013, the University has a capital expenditure budget of \$49.5 million and expects to fund this from Government grants and its own operating cash flows.

## Physical Asset Investment Ratio

The graph below compares the University's physical asset investment ratio over the past five years.



Source: Financial statements (audited)

The physical asset investment ratio shows the extent to which an organisation renews or grows its physical assets, as measured by depreciation expense. This is important to the University, which has major capital facilities. A ratio above one, which the University has achieved over the last five years, indicates an increasing investment in physical assets.

A lower ratio may indicate under-investment in the maintenance of facilities and future, unplanned maintenance expenditure.

## Performance Information

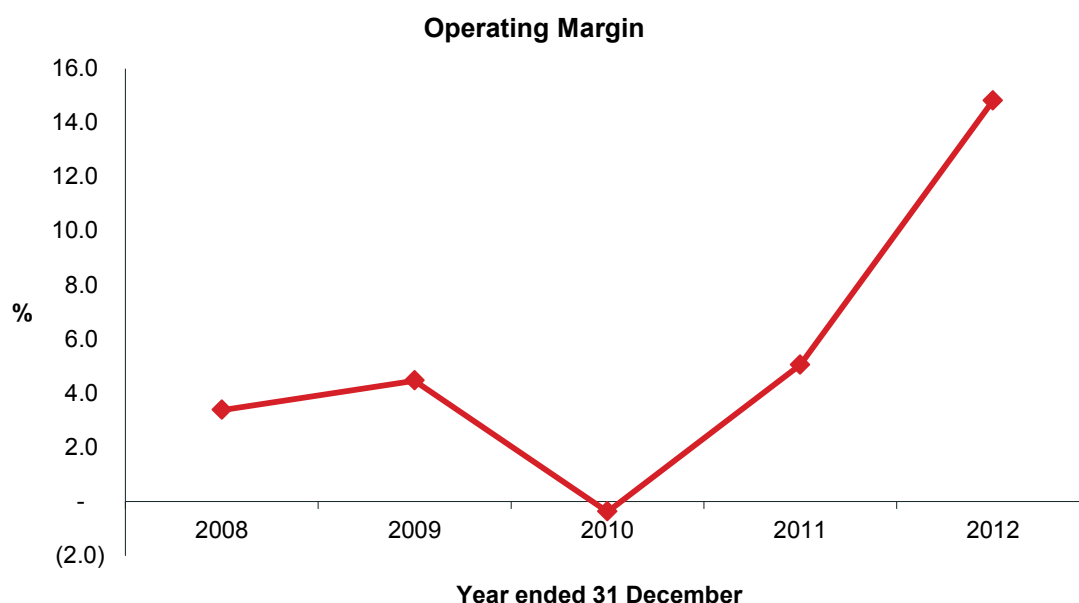
### Operating Margin

The University recorded a strong surplus from its operations in 2012. The surplus for the year ended 31 December 2012 was \$46.7 million (\$12.5 million in 2011) resulting in an operating margin of 14.9 per cent (5.1 per cent). The margin has increased by 11.4 per cent over the last five years.

The operating margin shows the operating surplus as a percentage of total revenue. It should be noted that total revenue includes Australian Government grants for recurrent and capital expenditure of \$173 million in 2012 (\$125 million).

The graph below shows the operating margin of the University over the past five years.

Operating margin was 14.9 per cent for 2012 compared to 5.1 per cent for 2011



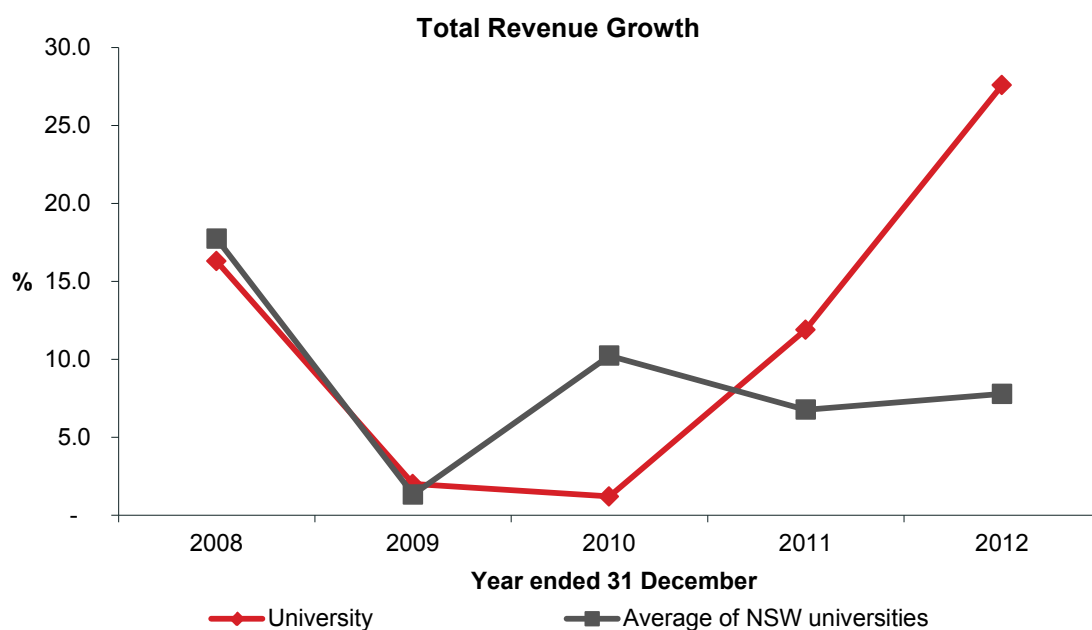
Source: Financial statements (audited).

The 2012 surplus was heavily influenced by the University receiving \$30.6 million in capital funding, which was included in revenue, and an additional \$10.1 million in revenue from third trimester enrolments, which span 2012 and 2013 (see analysis of student numbers below for more information on the trimester). While some costs associated with the third trimester will be recognised in 2013, most of the revenue was recognised in 2012. This had a favourable impact on the operating margin in 2012.



## Revenue Growth

The chart below details growth in the University's revenue growth compared to the average of NSW Universities over the past five years.



Source: Financial statements (audited).

The University's revenue has grown considerably over the past two years with a 27.6 per cent increase in 2012 compared to 2011. This increase was primarily due to the additional capital funding and third trimester revenue discussed in the operating margin analysis above.

## Revenue Sources

The table below details the University's operating revenue for the last five years.

Year ended 31 December	2012 \$'000	2011 \$'000	2010 \$'000	2009 \$'000	2008 \$'000
<b>Student course fees</b>					
Domestic students	77,073	63,752	58,367	50,261	53,211
Overseas students	14,205	13,209	11,694	10,377	9,845
<b>Total student course fees</b>	<b>91,278</b>	<b>76,961</b>	<b>70,061</b>	<b>60,638</b>	<b>63,056</b>
Australian Government grants	173,250	124,980	106,792	111,114	110,273
Consultancy and contracts	717	472	380	719	832
Investment income	6,002	4,085	3,669	3,988	4,125
Other	44,197	40,715	40,077	42,001	35,886
<b>Total revenue</b>	<b>315,444</b>	<b>247,213</b>	<b>220,979</b>	<b>218,460</b>	<b>214,172</b>

Source: Financial statements (audited).

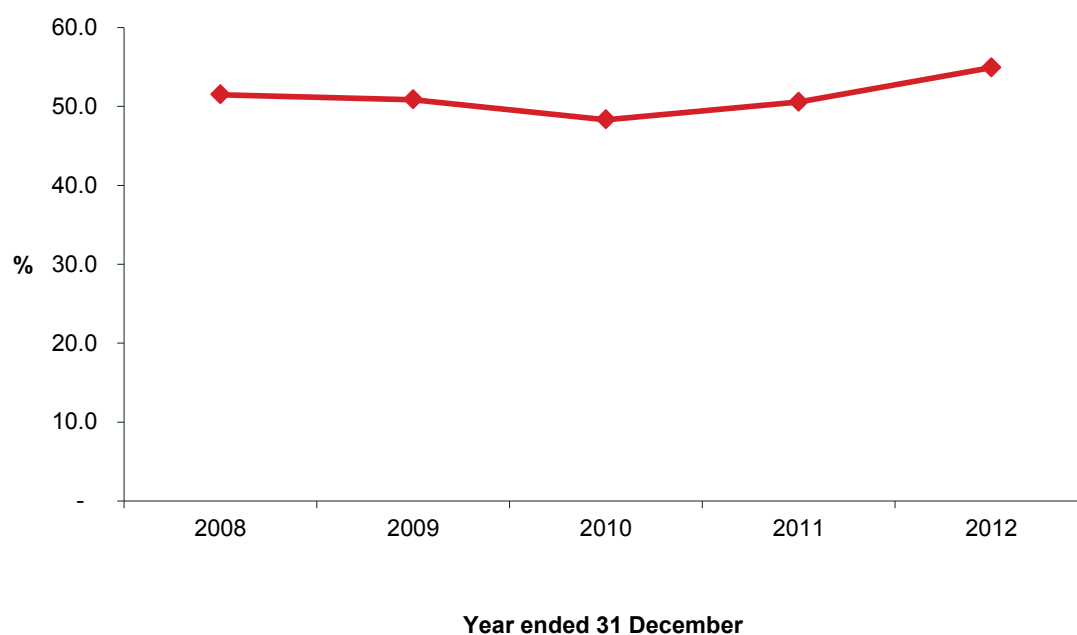
## Australian Government Funding

Australian Government grants are a major source of the University's revenue. The University's reliance on this funding source increased from 48.3 per cent in 2010 to 54.9 per cent in 2012. The University received large capital grants in 2012, which are included in revenue.

The chart below compares the proportion of grants the University received from the Australian Government to total revenue over the past five years.

**Government Grants as a Proportion of Total Revenue**

Reliance on Australian Government grants is increasing



Source: Financial statements (audited).

Apart from 2010, the University's reliance on Australian Government grants (operating and capital) has been above 50.0 per cent of total revenue.

In the analysis above, Australian Government grants exclude Higher Education Loan Programs. These revenues are included in student fees.

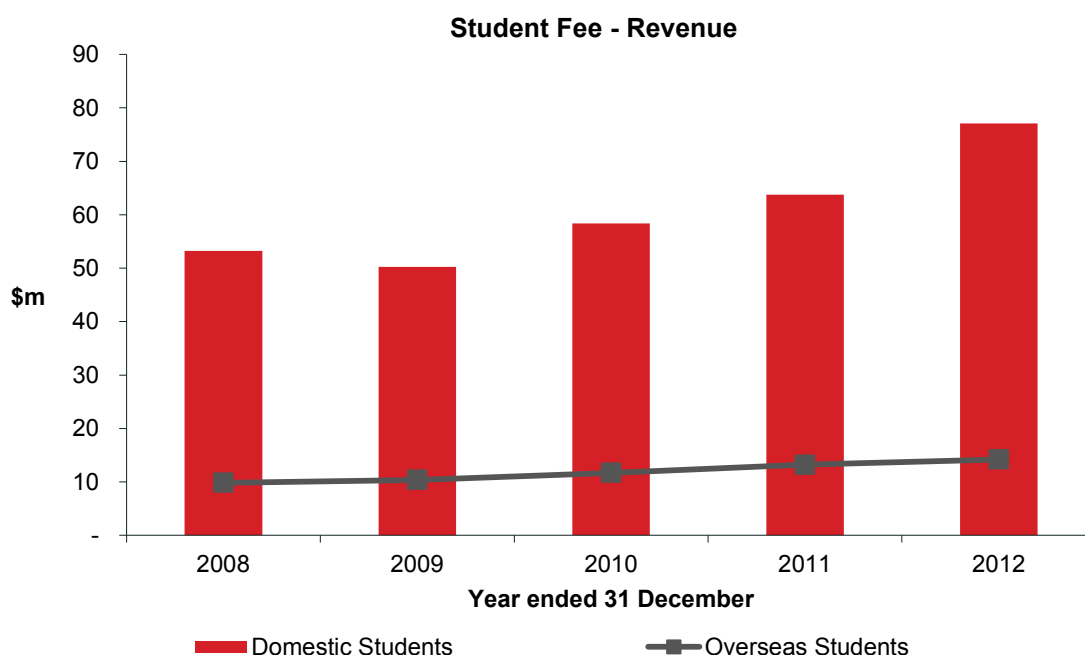
## Student Fees

Student fees comprise:

- domestic students fees including those fees paid directly by students and fee payments from the Australian Government on behalf of students from Higher Education Loan Programs such as the Higher Education Contribution Scheme
- fees from overseas students studying at the University.

Fees from overseas students in 2012 were 7.5 per cent higher than for 2011

The following graph details student fees from domestic and overseas students for the last five years.



Source: Financial statements (audited).

## Student Numbers

The University's equivalent full-time student load (EFTSL) has risen by 25.6 per cent over the last five years.

The table below shows the University's EFTSL by type over the past five years.

Year ended 31 December	2012	2011	2010	2009	2008
Domestic	10,279	8,954	8,503	8,311	8,298
Overseas	885	874	823	752	587
<b>Total</b>	<b>11,164</b>	<b>9,828</b>	<b>9,326</b>	<b>9,063</b>	<b>8,885</b>

Source: 2008 to 2011 from Department of Industry Innovation Climate Change Science Research and Tertiary Education (unaudited); Student load - 2012 from the University of New England (unaudited).

Note: Numbers in the table are for the University excluding controlled entities.

Domestic EFTSL increased by 23.9 per cent over the last five years, including a 14.8 per cent increase in 2012 compared to the prior year. Overseas EFTSL increased by 50.8 per cent over the last five years, including 1.3 per cent increase in 2012 compared to the prior year. Total student numbers increased by 13.6 per cent compared to 2011. This large increase in 2012 was mostly due to the introduction of the trimester model, discussed below.

### Trimester Model

The University moved from a two semester model to a trimester model in 2012. As a result the University's total EFTSL increased by 1,336 (13.6 per cent) from 9,828 in 2011 to 11,164 in 2012. The third semester had EFTSL enrolments of 1,362.

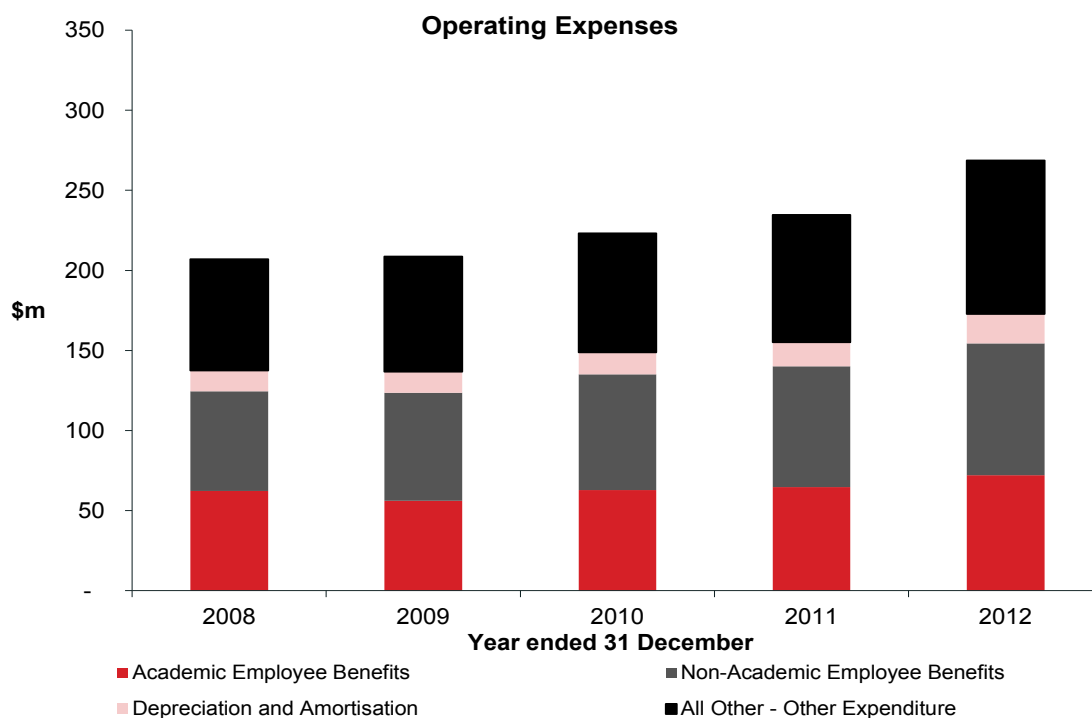
Total student numbers for 2012 increased by 13.6 per cent compared to 2011. Domestic students increased by 14.8 per cent and overseas students by 1.3 per cent

## Operating Expenses

Operating expenses have increased each year between 2009 and 2012.

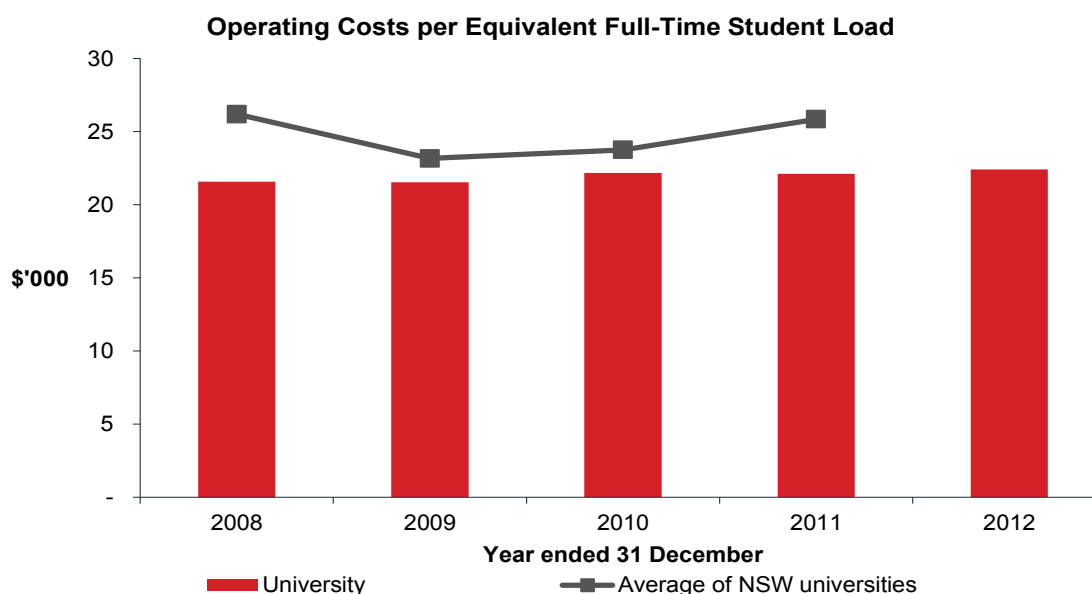
In 2012, total operating expenses increased by 14.5 per cent to \$269 million from \$235 million in the previous year. Employee related benefits increased 10.2 per cent from \$140.1 million in 2011 to \$154 million in 2012. This was due to an award increase of four per cent and increased staff numbers.

The chart below details trends in the University's operating expenses over the past five years.



Source: Financial statements (audited).

The graph below compares the University's operating cost per student to the average of all NSW universities. Student numbers are the equivalent full-time student load (EFTSL).



Source: Student load - 2008 to 2011 Department of Industry Innovation Climate Change Science Research and Tertiary Education (unaudited), Student load 2012 - University of New England (unaudited); Operating costs – financial statements (audited).

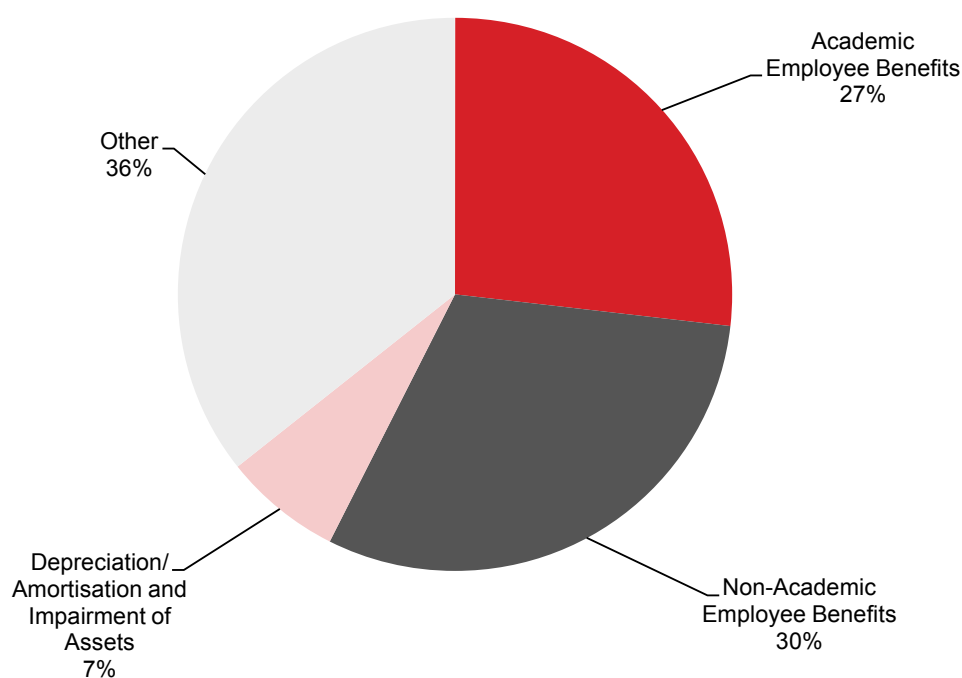
Operating costs averaged \$22,414 per student in 2012 compared to \$22,103 in 2011. Over the four years 2008 to 2011, the University held operating expenditure on a per student basis below the average for NSW universities. The average cost for 2012 for all NSW universities was not available at the time of finalising this report as student numbers were not yet published by the Department.

The above commentary relates to the University and excludes its controlled entities.

### Where do the dollars go?

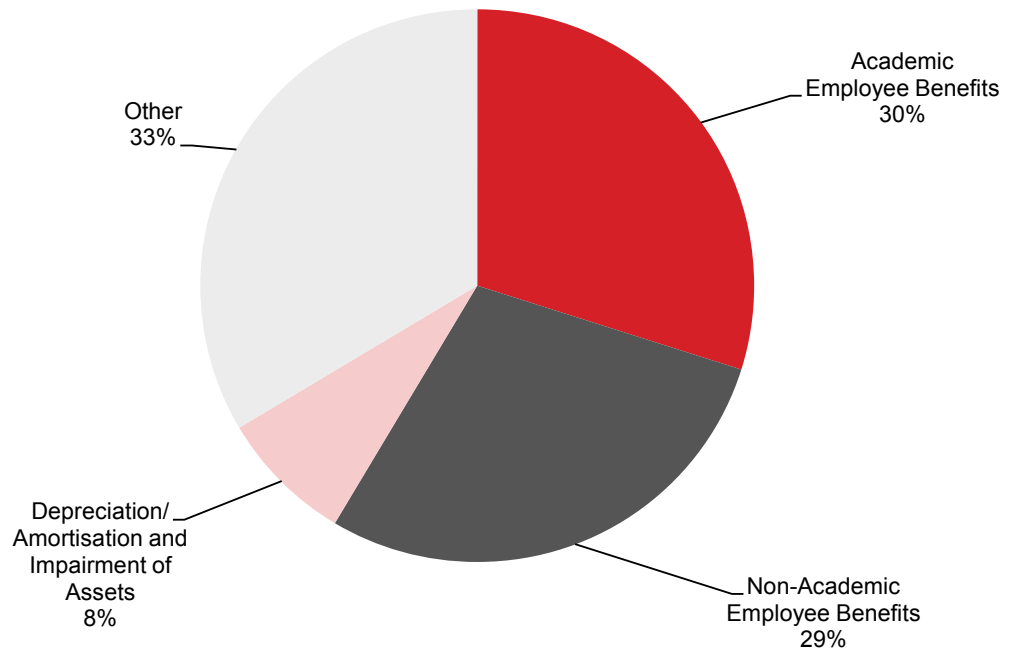
The charts below show the operating expenses of the University and those of the average of NSW universities.

**2012 Operating Costs of University of New England**



Source: Financial statements (audited).

## 2012 Average Operating Costs of all NSW Universities



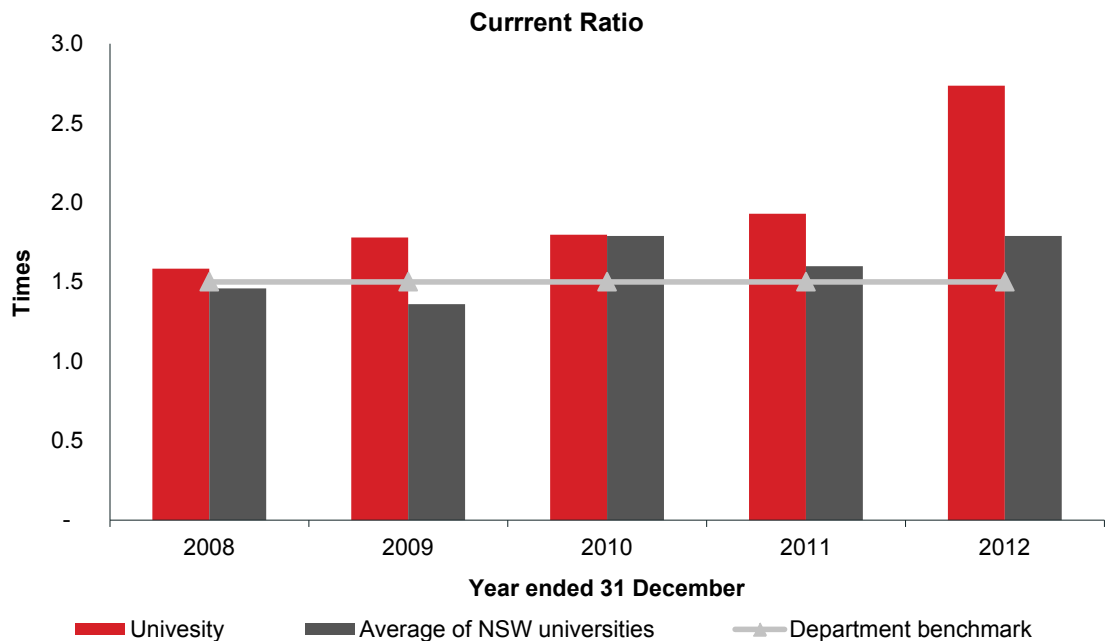
Source: Financial statements (audited).

In 2012, the University's operating expenses were comparable to the average of NSW universities.

## Current Ratio

The graph below shows the University's current ratio for the last five years compared to the average of all NSW universities and the good practice guideline set by the Department.

The University is above the liquidity good practice guideline for paying its short term debts



Source: Financial statements (audited). Department of Industry, Innovation, Climate Change, Science Research and Tertiary Education (unaudited).

The University's 2012 current ratio of 2.7 is well above the 1.5 good practice guideline set by the Department. The University's current ratio is also above the average for NSW universities.

The current ratio measures the University's ability to pay its short term debts using short term assets. It is calculated by dividing current assets by current liabilities, excluding long service leave liabilities expected to be settled after 12 months of year end.

## Employee Entitlements

The table below details the University's employee entitlements over the past five years.

	2012 \$'000	2011 \$'000	2010 \$'000	2009 \$'000	2008 \$'000
Net liability for defined benefit superannuation	252,838	232,874	164,490	146,854	173,096
Annual leave liability	12,966	12,154	11,519	11,386	9,478
Long service leave liability	21,848	20,100	20,717	20,614	21,603
<b>Total</b>	<b>287,652</b>	<b>265,128</b>	<b>196,726</b>	<b>178,854</b>	<b>204,177</b>

Source: Financial statements (audited)

Employee entitlements liabilities increased by 8.5 per cent from \$265 million in 2011 to \$288 million in 2012. The largest, superannuation increased by 8.6 per cent to \$253 million. This was mainly due to a decrease in the discount rate used to calculate the present value of the liability from 3.7 per cent in 2011 to 3.3 per cent in 2012. The Australian Government is expected to fund most of these liabilities, minimising the impact on the University's operating result and cash flows.

## Other Information

### Need for Enterprise Risk Management and Enhanced Internal Audit

Last year, I noted the University had historically allocated insufficient resources to risk management and internal audit. The University developed this area substantially during 2012 and now has a functioning Audit & Risk Directorate. This directorate has overseen the establishment of an internal audit program and several reviews have been completed.

It will be some years before the University has established a university-wide risk management compliance framework, but progress in this area is encouraging.

### Independent Commission Against Corruption

In January 2012, the Independent Commission Against Corruption (ICAC) began a public inquiry into allegations of corrupt conduct by a staff member at the University. On completion of the inquiry ICAC recommended:

- the management team of Facilities Management Services enforces a zero tolerance on gifts and benefits from suppliers
- all foreseeable expenditure be included in the project budgets and the use of contingency funds requires management approval
- the University examine models that exist for select and single-invite tendering and adapts the most suitable model to its needs
- the University re-design its procurement processes by taking into account opportunities for corruption and formalises the processes in policy
- the University act promptly to fill temporary gaps in audit and procurement capability by outsourcing while permanent positions are vacant.

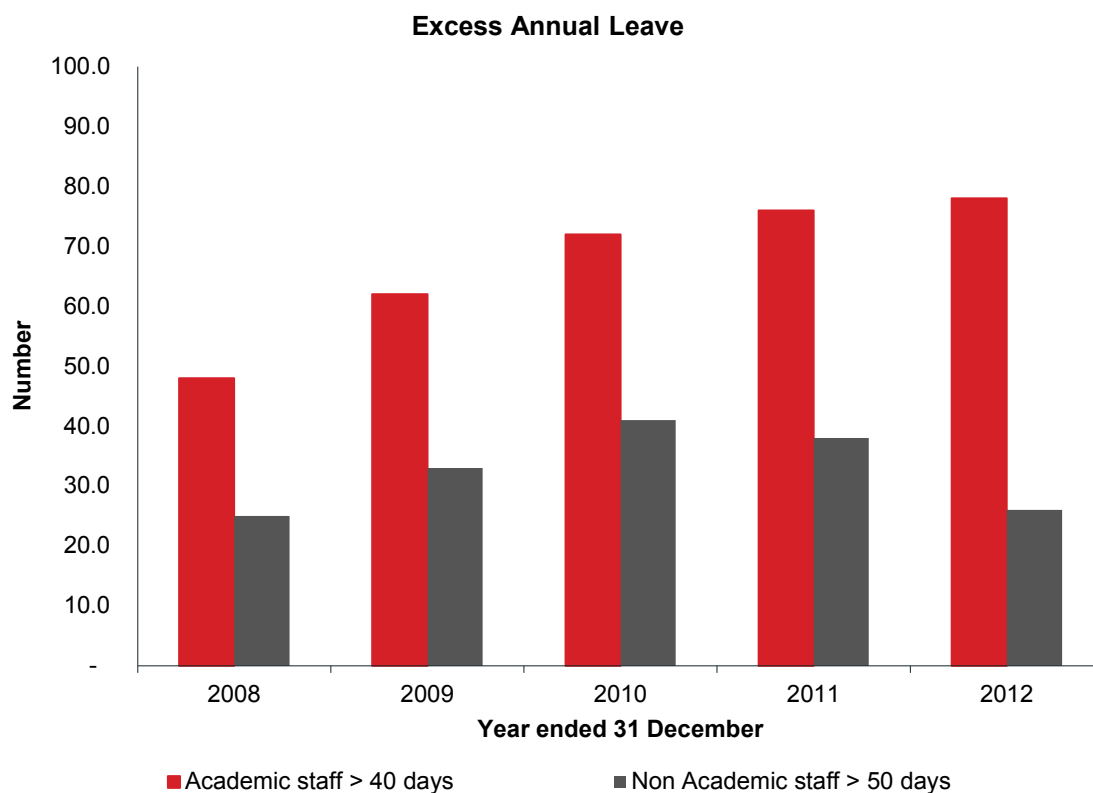
The University has written to ICAC confirming it has accepted, and has a plan in place to fully implement, all recommendations.

Employee entitlements liabilities increased by 8.5 per cent in 2012. The largest, superannuation increased by 8.6 per cent to \$253 million

The University has accepted the Independent Commission Against Corruption's recommendations

## Excessive Annual Leave Balances (Repeat Issue)

The chart below shows the number of academic staff with annual leave balances in excess of 40 days and the number of non-academic staff with annual leave balances in excess of 50 days over the past five years.



The University is reducing excessive employee annual leave balances for non-academic staff

Source: The University of New England (unaudited).

In previous years, I recommended the University establish individual leave plans with employees to reduce leave balances within an acceptable timeframe. The University implemented measures, including setting targets to reduce the overall liability and requiring all staff to take their current annual entitlement each year.

The University's measures have been successful with non-academic staff, but less effective with academic staff. The number of academic staff with annual leave balances in excess of 40 days increased to 78 at 31 December 2012 (76 at 31 December 2011). The number of non-academic staff with annual leave balances in excess of 50 days decreased to 26 at 31 December 2012 (38 at 31 December 2011).



## Financial Information

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

### Abridged Statement of Comprehensive Income

Year ended 31 December	Consolidated		Parent	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Australian Government grants	173,250	124,980	173,250	124,980
Higher Education Contribution Scheme	66,408	52,449	66,408	52,449
Fees and charges	45,223	44,331	38,803	37,975
Other	30,563	25,453	17,088	17,122
<b>Total revenue *</b>	<b>315,444</b>	<b>247,213</b>	<b>295,549</b>	<b>232,526</b>
Employee benefits and on costs	154,360	140,075	143,598	130,147
Depreciation and amortisation	18,458	15,069	17,403	14,354
Other	95,539	79,060	88,869	72,210
Deferred expense – superannuation	358	521	358	521
<b>Total expenses</b>	<b>268,715</b>	<b>234,725</b>	<b>250,228</b>	<b>217,232</b>
<b>Surplus</b>	<b>46,729</b>	<b>12,488</b>	<b>45,321</b>	<b>15,294</b>
<b>Other comprehensive income</b>				
Gain on revaluation of property, plant and equipment	--	31,080	--	30,443
Actuarial losses on defined benefit superannuation plans	(192)	(4,044)	(192)	(4,044)
Impairment of property, plant and equipment	(60)	--	(60)	--
Other comprehensive income/(expense)	205	(283)	389	826
<b>Total comprehensive income</b>	<b>46,682</b>	<b>39,241</b>	<b>45,458</b>	<b>42,519</b>

Source: Financial statements (audited).

\* The revenue sources table shown earlier classifies revenue differently for analytical purposes.

The increase in Australian Government grants in 2012 was primarily due to one-off capital grants, while the increase in HECS revenue was due to the increased student load following the introduction of the third trimester. The increase in employee benefits and on costs in 2012 was due to a four per cent award increase and increased staff numbers.

## Abridged Statement of Financial Position

At 31 December	Consolidated		Parent	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Current assets	131,790	81,871	114,039	64,613
Non-current assets	522,941	499,631	515,938	493,602
<b>Total assets</b>	<b>654,731</b>	<b>581,502</b>	<b>629,977</b>	<b>558,215</b>
Current liabilities	61,063	54,565	56,661	50,358
Non-current liabilities	262,244	242,195	261,989	241,988
<b>Total liabilities</b>	<b>323,307</b>	<b>296,760</b>	<b>318,650</b>	<b>292,346</b>
<b>Net assets</b>	<b>331,424</b>	<b>284,742</b>	<b>311,327</b>	<b>265,869</b>

Source: Financial statements (audited).

The increase in current assets in 2012 was due to the receipt of large capital grants.

## 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](http://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	<a href="http://www.abri.com.au">www.abri.com.au</a>
Services UNE Ltd	<a href="http://www.servicesune.com.au">www.servicesune.com.au</a>
Sport UNE Limited	<a href="http://www.une.edu.au/sportune">www.une.edu.au/sportune</a>
UNE Foundation	*
UNE Foundation Ltd	*
UNE Partnerships Pty Ltd	<a href="http://www.unepartnerships.edu.au">www.unepartnerships.edu.au</a>
UNE Physician Practice Management Company Pty Ltd	*
UNE Open Pty Ltd	*

\* This entity does not have a website.

# University of New South Wales

## Audit Opinions

I issued unqualified audit opinions on the University and its controlled entities' 31 December 2012 financial statements, except for the UNSW & Study Abroad – Friends and U.S. Alumni, Incorporated.

The qualified opinion for the UNSW & Study Abroad – Friends and U.S. Alumni, Incorporated is common for entities with donation fundraising sources of revenue. Effective systems of internal control over the receipt of such revenues is impracticable until their initial entry in the financial records. My audit report for 2011 was similarly qualified.

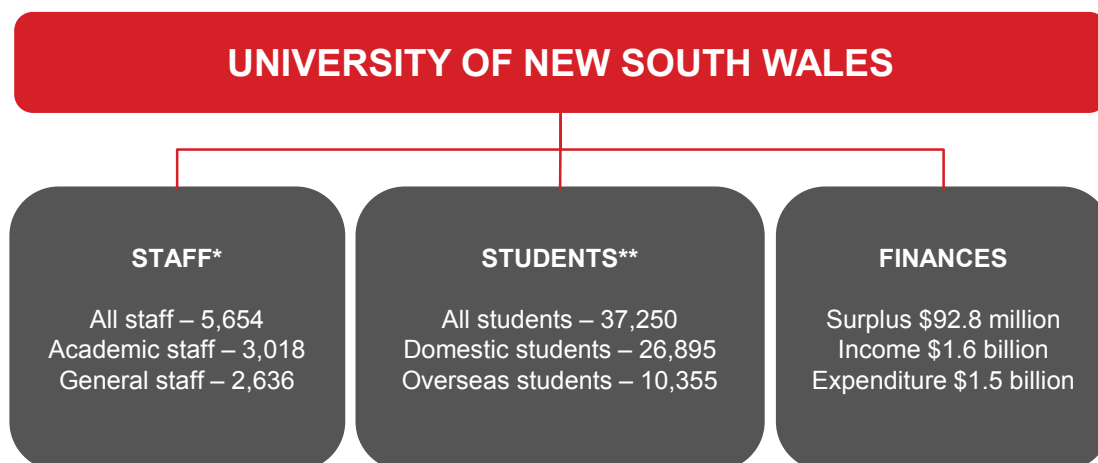
The audit of one controlled entity in the group is incomplete because its financial period ended on 31 March 2013 and my audit will be completed in June 2013.

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

## Operational Snapshot

The University of New South Wales was established in 1949 and is one of Australia's leading research and teaching universities.

Below is a snapshot of the University's operations.



Source: University of New South Wales.

\* Full-Time Equivalent (unaudited).

\*\* Equivalent Full-Time Student Load (unaudited).

## Performance Information

### Operating Margin

The University continued to make a surplus from its operations. The surplus for the year ended 31 December 2012 was \$92.8 million (\$88.9 million in 2011) resulting in an operating margin of six per cent (six per cent). The margin has increased by 8.7 per cent over the last five years.

The operating margin shows the operating surplus as a percentage of total revenue. It should be noted that total revenue includes Australian Government grants for recurrent and capital expenditure of \$698 million (\$632 million).

Operating margin remained at 6.0 per cent for 2012

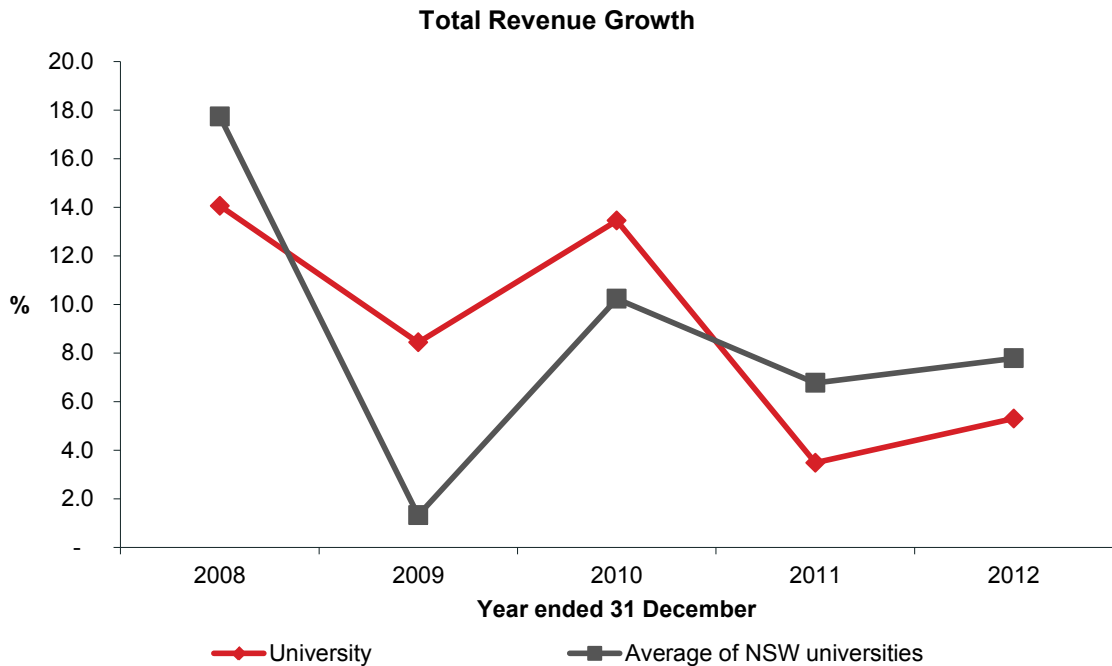


Source: Financial statements (audited).

In 2012, the University earned a surplus of \$92.8 million (\$88.9 million). The underlying result remained positive over the last four years.

## Revenue Growth

The University's revenue growth was below the average for NSW universities in 2012



Source: Financial statements (audited).

Revenue continued to grow in 2012 with a 5.3 per cent increase from 2011. The largest increase in revenue was from Australian Government grants.

## Revenue Sources

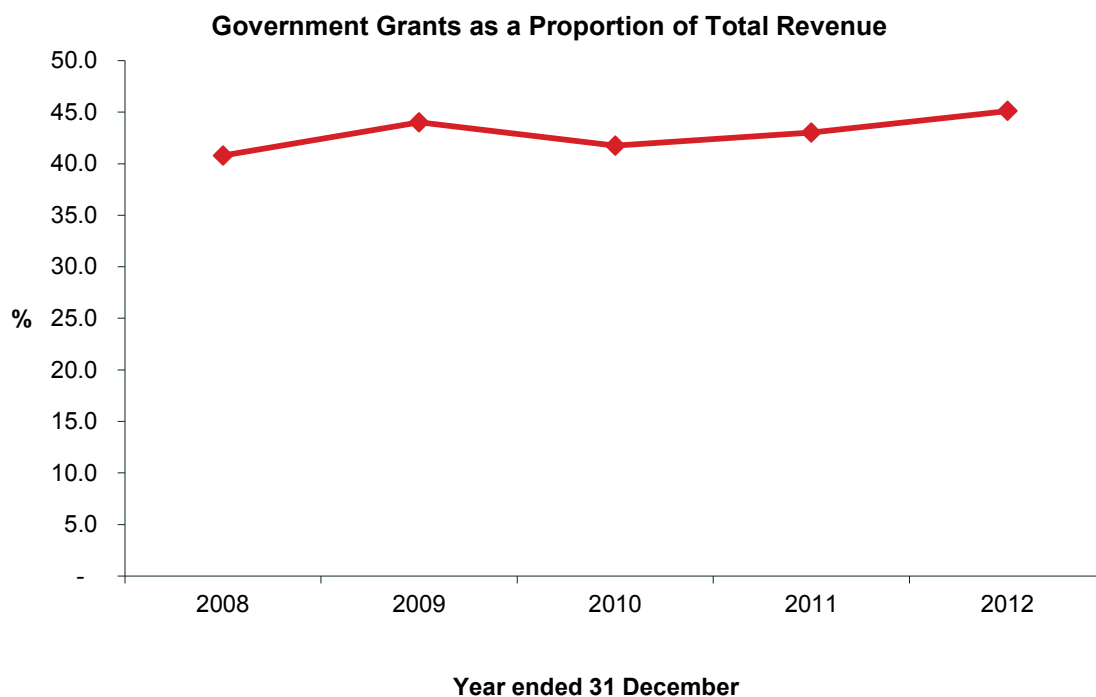
Year ended 31 December	2012 \$m	2011 \$m	2010 \$m	2009 \$m	2008 \$m
<b>Student course fees</b>					
Domestic students	238	221	214	199	211
Overseas students	328	334	304	247	194
<b>Total student course fees</b>	<b>566</b>	<b>555</b>	<b>518</b>	<b>446</b>	<b>405</b>
Australian Government grants	698	632	593	551	471
Consultancy and contracts	58	58	55	69	77
Investment income	40	46	61	27	45
Other	186	179	193	159	156
<b>Total revenue</b>	<b>1,548</b>	<b>1,470</b>	<b>1,420</b>	<b>1,252</b>	<b>1,154</b>

Source: Financial statements (audited).

## Australian Government Funding

Australian Government grants are a major source of the University's revenue. Over the last two years, the University's reliance on government funding increased from 43.0 per cent to 45.1 per cent, as shown below.

Australian Government grants reliance is increasing



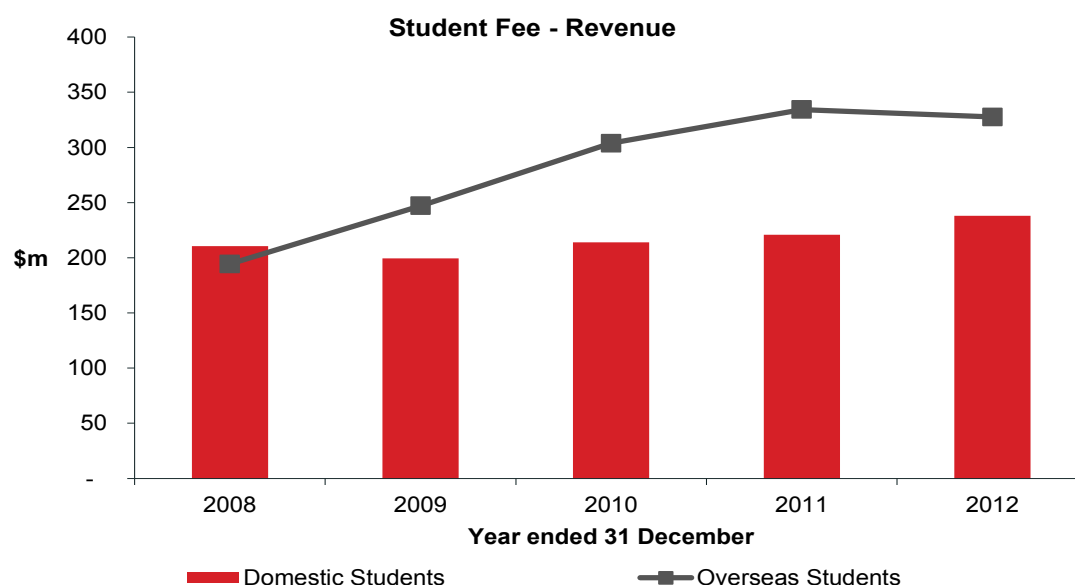
Sources: Financial statements (audited).

In the analysis above, Australian Government grants (operating and capital) excludes Higher Education Loan Programs Scheme. These revenues are included in student fees.

## Student Fees

Student fees comprise:

- domestic student fees including those fees paid directly by students and fee payments from the Australian Government on behalf of students from Higher Education Loan Programs, such as the Higher Education Contribution Scheme
- fees from overseas students studying at the University.



Fees from overseas students in 2012 were 2.0 per cent lower than for 2011

Source: Financial statements (audited).

Over the last five years revenue received from overseas students increased by 68.5 per cent. By comparison, revenue received from domestic students increased by 13.0 per cent. Fees from overseas students in 2012 were 2.0 per cent lower than for 2011.

## Student Numbers

The University's equivalent full-time student load (EFTSL) rose by 15.2 per cent over the last five years. The overseas student EFTSL increased by 30.2 per cent since 2008, while the domestic student EFTSL increased by 10.3 per cent over the same period.

Student numbers were below the University's target largely due to a fall in the number of overseas students. Total student numbers for 2012 decreased by 0.4 per cent compared to 2011. Domestic students increased by 4.1 per cent and overseas students decreased by 4.7 per cent. The University attributes the 4.7 per cent fall in 2012 to the high Australian dollar and changes in visa requirements implemented mid-way through 2012.

The University's ability to continue to attract overseas students is influenced by a range of factors including the high Australian dollar, the cost of living and competition from other Australian universities. The University is mitigating the impact of the fall in overseas students by increasing the number of domestic students.

The table below shows the EFTSL by type over the past five years.

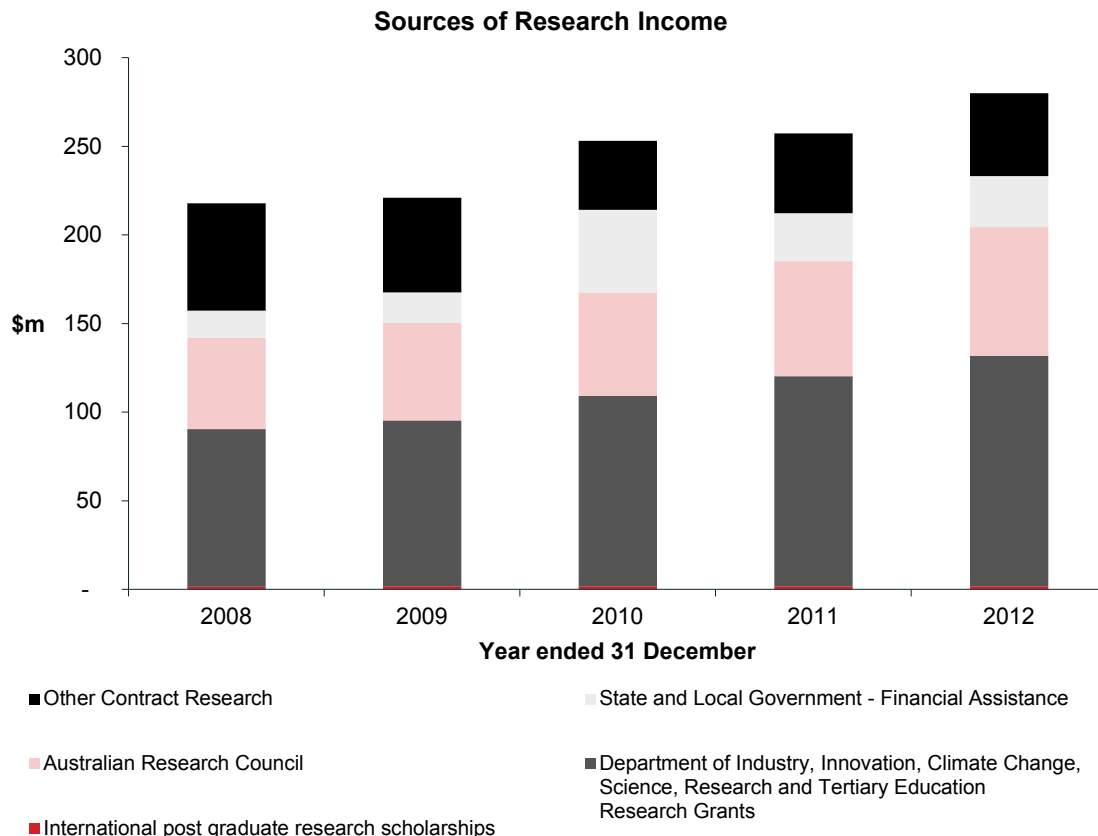
Year ended 31 December	2012	2011	2010	2009	2008
Domestic	26,895	26,534	26,090	24,879	24,374
Overseas	10,355	10,865	10,575	8,966	7,955
<b>Total</b>	<b>37,250</b>	<b>37,399</b>	<b>36,665</b>	<b>33,845</b>	<b>32,329</b>

Sources: Student load - 2008 to 2011 Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education (unaudited), Student load - 2012 University of New South Wales (unaudited).

Most overseas students come from Asia and the United States of America.

## Research Income

The University continued to attract strong revenues for research, which amounted to \$280 million in 2012 (\$257 million in 2011). Research income increased by 28.6 per cent over the last five years with most coming from the Australian government sector in the form of grants.



Research income continued to grow with a 8.9 per cent increase in 2012

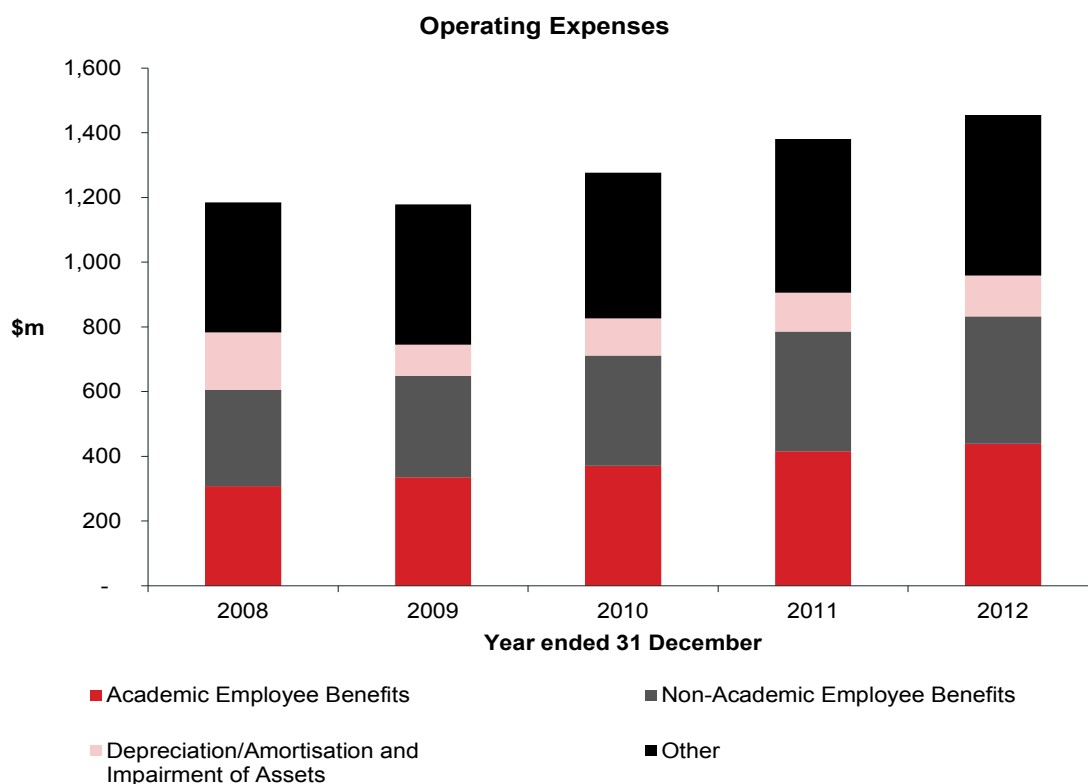
Source: Financial statements (audited).

Research income continued to grow with a 8.9 per cent increase in 2012. Research income of \$26.6 million (\$25.2 million) was received from commercial organisations in 2012 comprising industry and various Australian foundations.

The University advises it has implemented a range of initiatives to support research, strengthen its research base, build the University's reputation for research, and to attract and retain strong researchers and research students.

## Operating Expenses

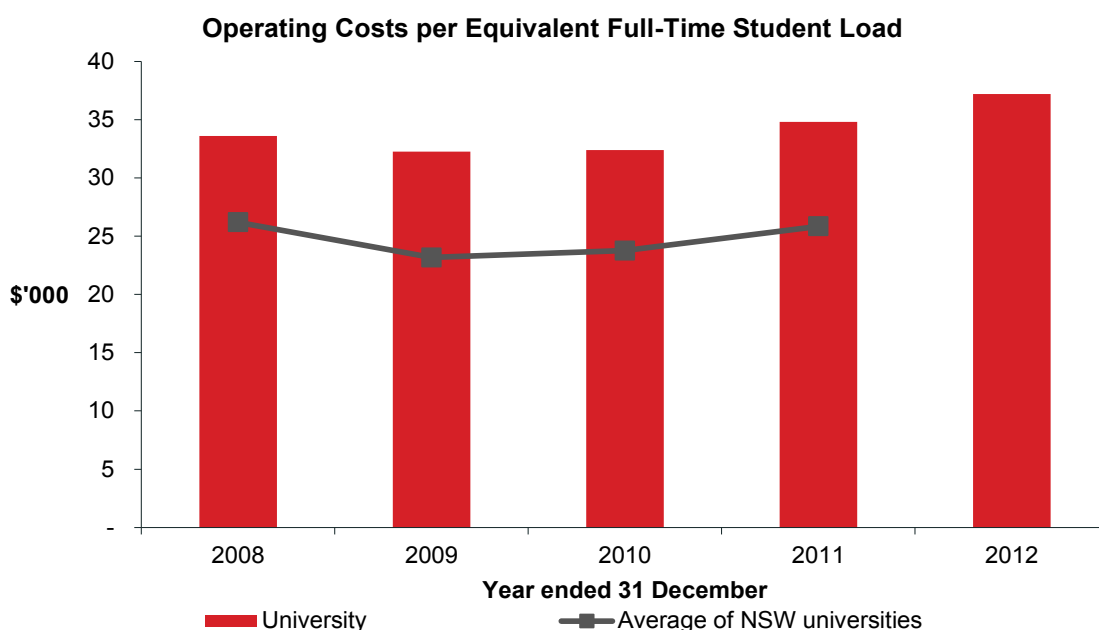
Operating expenses consistently increased each year between 2009 and 2012. In 2012, total operating costs increased by 5.4 per cent to \$1.5 billion from \$1.4 billion in 2011. The biggest expense increase since 2008 was academic employee benefits, which increased by 42.5 per cent from \$308 million to \$439 million.



Source: Financial statements (audited).

## Operating Costs per Student

Operating costs per student averaged \$37,193 per student in 2012 compared to \$34,798 in 2011. Over the four years 2008 to 2011, the University consistently spent more in operating costs on a per student basis compared to the average for NSW universities, reflecting its higher than average level of research activity. The average cost for 2012 for all NSW universities was not available at the time of finalising this report as student numbers were not yet published by the Department.



Sources: Student load - 2008 to 2011 Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education (unaudited), Student load - 2012 University of New South Wales (unaudited); Operating costs – Financial statements (audited).

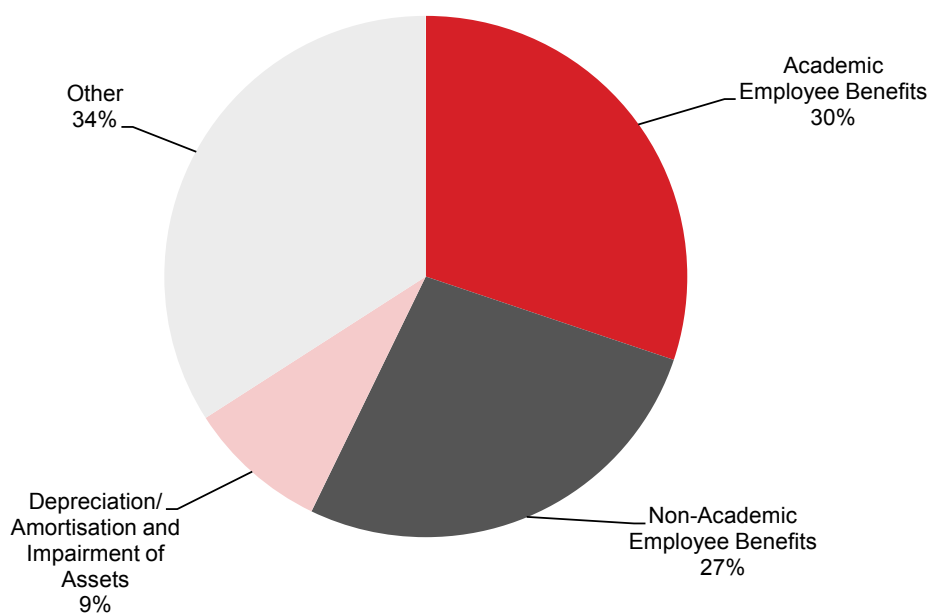
The commentary above relates to the University excluding its controlled entities.



## Where do the dollars go?

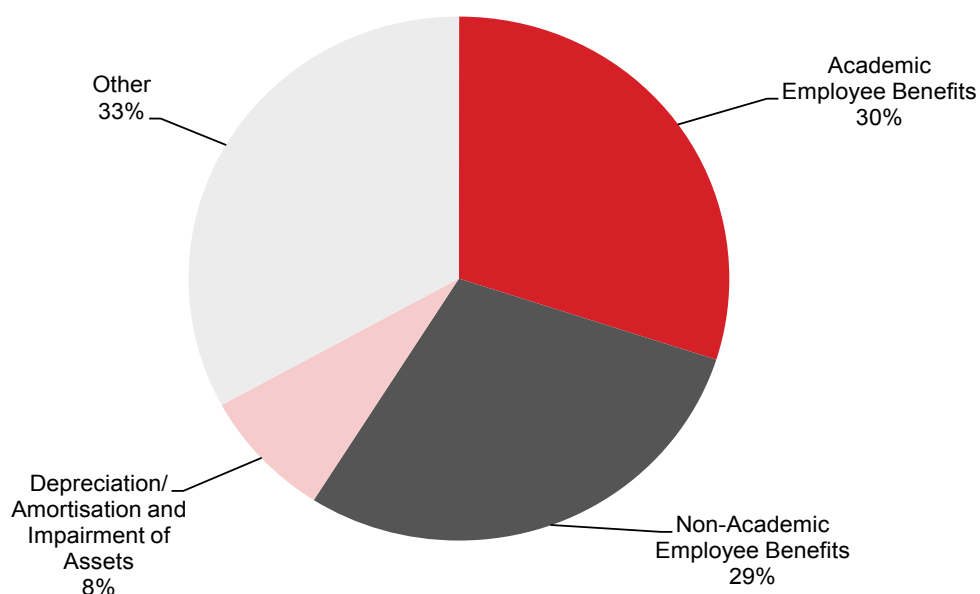
At 31 December 2012, the University's percentage of operating expenses attributed to academic employee benefits and non-academic employee benefits was 57.2 per cent compared to the average of New South Wales universities of 59 per cent. The University has a slightly lower percentage for non-academic employee benefits compared to the NSW universities' average.

### 2012 Operating Costs of the University of New South Wales



Source: Financial statements (audited).

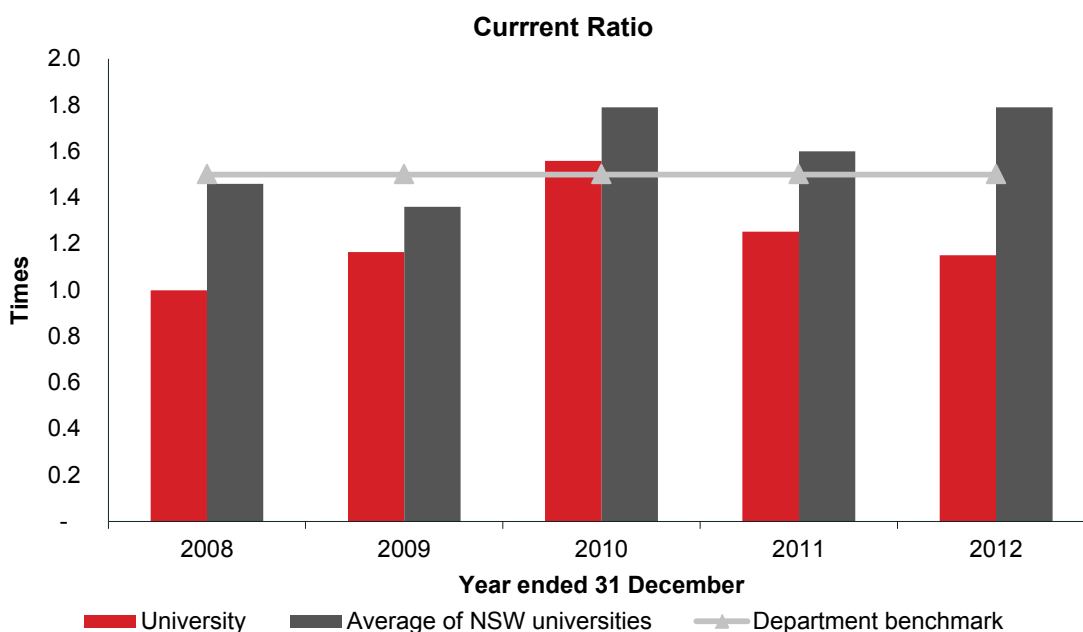
### 2012 Average Operating Costs of all NSW Universities



Source: Financial statements (audited).

## Current Ratio

The University's 2012 current ratio of 1.2 is below the 1.5 good practice guideline set by the Department. If income in advance of \$76.5 million was excluded from current liabilities, the ratio would increase to 1.6.



Sources: Financial statements (audited), Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education (unaudited).

The current ratio measures the University's ability to pay its short term debts using short term assets. It is calculated by dividing current assets by current liabilities, excluding long service leave liabilities expected to be settled after 12 months of year-end. A higher ratio usually indicates a greater ability of an entity to pay its short term debt. A ratio lower than one indicates an entity may have difficulty meeting its short term obligations.

The University advises it can convert its non-current investment assets to cash if necessary. It held non-current liquid investments of \$427 million (\$369 million) at 31 December 2012.

## Investment Portfolio Performance

The University had \$575 million in investments at 31 December 2012 (\$538 million at 31 December 2011). Investments performed favourably during 2012 compared to benchmark. Certain returns on long-term investments are entitled to franking credits from the Australian Taxation Office, which were not taken into account in the following returns. The University advises franking credits would add about 0.5 per cent to the return on its long-term investments.

Fund	2012		2011		2010		2009	
	Actual return %	Benchmark return %	Actual return %	Benchmark return %	Actual return %	Benchmark return %	Actual return %	Benchmark return %
Long-term	15.3	13.5	(0.6)	(2.3)	3.6	3.8	20.3	13.7
Short-term	5.5	4.4	6.1	5.2	6.2	5.0	3.5	3.8

Source: University of New South Wales (unaudited).

The investment returns in 2012 reflect the improved performance of financial markets.

Investment returns for 2012 were better than the University's benchmarks

## Major Projects

Capital expenditure totalled \$242 million, an increase of \$17.0 million on 2011. The table below shows major projects in progress.

Project	Forecast completion date	Project approval* \$m
Wallace Wurth Modernisation and Extension	Early 2014	146
Kensington Colleges Redevelopment and Expansion	Late 2013	110
NextGen student processing system	Semester 1, 2014	59
Gate 2 Student Accommodation	Early 2013	59
Gateway @ College of Fine Arts	Early 2013	58

Source: University of New South Wales (unaudited).

\* This reflects the most recent project approval costs. It does not represent the original budget costs.

The Wallace Wurth Building redevelopment aims to create a state-of-the art building, accommodating teaching and research zones and infrastructure to support advances in knowledge and understanding vital to the field of medical science. The Kirby Institute for infection and immunity in society (formerly the National Centre in HIV Epidemiology and Clinical Research) will be based in the Wallace Wurth Building.

The Kensington Colleges (Basser, Goldstein and Baxter) were identified to be in need of modernisation and occupied land that was underutilised. This \$110 million new development will replace and expand the Basser, Goldstein and Baxter Colleges, and includes two additional new colleges, with one designed to accommodate the needs of Muslim students and the other a Seniors College.

The NextGen Program is a specific IT program to replace many of the University's core student systems.

The Gate 2 Student Accommodation project will provide 399 beds in a range of self-catered accommodation in small and large studio, 1 and 2 bed apartment formats. The project also delivers a ground floor of 'cold shell' for retail accommodation and a car parking basement.

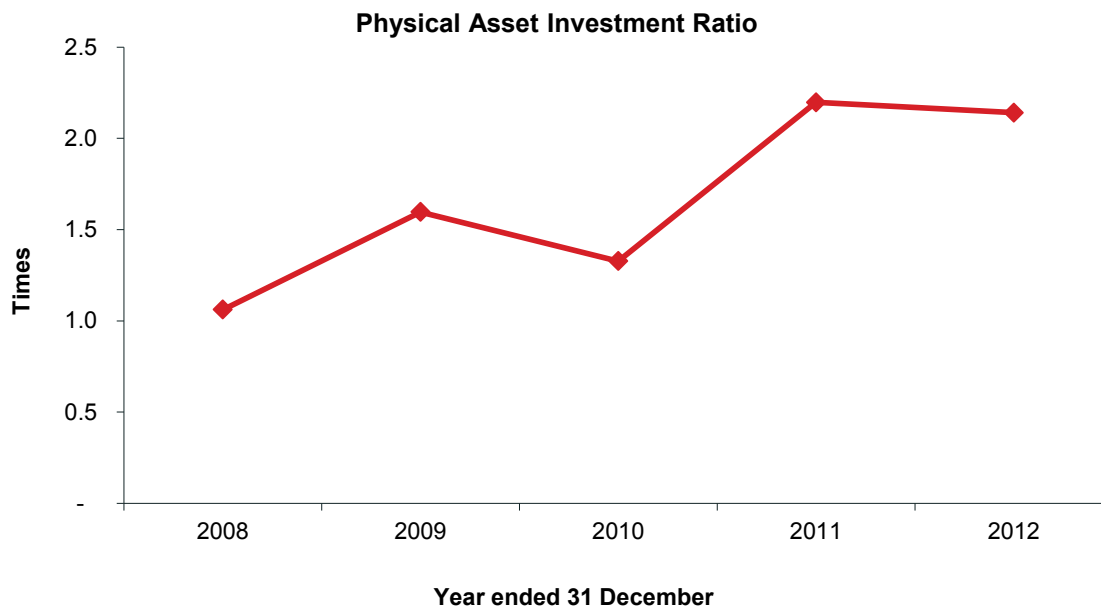
The Gateway @ College of Fine Arts (COFA) redevelopment will facilitate the University's ongoing leadership in the creative economy of the 21st century. The project will reshape the COFA campus through the creation of new galleries and art spaces, by re-orienting the campus to Oxford St, and create an arts and cultural precinct where the public can attend exhibitions, lectures and short courses.

The capital expenditure program is also designed to:

- address the University's infrastructure needs and backlog maintenance, estimated at \$140 million at 31 December 2012 (\$160 million)
- replace out-dated facilities with modern teaching and research facilities.

## Physical Asset Investment Ratio

The University's physical asset investment ratio increased from 1.1 to 2.1 over the last five years.



Source: Financial statements (audited).

The physical asset investment ratio calculates the extent to which an organisation renews or grows its physical assets, as measured by depreciation expense. This is especially important to organisations like the University, which has significant capital facilities. A ratio below one may indicate an under-investment in renewing facilities, which could lead to greater maintenance expenditure in the future.

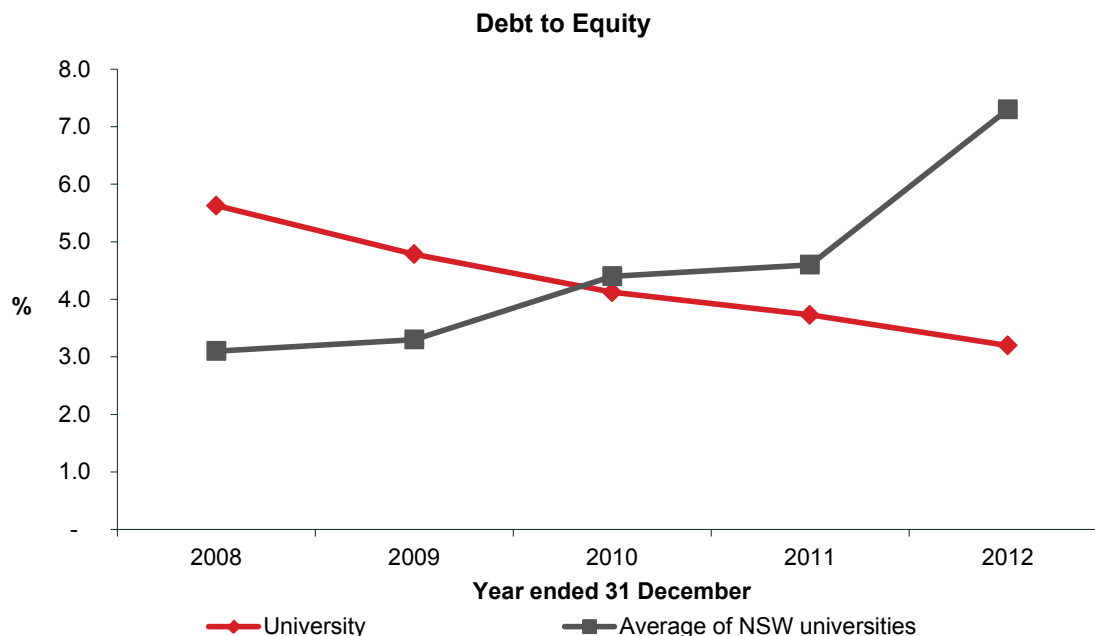
The recent upward trend is due to increased capital expenditure designed to address the University's infrastructure needs related to teaching, research, student housing, and backlog maintenance.

The University also procures student housing through two public private partnerships (PPPs), which commenced in 2007. Under the PPPs, the private sector is required to finance, build and operate student housing for a period of up to 49 years. The properties are not included in the ratio above.

## Debt to Equity Ratio

The University's debt to equity ratio was lower than the NSW universities' average for the last three years

The University's debt totalled \$61.0 million (\$64.7 million in 2011), and was 3.2 per cent (3.7 per cent) of total equity. Most of this debt relates to a 99 year financing arrangement entered into by the University.



Source: Financial statements (audited).

The debt to equity ratio is defined as the University's borrowings as a percentage of equity. The ratio has decreased since 2008 due to the repayment of borrowings. The University's proportion of debt to equity is significantly lower than the average for NSW universities.

## Employee Entitlements

Employee entitlement liabilities increased by 8.6 per cent in 2012. The largest, superannuation, increased from \$1.1 billion to \$1.2 billion

	2012 \$'000	2011 \$'000	2010 \$'000	2009 \$'000	2008 \$'000
Net liability for defined benefit superannuation	1,165,595	1,072,929	769,123	686,724	789,264
Annual leave liability	50,276	50,801	52,851	50,201	52,647
Long service leave liability	161,261	144,126	105,620	98,908	104,578
<b>Total</b>	<b>1,377,132</b>	<b>1,267,856</b>	<b>927,594</b>	<b>835,833</b>	<b>946,489</b>

Source: Financial statements (audited).

Employee entitlement liabilities increased by 8.6 per cent in 2012. Defined benefit superannuation liabilities increased from \$1.1 billion at 31 December 2011 to \$1.2 billion at 31 December 2012, mainly due to a decrease in the discount rate used to calculate the present value of the liability from 3.7 per cent to 3.3 per cent. The Australian Government is expected to fund most of these liabilities, minimising the impact on the University's operating result and cash flows. The University is responsible for funding the other defined benefit superannuation liabilities of \$107 million at 31 December 2012 (\$113 million at 31 December 2011).

The University is reducing excess annual leave balances

The University continues to address excessive employee annual leave balances. Employees with excess annual leave balances have fallen over the last five years from 655 to 190. Of 6,016 employees at 31 December 2012 (5,727 at 31 December 2011), 190 or 3.2 per cent (287 or 5.0 per cent), held annual leave balances exceeding the maximum thresholds allowed under the University's leave policy.

The long service leave liability increased by \$17.1 million (11.9 per cent) to \$161 million (\$144 million), mainly due to the decrease in the discount factor used to calculate the present value of the liability from 4.1 per cent to 3.4 per cent, and salary rate increases.

## Financial Information

### Abridged Statements of Comprehensive Income

Year ended 31 December	Consolidated		Parent	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Australian Government grants	698,225	632,261	698,225	632,261
Higher Education Contribution Scheme	154,313	139,592	154,313	139,592
Fees and charges	488,442	493,565	422,480	422,485
Other	206,698	204,319	204,217	275,414
<b>Total revenue*</b>	<b>1,547,678</b>	<b>1,469,737</b>	<b>1,479,235</b>	<b>1,469,752</b>
Employee benefits and on-costs	832,151	786,033	792,068	746,921
Depreciation and amortisation	114,960	104,038	113,556	102,412
Impairment of available-for-sale assets	599	13,573	695	11,611
Other	507,124	477,129	479,130	440,460
<b>Total expenses</b>	<b>1,454,834</b>	<b>1,380,773</b>	<b>1,385,449</b>	<b>1,301,404</b>
Income tax expense	(58)	(78)	-	--
<b>Surplus</b>	<b>92,786</b>	<b>88,886</b>	<b>93,786</b>	<b>168,348</b>
<b>Other comprehensive income</b>				
Gain on revaluation of property, plant and equipment	<b>48,116</b>	39,573	<b>48,116</b>	39,573
Gain/(Loss) in fair value of available-for-sale financial assets	<b>36,556</b>	(13,837)	<b>36,028</b>	(14,972)
Exchange gains/(losses) on translation of foreign operations	<b>2</b>	(33)	-	--
Defined benefit actuarial losses	<b>(4,869)</b>	(35,884)	<b>(4,709)</b>	(35,239)
<b>Total other comprehensive (expense)/income</b>	<b>79,805</b>	<b>(10,181)</b>	<b>79,435</b>	<b>(10,638)</b>
<b>Total comprehensive income</b>	<b>172,591</b>	<b>78,705</b>	<b>173,221</b>	<b>157,710</b>

Source: Financial statements (audited).

\* The revenue sources table shown earlier classifies revenue differently for analytical purposes.

Australian Government grants increased by 10.4 per cent mainly due to additional Commonwealth Grants Scheme funding, research grants and other Australian Government financial assistance, while HECS revenue increased by 10.6 per cent. The revenue increases reflect the annual indexing of Australian Government funding.

Employee benefits and on-cost expenses increased by 5.9 per cent due to salary rate rises and an increase of 5.2 per cent in the number of full time equivalent staff.

The decrease in impairment expense and gain on revaluation of available-for-sale financial assets reflects the improved performance of investment markets.

## Abridged Statements of Financial Position

At 31 December	Consolidated		Parent	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Current assets	294,975	336,431	267,096	304,374
Non-current assets	3,268,238	2,933,228	3,247,765	2,917,699
<b>Total assets</b>	<b>3,563,213</b>	<b>3,269,659</b>	<b>3,514,861</b>	<b>3,222,073</b>
Current liabilities	372,148	371,366	343,323	343,316
Non-current liabilities	1,283,144	1,162,963	1,279,656	1,160,096
<b>Total liabilities</b>	<b>1,655,292</b>	<b>1,534,329</b>	<b>1,622,979</b>	<b>1,503,412</b>
<b>Net assets</b>	<b>1,907,921</b>	<b>1,735,330</b>	<b>1,891,882</b>	<b>1,718,661</b>

Source: Financial statements (audited).

The \$294 million increase in total assets was predominantly due to a \$174 million increase in the value in property, plant and equipment following a revaluation, and an \$88.9 million increase in the deferred government contribution for superannuation.

The \$121 million increase in total liabilities was mainly due to a \$92.7 million increase in deferred liabilities for superannuation schemes.

## 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](http://www.unsw.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.

Entity Name	Website
AGSM Limited	<a href="http://www.agsm.edu.au">www.agsm.edu.au</a>
Australian Education Consultancy Limited	<a href="http://www.aecl.com.hk">www.aecl.com.hk</a>
Cystemix Pty Limited	*
John Lewis and Pamela Lightfoot Trust <sup>1</sup>	*
NewSouth Global (Thailand) Limited	*
NewSouth Innovations Pty Limited	<a href="http://www.nsinnovations.com.au">www.nsinnovations.com.au</a>
Qucor Pty Ltd	*
The New South Wales Minerals Industry/University * of New South Wales Education Trust	
University of New South Wales Foundation	<a href="http://www.giving.unsw.edu.au">www.giving.unsw.edu.au</a>
University of New South Wales Foundation Limited	<a href="http://www.giving.unsw.edu.au">www.giving.unsw.edu.au</a>
University of New South Wales International House Limited <sup>2</sup>	<a href="http://www.ihunsw.edu.au">www.ihunsw.edu.au</a>
University of New South Wales Press Limited	<a href="http://www.unswpress.com">www.unswpress.com</a>
UNSW & Study Abroad - Friends and U.S. Alumni, Inc	<a href="http://www.giving.unsw.edu.au/unsw-study-abroad-friends-and-us-alumni-inc">www.giving.unsw.edu.au/unsw-study-abroad-friends-and-us-alumni-inc</a>
UNSW Hong Kong Limited	*
UNSW (Thailand) Limited	<a href="http://www.unswthailandoffice.com">www.unswthailandoffice.com</a>
UNSW Global (Singapore) Pte Limited	<a href="http://www.singapore.unsw.edu.au">www.singapore.unsw.edu.au</a>
UNSW Global India Private Limited	<a href="http://www.unswindiaoffice.com">www.unswindiaoffice.com</a>
UNSW Global Pty Ltd	<a href="http://www.nsg.unsw.edu.au">www.nsg.unsw.edu.au</a>
UNSW Hong Kong Foundation Limited	<a href="http://www.giving.unsw.edu.au/unsw-hong-kong-foundation-ltd-0">www.giving.unsw.edu.au/unsw-hong-kong-foundation-ltd-0</a>

\* This entity does not have a website.

1 This trust was discontinued on 10 September 2012.

2 2012 financial statements were not submitted to the Auditor-General.



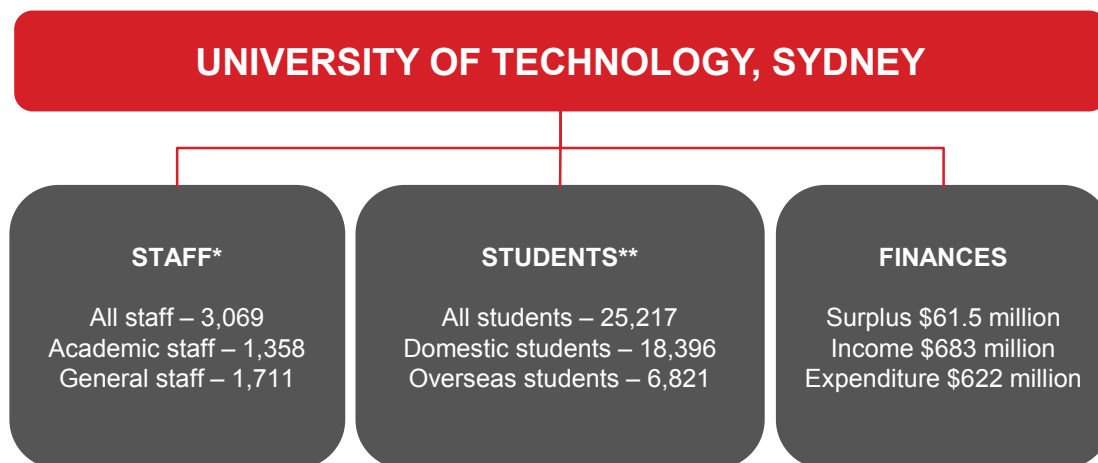
# University of Technology, Sydney

## Audit Opinion

I issued unqualified audit opinions on the University and its controlled entities' 31 December 2012 financial statements.

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

## Operational Snapshot



Source: University of Technology, Sydney.

\* Full-Time Equivalent (unaudited).

\*\* Equivalent Full-Time Student Load (unaudited).

The University offers over 130 undergraduate and 210 postgraduate courses across traditional and emerging disciplines.

## Performance Information

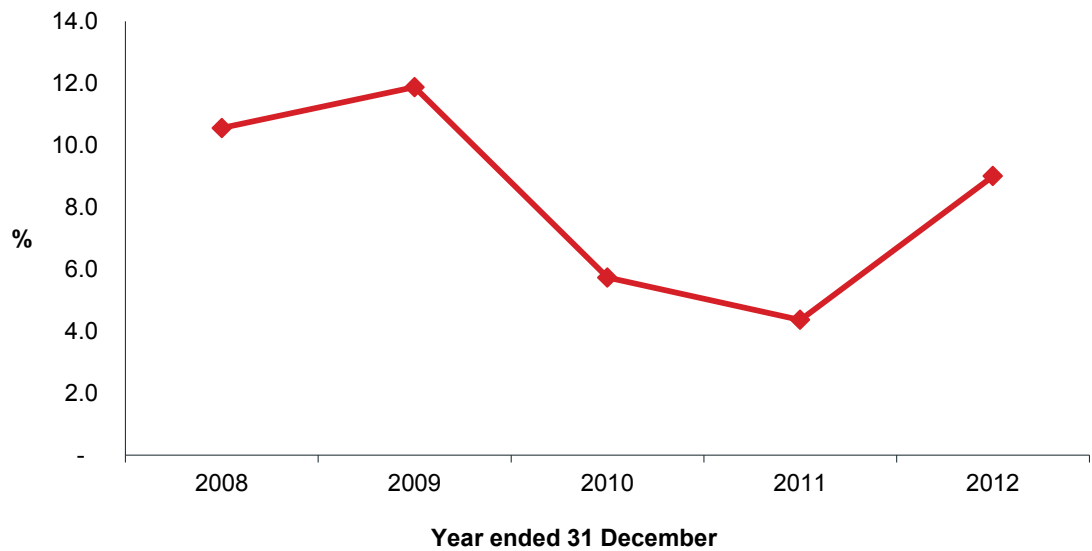
### Operating Margin

The University continued to make a surplus from operations, which it has done for the last five years. The surplus for the year ended 31 December 2012 was \$61.5 million (\$27.2 million in 2011) resulting in an operating margin of 9.0 per cent (4.4 per cent).

The operating margin shows the operating surplus as a percentage of total revenue. It should be noted that total revenue includes Australian Government grants for capital and recurrent expenditure of \$231 million (\$192 million).

Operating margin was 9.0 per cent for 2012 compared to 4.4 per cent in 2011

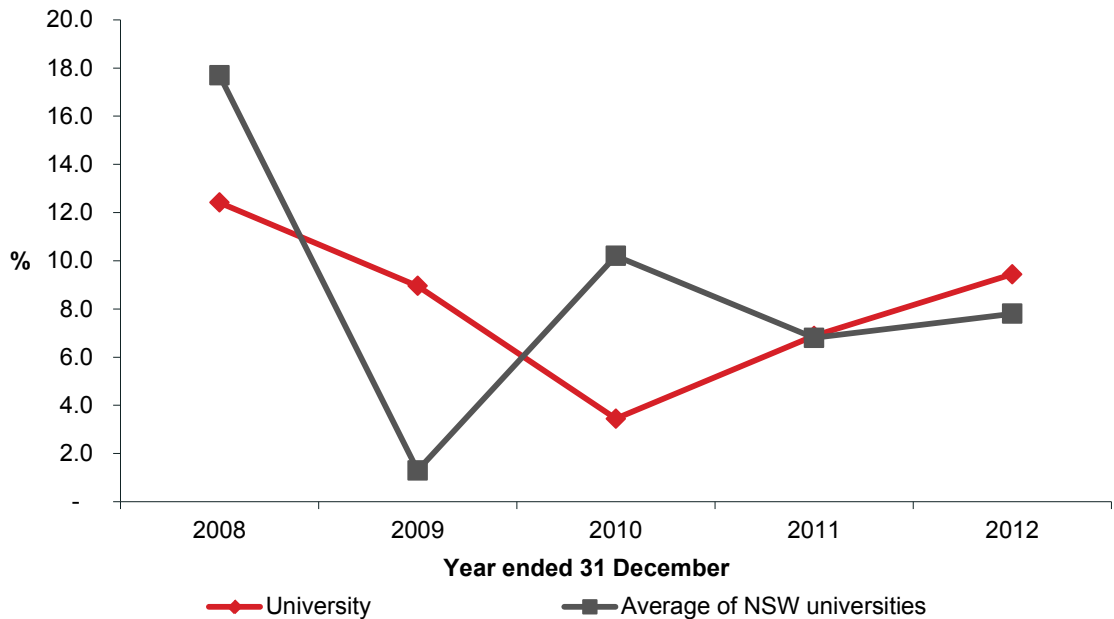
### Operating Margin



Source: Financial statements (audited).

### Revenue Growth

#### Total Revenue Growth



The University's revenue growth was above the average for NSW universities in 2012

Source: Financial statements (audited).

Revenue continued to grow in 2012 with a 9.4 per cent increase from 2011. The increase in 2012 was due to a 20.3 per cent increase in grants received from the Australian Government.

The University's annual revenue growth over the last five years has been affected by the extent and timing of capital grants.

## Revenue Sources

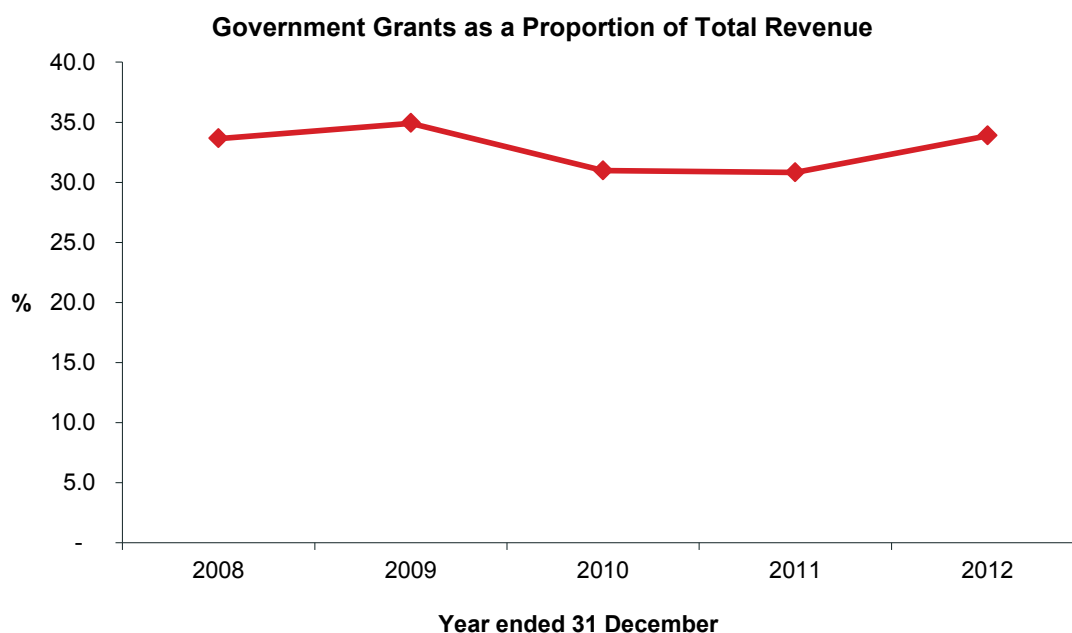
Year ended 31 December	2012 \$m	2011 \$m	2010 \$m	2009 \$m	2008 \$m
<b>Student course fees</b>					
Domestic students	191	180	165	157	146
Overseas students	176	176	172	154	132
<b>Total student course fees</b>	<b>367</b>	<b>356</b>	<b>337</b>	<b>311</b>	<b>278</b>
Australian Government grants	231	192	181	197	174
Consultancy and contracts	15	11	9	8	9
Investment revenue	15	18	16	12	13
Other	55	47	41	37	44
<b>Total revenue</b>	<b>683</b>	<b>624</b>	<b>584</b>	<b>565</b>	<b>518</b>

Source: Financial statements (audited).

## Australian Government Funding

Australian Government grants are a major source of the University's revenue. Over the last five years the University's reliance on Australian Government grants has remained relatively constant at between 30 and 35 per cent of total revenue, as shown below.

Australian Government grants reliance has remained relatively constant



Source: Financial statements (audited).

In the analysis above, Australian Government grants (including operating and capital) excludes Higher Education Loan Programs. These revenues are included in student fees.

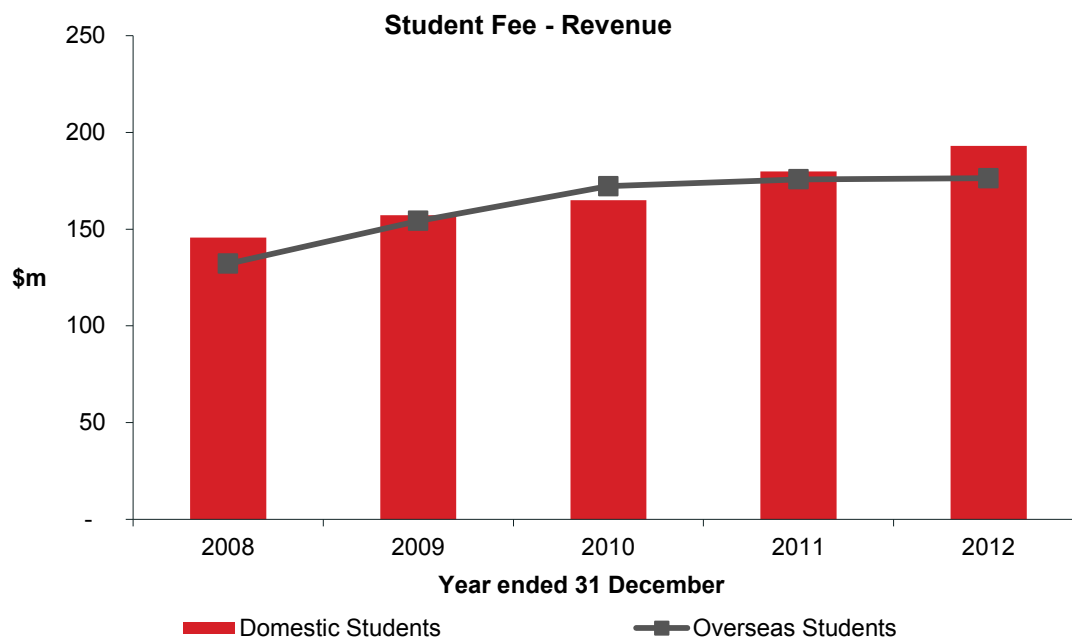
## Student Fees

Student fees comprise:

- domestic students fees including those paid directly by students and fee payments from the Australian Government on behalf of students from Higher Education Loan Programs such as the Higher Education Contribution Scheme
- fees from overseas students studying at the University.

Over the last five years, revenue received from overseas students increased by 33.3 per cent. By comparison, revenue received from domestic students increased by 30.8 per cent. Fees for overseas students in 2012 were similar to 2011.

Fees for overseas students in 2012 were similar to 2011



Source: Financial statements (audited).

## Student Numbers

The University's equivalent full-time student load (EFTSL) has risen by 10.2 per cent over the last five years. The overseas student EFTSL has increased by 24.4 per cent since 2008 while domestic EFTSL has increased by 5.7 per cent over the same period.

The table below shows the University's EFTSL by type over the past five years.

Year ended 31 December	2012	2011	2010	2009	2008
Domestic	18,396	18,634	17,864	18,048	17,404
Overseas	6,821	7,123	6,647	5,928	5,484
<b>Total</b>	<b>25,217</b>	<b>25,757</b>	<b>24,511</b>	<b>23,976</b>	<b>22,888</b>

Source: Student load - 2008 to 2011 Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education (unaudited), student load - 2012 University of Technology, Sydney (unaudited).

Note: Numbers in the table are for the University and exclude its controlled entities.

Total student numbers for 2012 decreased by 2.1 per cent compared to 2011. Domestic students decreased by 1.3 per cent and overseas students by 4.2 per cent.

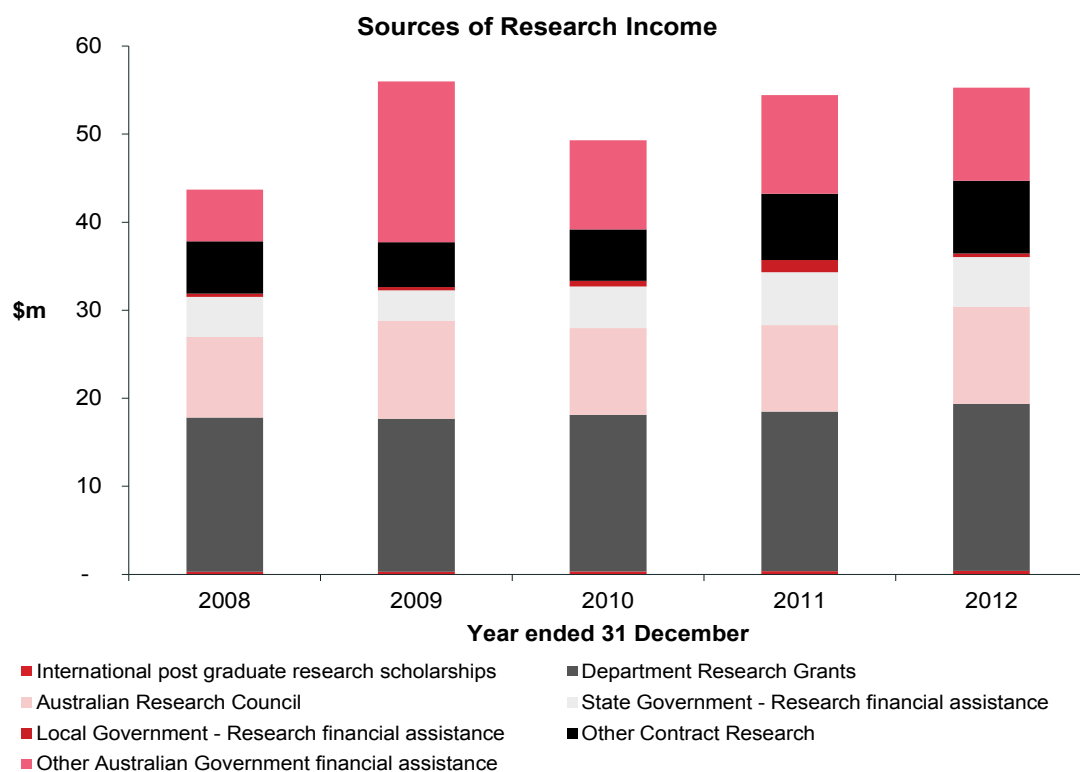
Total student numbers for 2012 decreased by 2.1 per cent compared to 2011. Domestic students decreased by 1.3 per cent and overseas students by 4.2 per cent

## Research Income

The University continued to attract strong revenues for research. In 2012, the University's research income amounted to \$55.3 million (\$54.4 million in 2011). Most of the University's research income is from the Australian Government sector in the form of grants. In 2012, 54.3 per cent of the University's research income came from the Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education (the Department) and the Australian Research Council. The remainder mainly came from State, local and other government research financial assistance and contract research.

The University's research income has increased by 26.5 per cent over the last five years with a 1.7 per cent increase in 2012.

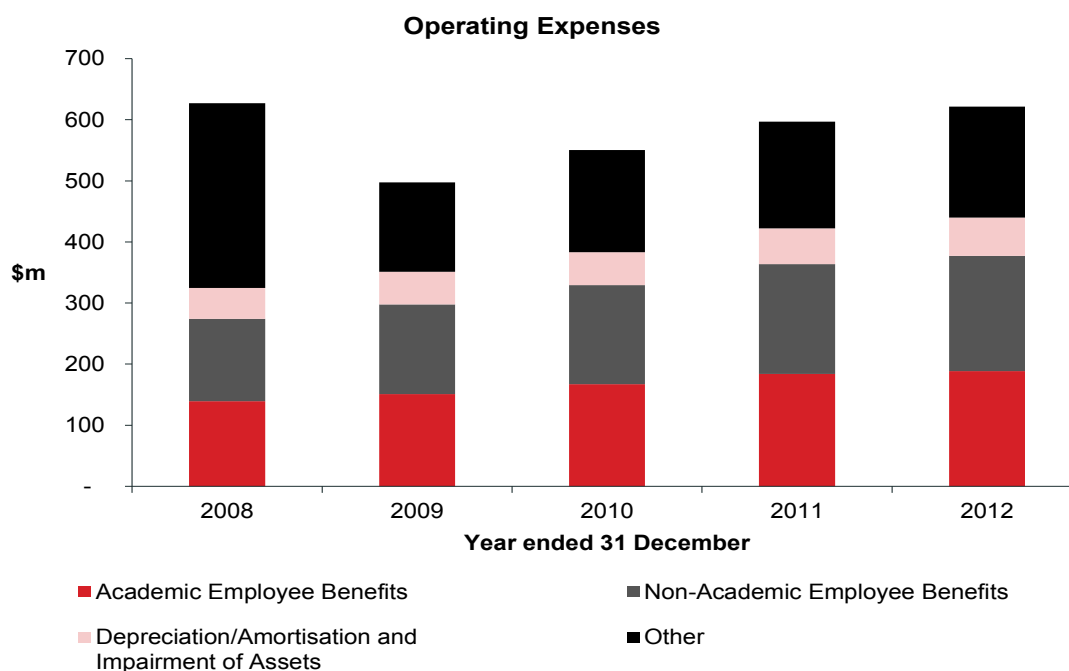
Research income continued to grow with a 1.7 per cent increase in 2012



Source: Financial statements (audited).

## Operating Expenses

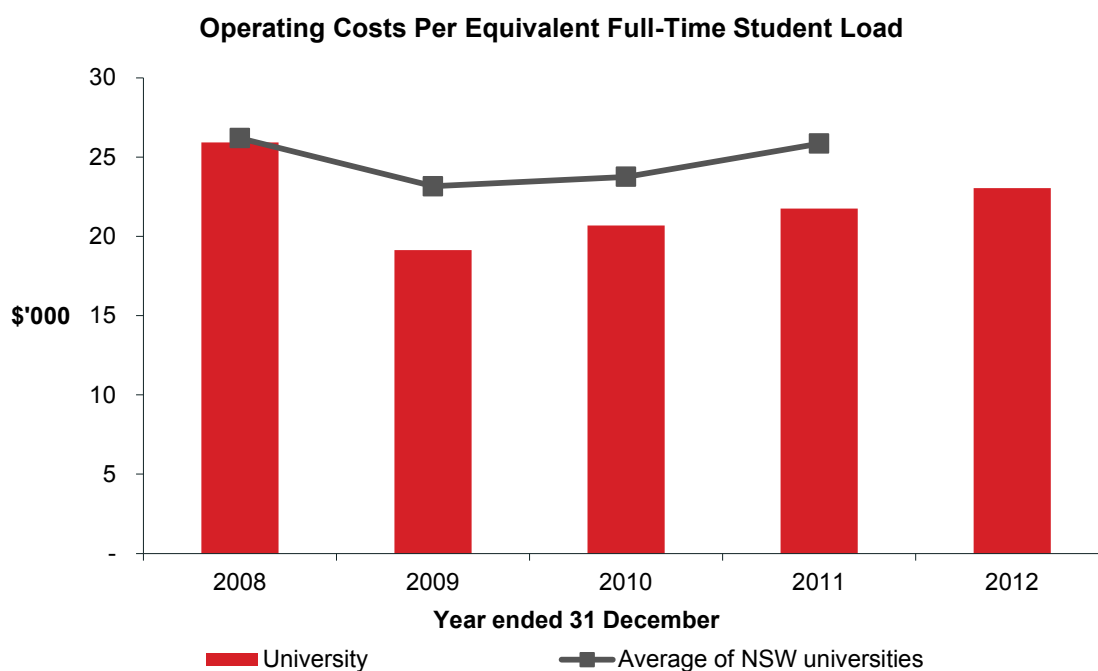
Operating expenses have increased each year between 2009 and 2012. In 2012, total operating costs increased by 4.2 per cent to \$622 million from \$597 million in 2011.



Source: Financial statements (audited).

## Operating Costs per Student

Operating costs per student averaged \$23,036 in 2012 compared to \$21,755 in 2011. Over the four years 2008 to 2011 the University consistently incurred less operating costs per student compared to the average for all NSW universities. The average cost for 2012 for all NSW universities was not available at the time of finalising this report as student numbers were not yet published by the Department.



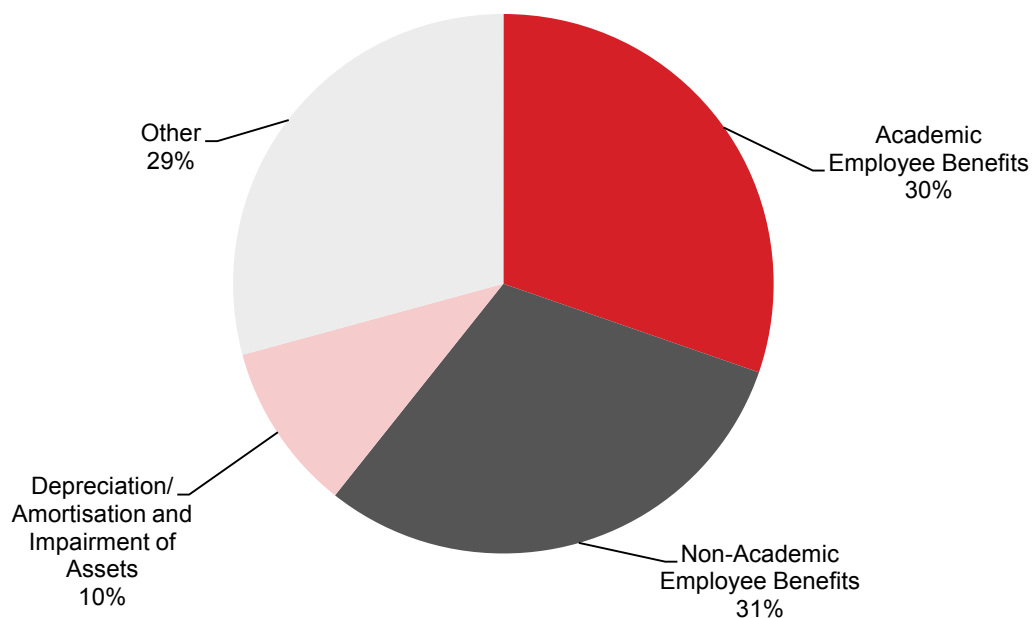
Source: Student load - 2008 to 2011 Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education (unaudited), student load - 2012 University of Technology, Sydney (unaudited); Operating costs – financial statements (audited).

Note: The above commentary relates to the University and excludes its controlled entities.

## Where do the dollars go?

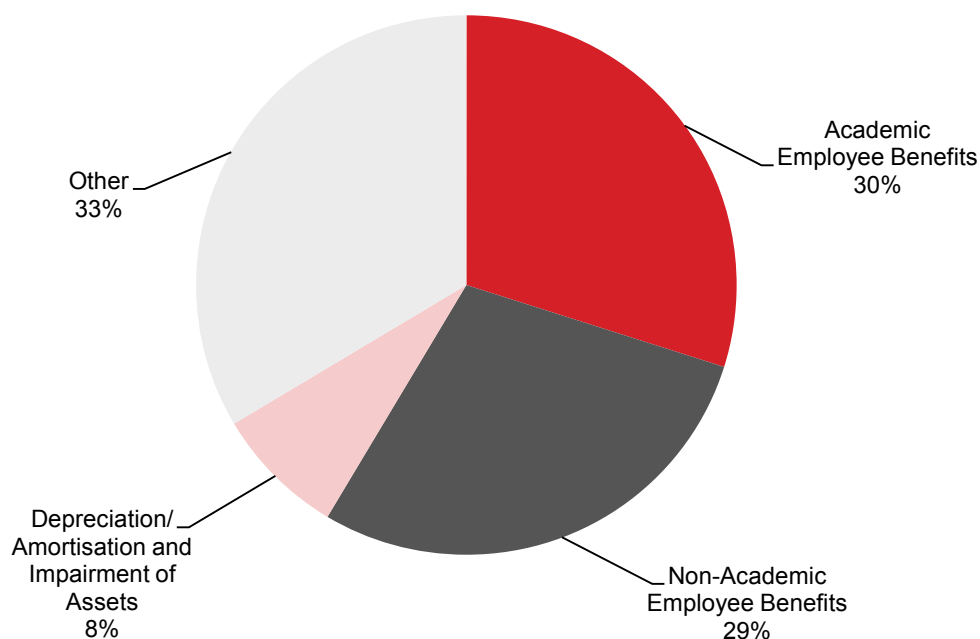
The University's 2012 operating expenditure percentages were generally consistent with the average of all NSW universities. In 2012, academic and non-academic employee benefits represented 60.7 per cent of the University's total operating costs (58.6 per cent for the average of all NSW universities).

### 2012 Operating Costs of the University of Technology, Sydney



Source: Financial statements (audited).

### 2012 Average Operating Costs of all NSW universities

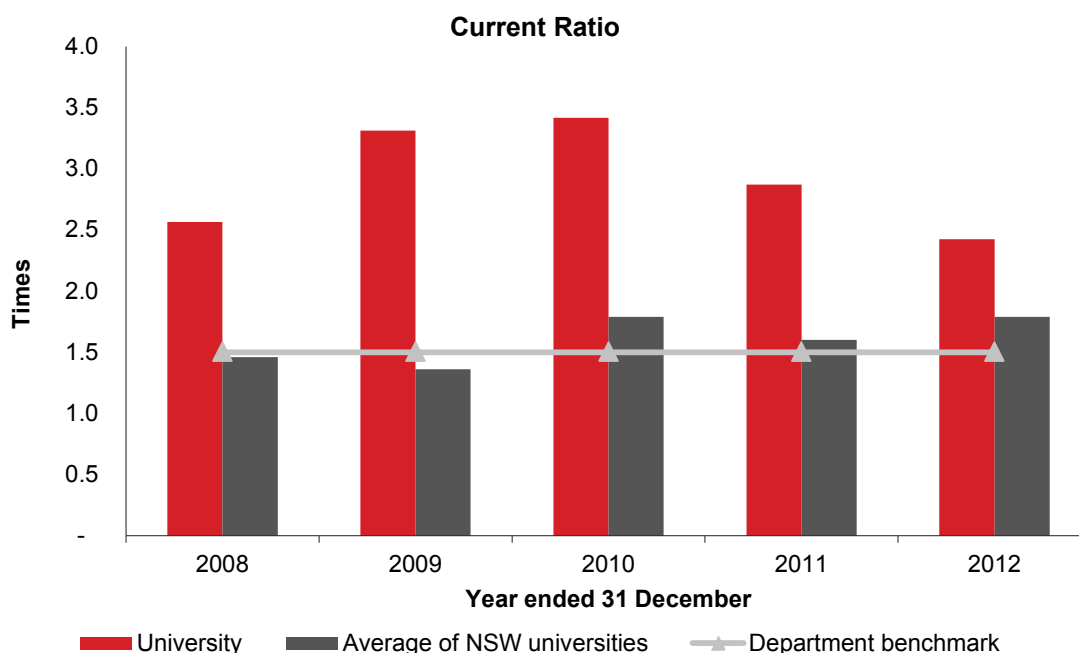


Source: Financial statements (audited).

## Current Ratio

The University's 2012 current ratio of 2.4 is well above the 1.5 good practice guideline set by the Department and well above the average for all NSW universities.

The University is above the liquidity good practice guideline for paying its short term debts



Source: Financial statements (audited), Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education (unaudited).

The current ratio measures the University's ability to pay its short term debts using short term assets. It is calculated by dividing current assets by current liabilities, excluding long service leave entitlements expected to be settled after 12 months of year end. A higher current ratio usually indicates a greater ability of an entity to pay its short term debt. A ratio lower than one indicates an entity may have difficulty meeting its short term obligations.

## Major Projects

Capital expenditure totalled \$165 million (\$154 million in 2011), a \$10.5 million increase on the previous year. The table below shows major projects recently completed or still under construction.

Project	Actual/forecast completion date	Actual/forecast final cost \$m
Broadway building (in progress)	Mar 2014	236.0
Dr Chau building (in progress)	Jun 2014	185.0
Thomas St building (in progress)	Sept 2014	119.9
B6 Podium building (completed)	Mar 2012	18.6
Building U acquisition (completed)	Dec 2012	9.9
Building U car park acquisition (completed)	Dec 2012	6.2

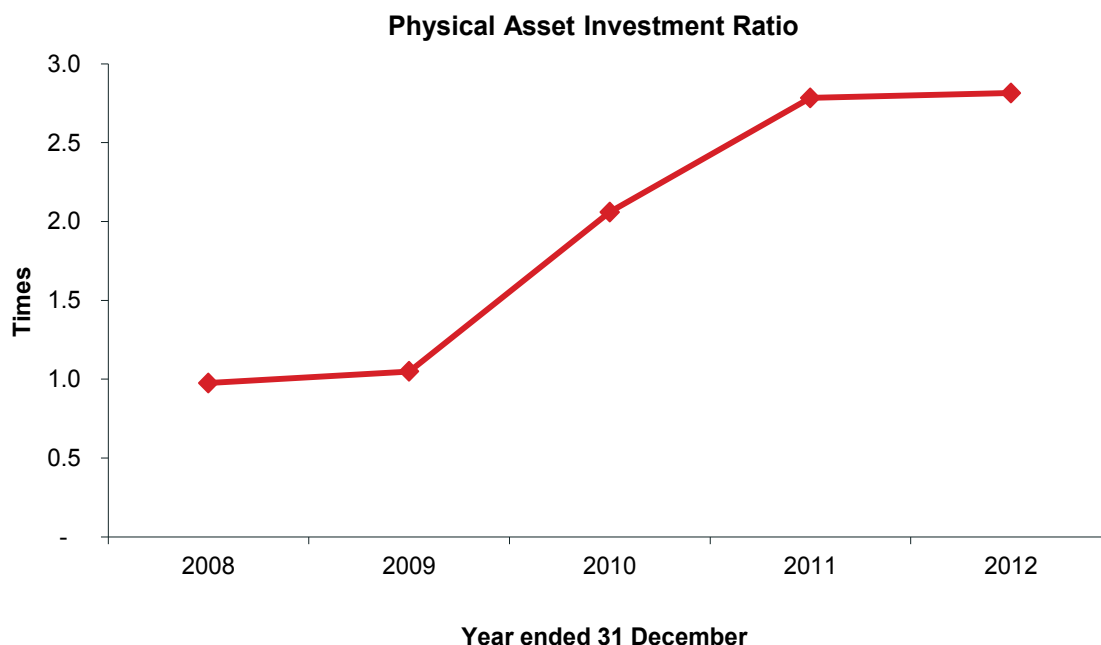
Source: University of Technology, Sydney (unaudited).

The University's major projects relate to the construction of new buildings for education and research purposes.



## Physical Asset Investment Ratio

Construction of the University's campus master plan projects started in December 2009. The plan is expected to take six years to complete at a total cost of approximately \$1.0 billion. This has resulted in the increase noted in the physical asset investment ratio over that time. The University's ratio has always equalled or exceeded 1:1. A ratio above 1:1 indicates increasing investment in physical assets while a lower ratio may indicate under-investment in the maintenance of facilities.



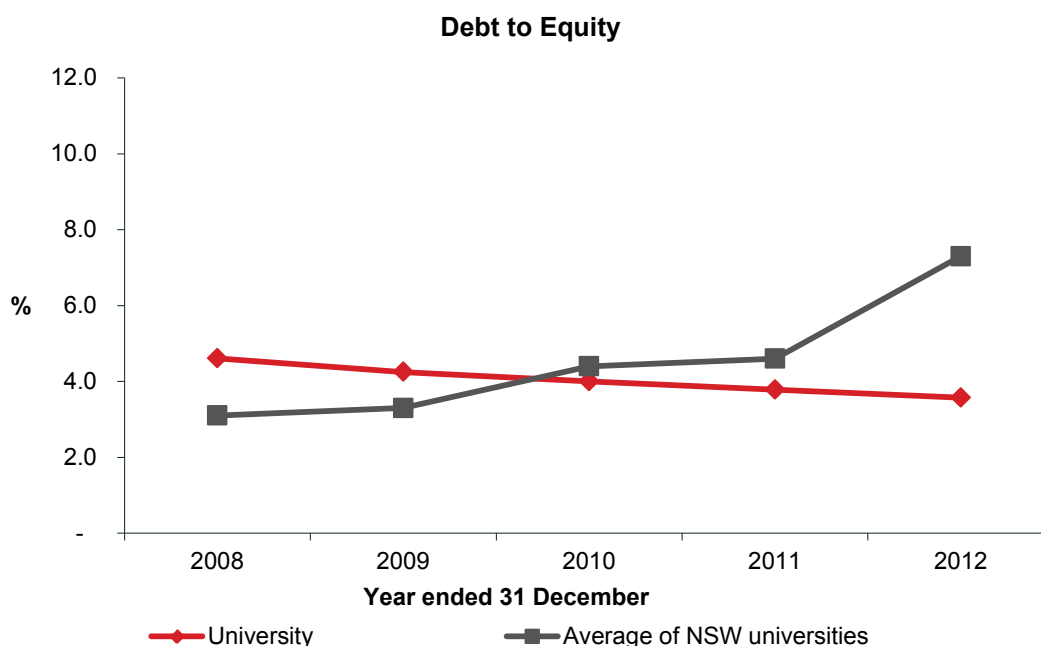
Source: Financial statements (audited).

The physical asset investment ratio shows the extent to which an entity renews or grows its physical assets, as measured by depreciation expense. The ratio is important to entities like the University, which has significant capital facilities.

## Debt to Equity ratio

The University's debt to equity ratio has improved over the last five years from 4.6 per cent in 2008 to 3.6 per cent in 2012 contrary to the trend average for NSW universities. The University's campus master plan projects are currently being funded out of cash reserves.

The University's debt to equity ratio was lower than the NSW universities' average from 2010 to 2012



Source: Financial statements (audited).

The debt to equity ratio shows total borrowings as a proportion of equity.

## Employee Entitlements

	2012 \$'000	2011 \$'000	2010 \$'000	2009 \$'000	2008 \$'000
Net liability for defined benefit superannuation	456,604	416,305	292,784	260,179	300,922
Annual leave liability	27,176	26,116	23,743	21,816	20,588
Long service leave liability	69,945	64,095	44,943	39,933	38,966
<b>Total</b>	<b>553,725</b>	<b>506,516</b>	<b>361,470</b>	<b>321,928</b>	<b>360,476</b>

Source: Financial statements (audited).

Employee entitlement liabilities increased by 9.3 per cent in 2012. The largest, defined benefit superannuation, increased 9.7 per cent from \$416 million at 31 December 2011 to \$457 million at 31 December 2012. This was mainly due to a decrease in the discount rate used to calculate the present value of the liability from 3.7 per cent to 3.3 per cent. The Australian Government is expected to fund most of these liabilities, minimising the impact on the University's operating result and cash flows. The University is responsible for funding State defined benefit superannuation liabilities of \$6.1 million (\$5.6 million at 31 December 2011).

The University is effectively addressing employee excessive annual leave balances, which decreased during 2012. Of the University's 2,671 (2,564) employees at 31 December, 142 or 5.3 per cent (188 or 7.3 per cent) held annual leave balances exceeding the maximum thresholds allowed under the University's leave policy.

The long service leave liability increased by 9.1 per cent to \$69.9 million (\$64.1 million) mainly due to the decrease in the discount rate (from 4.0 per cent to 3.4 per cent) used to calculate the present value of the liability.

Employee entitlement liabilities increased by 9.3 per cent in 2012. The largest, superannuation, increased by 9.7 per cent to \$457 million

The University is reducing excessive employee annual leave balances

## 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	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Australian Government grants	231,440	192,351	231,440	192,351
Higher Education Contribution Scheme	108,481	101,186	108,481	101,186
Fees and charges	265,477	258,669	227,139	220,619
Other	77,716	71,999	73,244	73,146
<b>Total revenue *</b>	<b>683,114</b>	<b>624,205</b>	<b>640,304</b>	<b>587,302</b>
Employee benefits and on-costs	377,228	363,873	350,612	339,728
Depreciation and amortisation	62,651	58,226	58,501	55,371
Other	181,408	174,397	171,472	164,794
Deferred expense – superannuation	314	441	314	441
<b>Total expenses</b>	<b>621,601</b>	<b>596,937</b>	<b>580,899</b>	<b>560,334</b>
Income tax expense	27	41	--	--
<b>Surplus</b>	<b>61,486</b>	<b>27,227</b>	<b>59,405</b>	<b>26,968</b>
<b>Other comprehensive income:</b>				
Net increase in revaluation of assets	9,639	51,362	9,639	51,362
Other losses	(414)	(912)	(288)	(1,275)
<b>Total other comprehensive income</b>	<b>9,225</b>	<b>50,450</b>	<b>9,351</b>	<b>50,087</b>
<b>Total comprehensive income</b>	<b>70,711</b>	<b>77,677</b>	<b>68,756</b>	<b>77,055</b>

Source: Financial statements (audited).

\* The revenue sources table shown earlier classifies revenue differently for analytical purposes.

Increased grant funding from the Commonwealth Grant Scheme and the Education Investment Fund contributed to the overall increase in Australian Government grant revenue.

### Abridged Statement of Financial Position

At 31 December	Consolidated		Parent	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Current assets	277,246	287,100	229,233	245,275
Non-current assets	1,711,816	1,571,682	1,690,753	1,548,594
<b>Total assets</b>	<b>1,989,062</b>	<b>1,858,782</b>	<b>1,919,986</b>	<b>1,793,869</b>
Current liabilities	166,335	146,945	143,308	126,444
Non-current liabilities	514,118	473,939	512,117	471,620
<b>Total liabilities</b>	<b>680,453</b>	<b>620,884</b>	<b>655,425</b>	<b>598,064</b>
<b>Net assets</b>	<b>1,308,609</b>	<b>1,237,898</b>	<b>1,264,561</b>	<b>1,195,805</b>

Source: Financial statements (audited).

Non-current assets increased by \$140 million, mainly due to an increase of \$39.8 million in superannuation liabilities recoverable from the Australian Government and a \$99.3 million increase in the value of property, plant and equipment, resulting from additions and an increase in the valuation of land and buildings.

Current liabilities increased by \$19.4 million, mainly due to an increase in trade creditors, accruals and employee leave liabilities.

Non-current liabilities rose by \$40.2 million due 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 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](http://www.uts.edu.au).

## Controlled Entities

### Insearch Limited

Insearch Limited is a company limited by guarantee. It provides education courses in English language, business, information technology and other disciplines to Australian and overseas students. Insearch Limited also sources approximately 1,500 students for the University annually. It is accredited as a higher education institution.

Insearch Limited operates controlled entities in Australia and China, and a charitable foundation in the United Kingdom. It also has a joint venture in Vietnam. It has more than 350 agency agreements across 67 countries to enrol overseas students.

Year ended 31 December	Consolidated		Parent	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Revenue	53,762	56,948	55,219	59,620
Expenses	52,664	56,299	52,565	56,151
Surplus	1,098	649	2,654	3,469
Net assets (at 31 December)	38,943	37,971	38,265	35,611

Revenue decreased during 2012 by \$3.2 million due to fewer student enrolments.

Expenses decreased during 2012 primarily due to a fall in donations by the company and its subsidiaries to the University. Donations towards the University's operations fell to \$1.1 million in 2012 from \$5.0 million in 2011.

## Other Controlled Entities

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

For further financial and other information on these entities I have listed their websites.

Entity Name	Website
accessUTS Pty Limited	<a href="http://www.accessuts.uts.edu.au">www.accessuts.uts.edu.au</a>
UTS Global Pty Limited	*
Insearch (Shanghai) Limited	*
Insearch Education	*
Insearch Education International Pty Limited	*

\* This entity does not have a website.

## 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.

For further financial and other information on these entities I have listed their websites.

Entity Name	Website
AustLii Foundation Limited	<a href="http://www.austlii.edu.au">www.austlii.edu.au</a>
Sydney Educational Broadcasting Limited	<a href="http://www.2ser.uts.edu.au">www.2ser.uts.edu.au</a>

# University of Western Sydney

## Audit Opinion

I issued unqualified audit opinions on the University's and five of its controlled entities' 31 December 2012 financial statements.

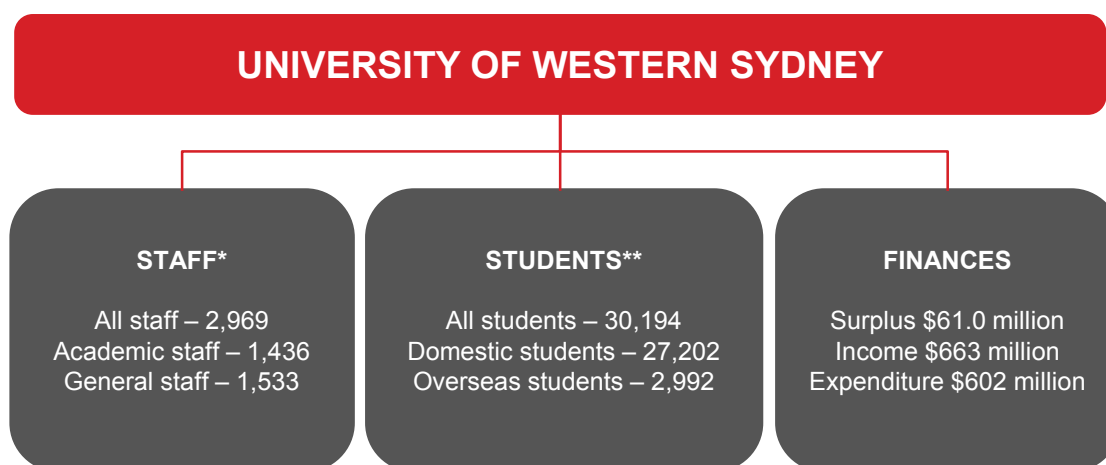
I issued qualified audit opinions on the following controlled entities' 31 December 2012 financial statements:

- University of Western Sydney Foundation Trust
- Whitlam Institute within the University of Western Sydney Trust
- UWS Early Learning Limited.

I was unable to express an opinion as to whether the Trusts and Early Learning Limited 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 opinions for the Trusts in 2011 were similarly modified. This was the first year of incorporation for Early Learning Limited.

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

## Operational Snapshot



Source: University of Western Sydney.

\* Full-Time Equivalent (unaudited).

\*\* Equivalent Full-Time Student Load (unaudited).

## Performance Information

### Operating Margin

The University continued to make a surplus from its operations. The surplus for the year ended 31 December 2012 was \$61.0 million (\$12.5 million in 2011) resulting in an operating margin of 9.2 per cent (2.3 per cent).

Operating margin was 9.2 per cent for 2012 compared to 2.3 per cent for 2011

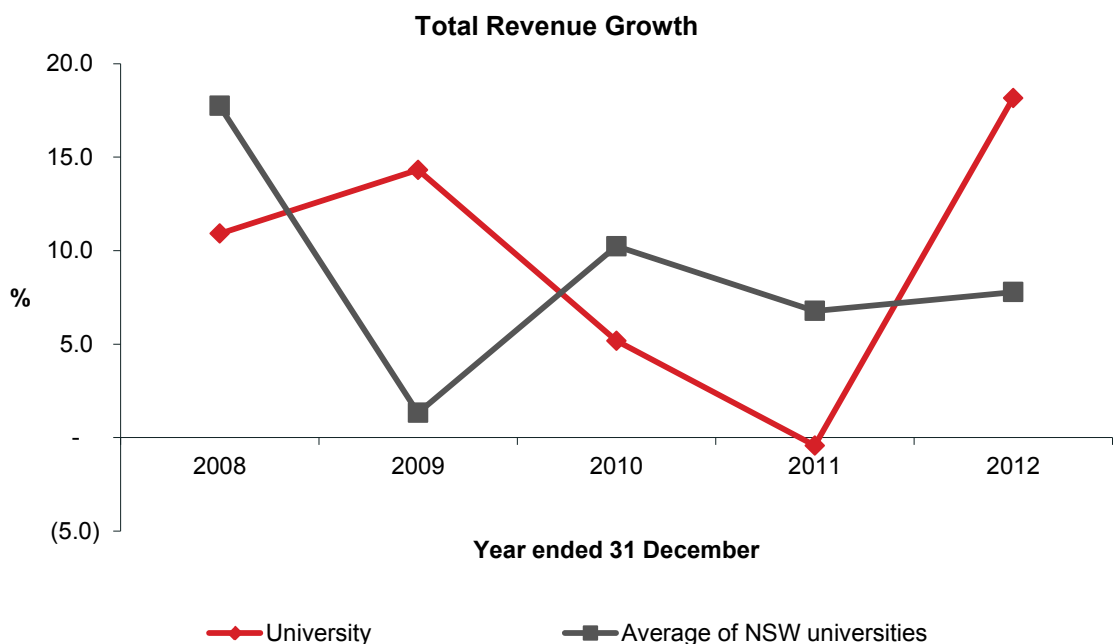


Source: Financial statements (audited).

The operating margin shows the operating surplus as a percentage of total revenue. It should be noted that total revenue includes Australian Government grants for recurrent and capital expenditure of \$326 million (\$246 million). The proportion of the operating surplus over total revenue has been positive over the past five years.

The increased surplus was primarily due to a significant increase in Australian Government grants partially offset by rising employee related expenses.

## Revenue Growth



Source: Financial statements (audited)

Revenue increased by 18.2 per cent from the previous year to \$663 million in 2012 (\$561 million in 2011). The largest increase in revenue was from Australian Government grants, which increased by 32.4 per cent from 2011.

The University's revenue growth in 2012 was above average for NSW universities

## Revenue Sources

Year ended 31 December	2012 \$m	2011 \$m	2010 \$m	2009 \$m	2008 \$m
<b>Student course fees</b>					
Total domestic students	210	193	188	168	155
Overseas students	61	61	62	55	49
<b>Total student course fees</b>	<b>271</b>	<b>254</b>	<b>250</b>	<b>223</b>	<b>204</b>
Australian Government grants	326	246	259	254	217
Consultancy and contracts	11	11	10	11	10
Investment income	4	5	4	3	3
Other	51	45	40	44	34
<b>Total revenue</b>	<b>663</b>	<b>561</b>	<b>563</b>	<b>535</b>	<b>468</b>

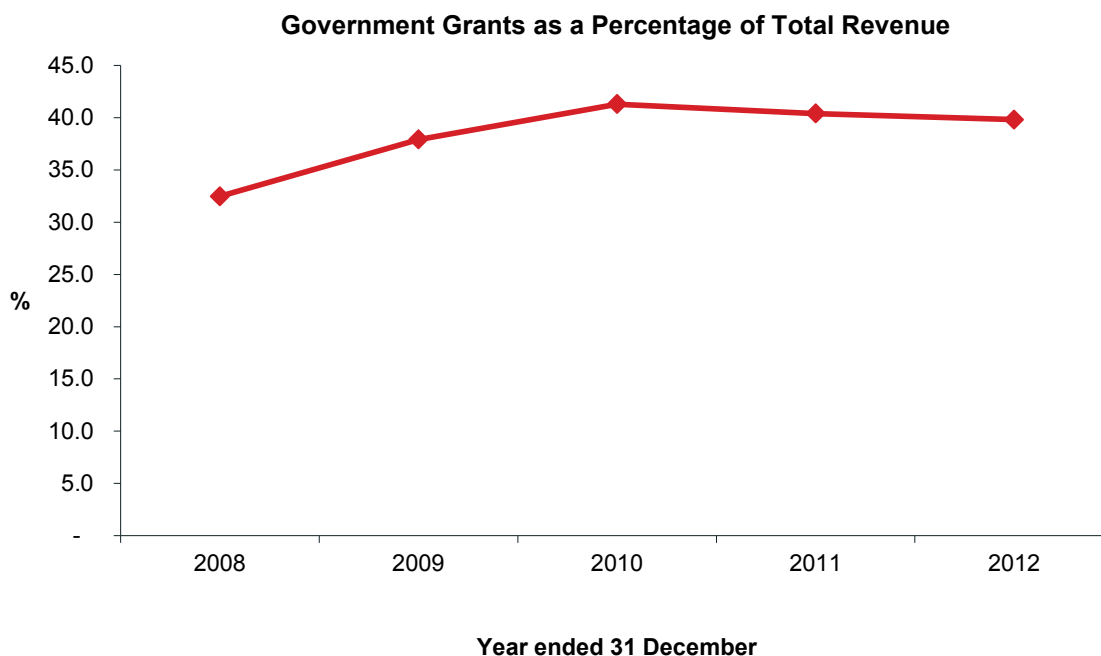
Source: Financial statements (audited).

Revenue from Australian Government grants has increased by over 50 per cent over the past five years. The University advises this is due to rising students numbers resulting in a consequential increase in government funding; income from the Australian Government's low Socio-Economic Status (SES) funding scheme, as well as the University's success in gaining funding from a range of Australian Government infrastructure and project funding schemes.

## Australian Government Funding

Australian Government grants were the major source of the University's revenue for 2012. Over the last five years the University's reliance on Australian Government grants has fluctuated between 43.9 and 49.2 per cent, as shown below.

Reliance on Australian Government grants increased in 2012



Source: Financial statements (audited).

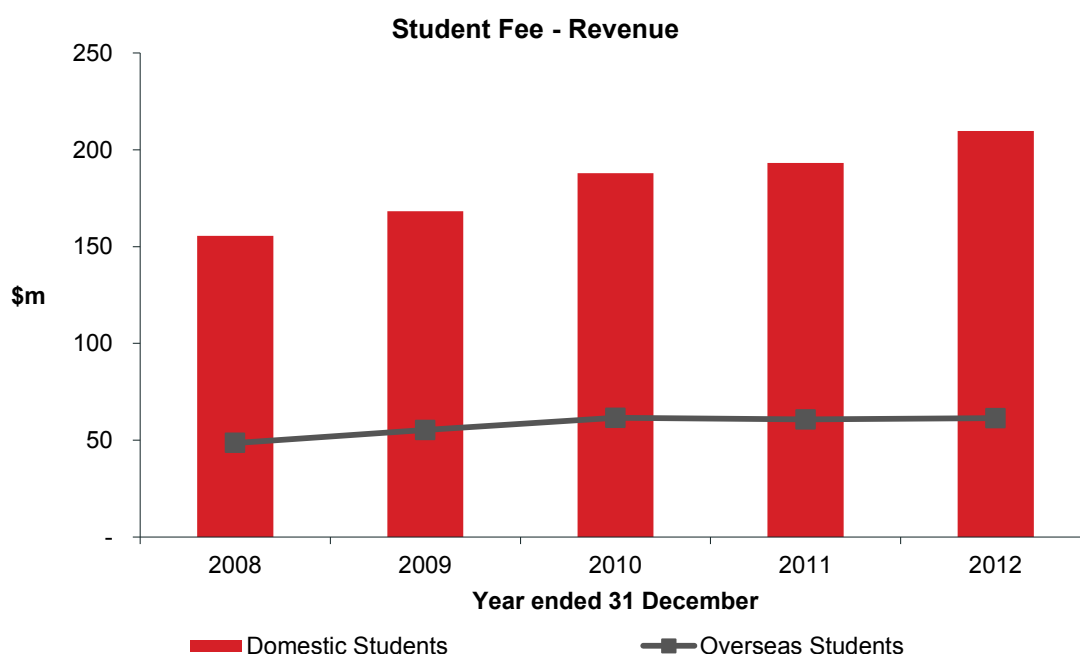
In the analysis above, Australian Government grants (including operating and capital) excludes Higher Education Loan Programs. These revenues are included in student fees.



## Student Fees

Student fees comprise:

- domestic student fees including those paid directly by students and fee payments from the Australian Government on behalf of students from Higher Education Loan Programs, such as the Higher Education Contribution Scheme
- fees from overseas students studying at the University.



Source: Financial statements (audited).

Over the last five years revenue received from overseas students as a proportion of student fees has remained in the range of 23 to 25 per cent. Domestic student fees have increased by 34.8 per cent over the past five years. In 2012, 77.4 per cent of total student revenue was derived from domestic students (76.1 per cent in 2011).

## Student Numbers

The University's equivalent full-time student load (EFTSL) has risen by 20.4 per cent over the last five years. The overseas student EFTSL has increased by 4.5 per cent since 2008 while domestic EFTSL has increased by 22.3 per cent over the same period.

The table below shows the EFTSL by type over the past five years.

Year ended 31 December	2012	2011	2010	2009	2008
Domestic	26,276	25,906	24,534	22,738	21,488
Overseas	2,758	2,802	2,916	2,790	2,639
<b>Total</b>	<b>29,034</b>	<b>28,708</b>	<b>27,450</b>	<b>25,528</b>	<b>24,127</b>

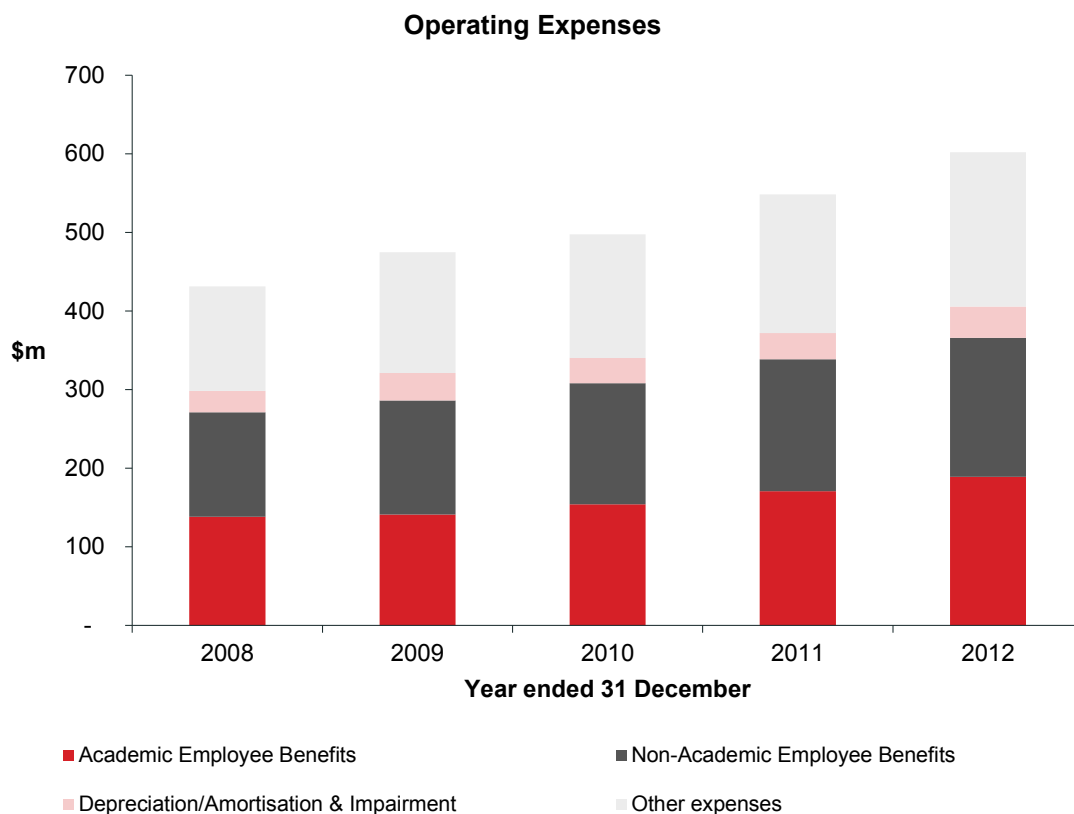
Source: Student Load- 2008 to 2011 from Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education (unaudited). Student Load- 2012 from the University of Western Sydney (unaudited).

Note: Numbers in the table are for the University excluding controlled entities.

The University advises the decrease in overseas students in 2012 was primarily driven by the Australian Government's uncapping of student enrolments across NSW Universities and a relatively high Australian dollar. As a result the University expects the number of overseas students to be steady in 2013 with only small increases from 2014 onwards. Domestic student numbers were also impacted by the uncapping of enrolments and increased by 1.4 per cent in 2012 (5.6 per cent increase in 2011).

## Operating Expenses

Operating expenses have increased over the past five years.

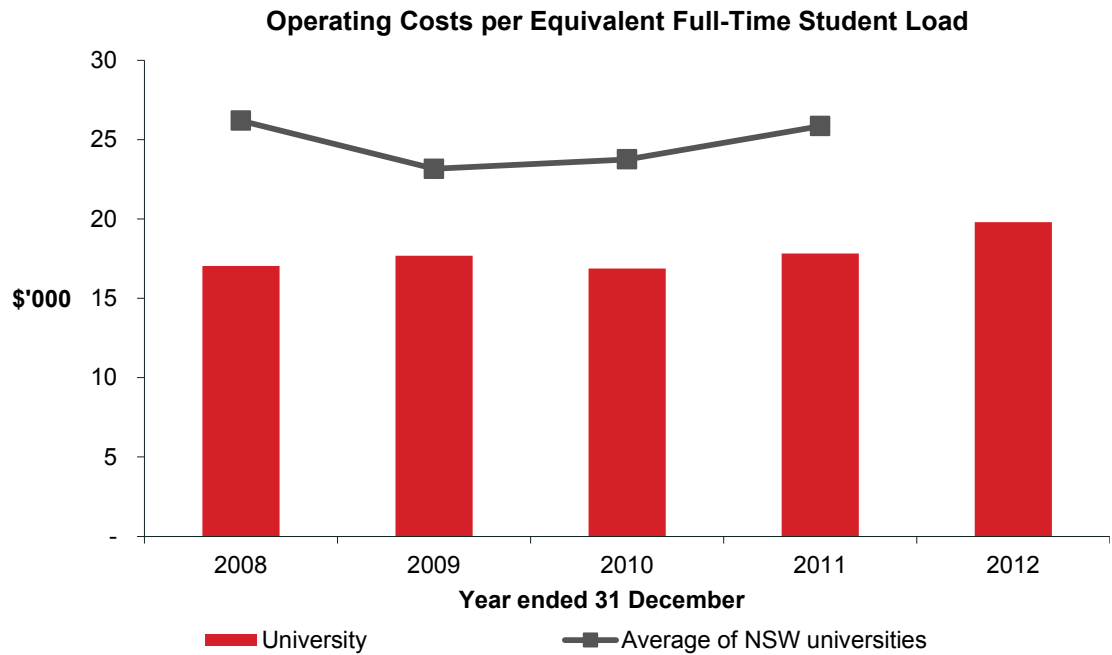


Source: Financial statements (audited).

In 2012, total operating expenses increased by 9.8 per cent to \$602 million (\$548 million in 2011). This is primarily due to rising employee benefit expenses.

Academic employee benefits continued to increase, rising 36.7 per cent since 2008 from \$138 million to \$189 million. Non-academic employee benefits increased by 32.8 per cent from \$133 million in 2008 to \$176 million in 2012.

Operating costs per student averaged \$19,808 in 2012 (\$17,827 in 2011). Over the four years 2008 to 2011, the University has consistently spent less in operating costs on a per student basis compared to the average for NSW universities. The average cost for 2012 for all NSW universities was not available at the time of finalising this report as student numbers were not yet published by the Department.



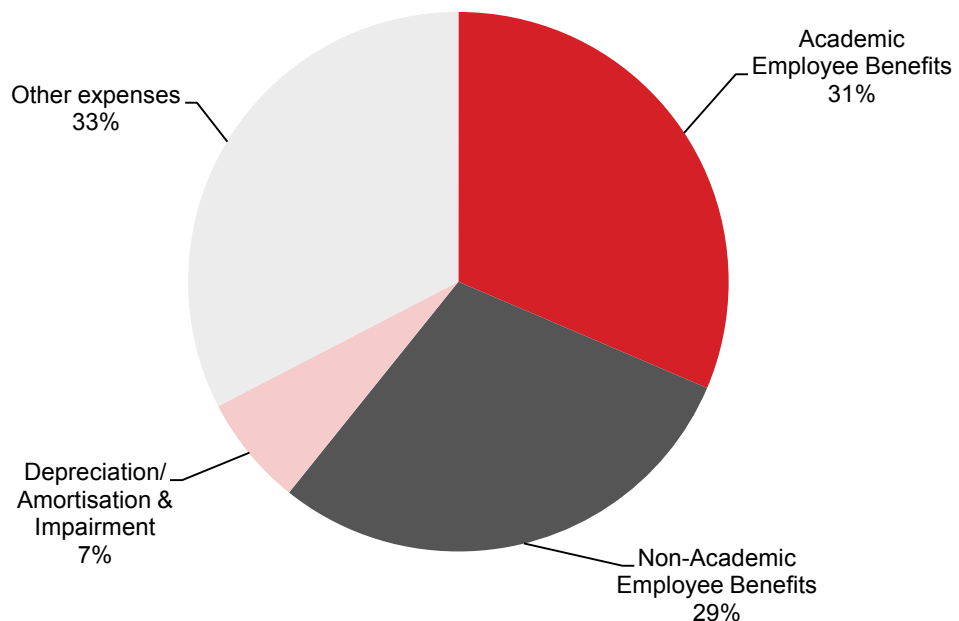
Source: Student load 2008 to 2011 from Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education (unaudited), Student load - 2012 University of Western Sydney (unaudited). Operating costs - Financial statements (audited).

Note: This data relates to the University and excludes controlled entities.

## Where do the dollars go?

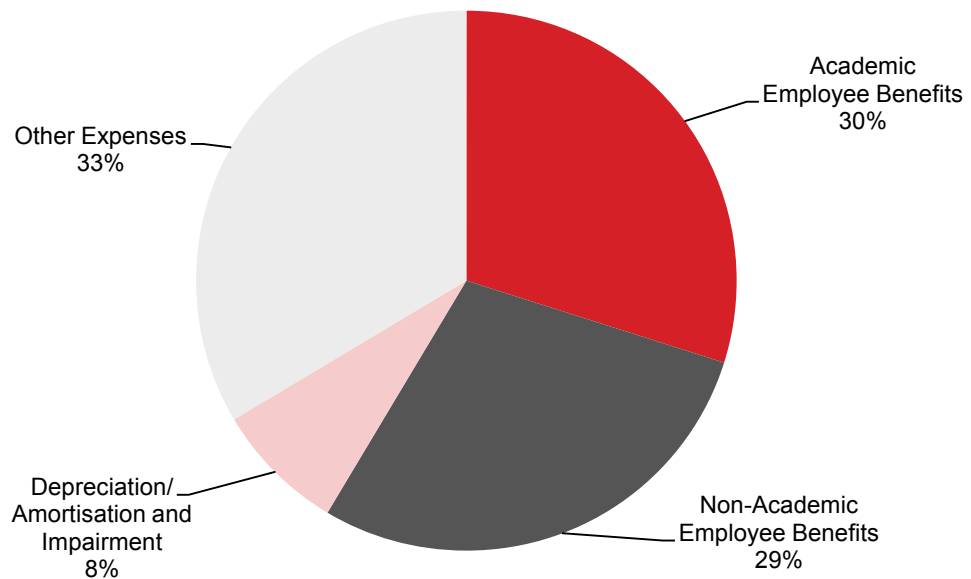
The University's 2012 operating expenditure percentages were generally consistent with the average of all NSW Universities. In 2012, academic and non-academic employee benefits expense represented 60.8 per cent of the University's total operating costs (59 per cent for the NSW average).

### 2012 Operating Costs of the University of Western Sydney



Source: Financial statements (audited).

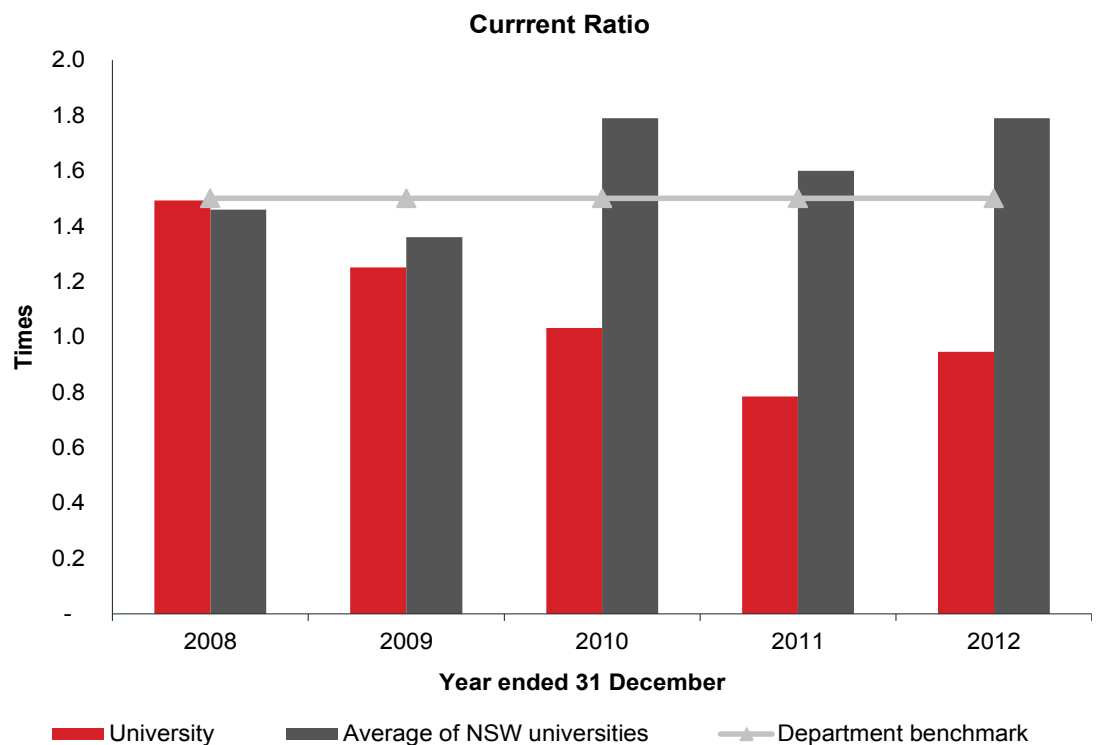
### 2012 Operating costs of all NSW universities



Source: Financial statements (audited).

### Current Ratio

The University's 2012 current ratio of 1.0 is well below the 1.5 good practice guideline set by the Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education (the Department). Since 2009, the University's current ratio has been below the average for NSW universities.



Source: Financial statements (audited) and Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education (unaudited)..

The current ratio measures the University's ability to pay its short term debts using short term assets. It is calculated by dividing current assets by current liabilities, excluding long service leave liabilities expected to be settled after 12 months of year end. A higher ratio usually indicates a greater ability of an entity to pay its short term debt. A ratio lower than one indicates an entity may have difficulty meeting its short term obligations.

During 2012, the University's current liabilities amounted to \$114 million, marginally higher than its current assets of \$107 million. Although the University's ratio is below the Department's benchmark it continues to generate positive cash flows and maintains a healthy net asset position. The University also has unused borrowing facilities of \$72.5 million, which can be used to settle short term commitments.

## Major Projects

Capital expenditure totalled \$109 million in 2012 (\$111 million in 2011). The table below includes major capital projects recently completed or still under construction.

Project	Forecast completion date	Forecast final cost \$m
Infrastructure Renewal	Complete	22.9
Bankstown New Residences	24 January 2013	21.2
Hawkesbury New Residences	Complete	14.3
Penrith New Residences	Complete	11.5
Campbelltown Building 24 Adaptive Reuse	Complete	6.7
Research & Campus Safety/Security (CCTV)	Complete	6.5
Parramatta Precincts	22 February 2013	6.1
Hawkesbury H8 Nursing Clinical Practice Units	11 April 2013	4.5
Campbelltown Buildings 8 Laboratories	Complete	4.4
Bankstown Childcare Centre	Complete	3.2

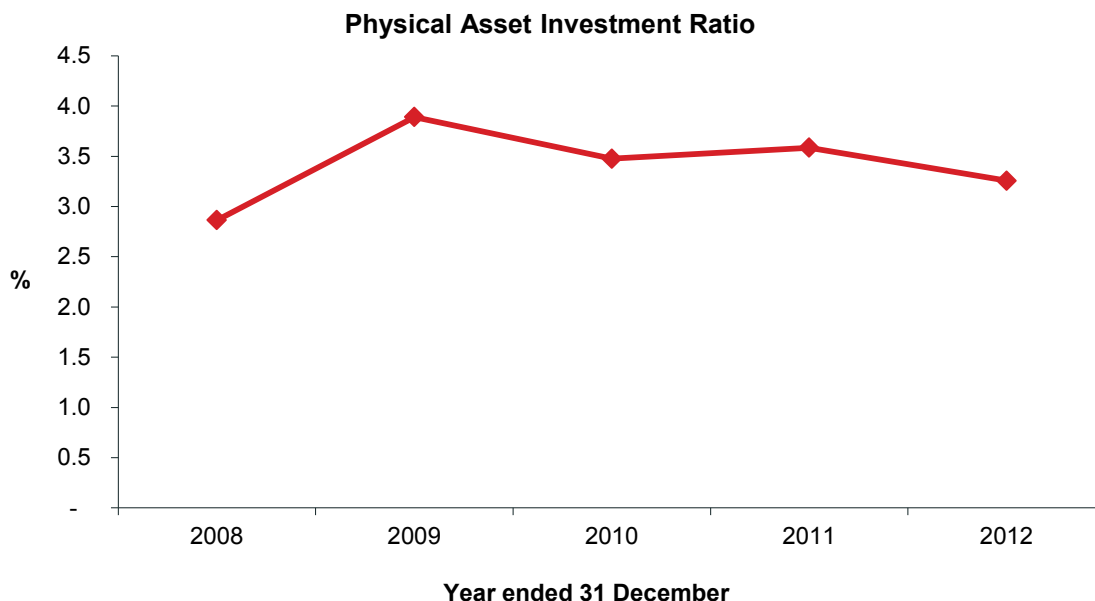
Source: University of Western Sydney (unaudited).

Capital works to support increasing future student numbers continues to be a high priority for the University. Campus development projects include refurbishing existing buildings and building new student residences to accommodate the expected increase in student numbers. The University plans to spend more than \$239 million over the next three years on capital works funded by 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 was estimated at \$35.7 million in 2012, a decrease of 17.7 per cent from the previous year's \$43.4 million. The decrease was due to increased focus by management on reducing the maintenance backlog through infrastructure renewal and refurbishment of existing buildings.

## Physical Asset Investment Ratio

The University's physical asset investment ratio has been fairly stable over the last five years.



Source: Financial statements (audited)

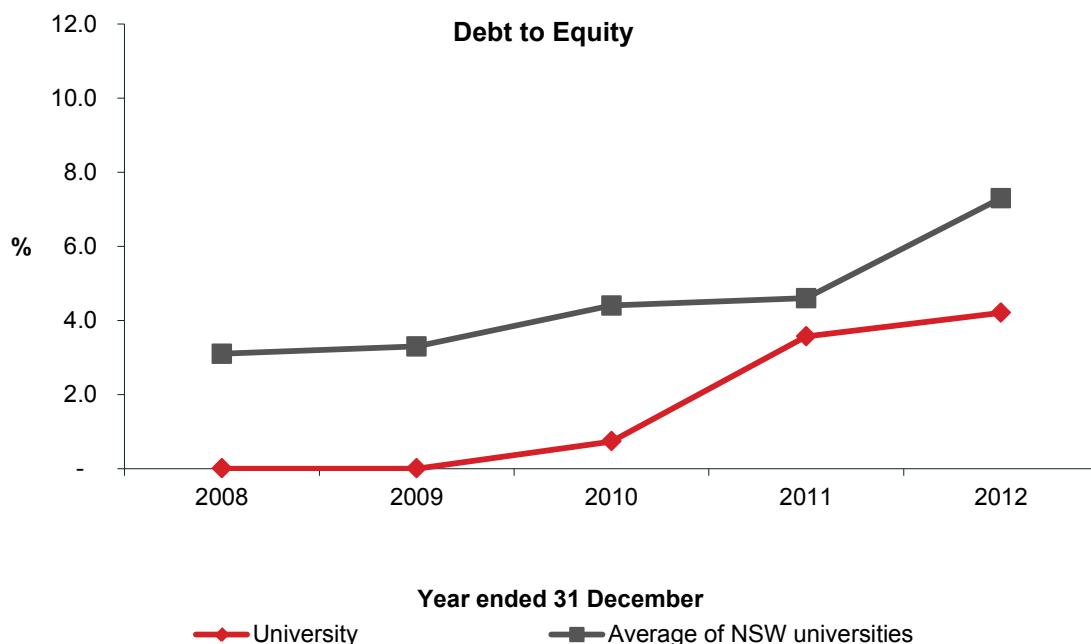
The University's major capital works programs have resulted in a consistently high physical asset reinvestment ratio. The University's focus is to continually expand its capital assets to meet increasing student loads.

The physical asset investment ratio shows the extent to which an organisation renews or grows its physical assets, as measured by depreciation expense. This is important to the University, which has major capital facilities. A ratio above one indicates an increasing investment in physical assets while a lower ratio may indicate under investment in renewing facilities, which may lead to higher maintenance expenditure in the future.

## Debt to equity ratio

The University's debt to equity ratio has increased over the last five years to 4.2 per cent in 2012. This is consistent with the trend observed in its NSW University counterparts. The ratio has increased from previous years due to additional borrowings to fund the construction of more student accommodation and new library facilities.

The University's debt to equity ratio was lower than the NSW universities' average in 2012



Source: Financial statements (audited).

The debt to equity ratio is defined as total borrowings as a proportion of equity.

## Employee Entitlements

	2012 \$'000	2011 \$'000	2010 \$'000	2009 \$'000	2008 \$'000
Net liability for defined benefit superannuation	259,411	234,759	145,888	127,103	163,868
Annual leave liability	25,345	22,771	20,840	18,602	17,551
Long service leave liability	50,929	46,485	40,859	39,405	37,210
<b>Total</b>	<b>335,685</b>	<b>304,015</b>	<b>207,587</b>	<b>185,110</b>	<b>218,629</b>

Source: Financial Statements (audited).

Employee entitlement liabilities increased by 10.4 per cent in 2012. The largest, superannuation, increased by 10.5 per cent to \$259 million. Defined benefit superannuation liabilities increased to \$259 million at 31 December 2012 (\$235 million at 31 December 2011) mainly due to a decrease in the discount rate used to calculate the present value of the liability from 3.7 per cent to 3.3 per cent. The Australian Government is expected to fund most of these liabilities, minimising the impact on the University's operating result and cash flows. The University is responsible for funding State defined benefit superannuation liabilities of \$3.3 million (\$3.2 million at 31 December 2011).

Total annual leave balances have increased by 44.4 per cent over the last five years, from \$17.6 million to \$25.3 million. Of the 2,591 employees (2,496 in 2011), 94 or 3.6 per cent (106 or 4.2 per cent), held annual leave balances exceeding the maximum thresholds allowed under the University's leave policy. The fall in the number of staff with excess leave is mainly due to strategies introduced by the University over the past year. Further strategies should be continued to be implemented given the increase in the annual leave liability. This increase is attributable to an increase in the number of employees with leave balances and an increase in employee salary.

The long service leave liability has increased by 9.6 per cent to \$50.9 million (\$46.5 million) over the previous year, mainly due to a decrease in the discount rate used to calculate the present value of the liability.

Employee entitlement liabilities increased by 10.4 per cent in 2012. The largest, superannuation, increased by 10.5 per cent to \$259 million

The University is reducing excessive annual leave balances

## 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	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Australian Government grants	325,866	246,195	325,841	246,128
HELP Australian Government payments	171,077	154,808	169,893	153,345
Fees and charges	82,569	81,157	73,415	69,951
Other	83,308	78,769	61,124	57,294
<b>Total revenue*</b>	<b>662,820</b>	<b>560,929</b>	<b>630,273</b>	<b>526,718</b>
Employee benefits and on-costs	365,679	338,690	338,598	310,383
Depreciation	35,288	31,942	34,242	31,195
Other	200,950	177,556	202,322	169,991
Deferred expense – superannuation	(69)	218	(69)	218
<b>Total expenses</b>	<b>601,848</b>	<b>548,406</b>	<b>575,093</b>	<b>511,787</b>
<b>Surplus</b>	<b>60,972</b>	<b>12,523</b>	<b>55,180</b>	<b>14,931</b>
<b>Other comprehensive income</b>				
Gain/(loss) in fair value of available for sale financial assets	12,018	(4,873)	10,746	(4,873)
Gain/(loss) on revaluation of land and buildings and artworks	14,004	(28,408)	14,004	(28,408)
Actuarial loss from defined benefit superannuation plans	(299)	(1,083)	(299)	(1,083)
Other gain/(loss)	(69)	133	(69)	133
<b>Total other comprehensive income/(expense)</b>	<b>25,654</b>	<b>(34,231)</b>	<b>24,382</b>	<b>(34,231)</b>
<b>Total comprehensive income/(expense)</b>	<b>86,626</b>	<b>(21,708)</b>	<b>79,562</b>	<b>(19,300)</b>

Source: Financial statements (audited).

\* The revenue sources table shown earlier classifies revenue differently for analytical purposes.

Australian Government grants increased mainly due to an increase in student numbers and a \$12.6 million Education Investment fund grant received during 2012.

The increase in the Higher Education Contribution Scheme (HECS) income was in line with the higher student load in Commonwealth Supported Places. The University is gradually increasing its providence of government-funded places within Australia.

Salary step increases awarded to staff and the appointment of more staff resulted in a rise in employee benefits and on-costs.

The increase in depreciation expense is directly attributable to additions from the capital works program.

Other expenses include: a loss on investments of \$8.5 million; impairment of a building due to fire damage of \$5.6 million; an increase in fees for service of \$6.6 million; and an increase in borrowing costs of \$1.5 million.



The \$14.0 million gain on revaluation of land and buildings mainly relates to the revaluation of buildings during the year. The \$28.4 million decrement last year was attributable to decreases in land values in the Penrith and Kingwood areas and reassessment and reclassification of portions of Campbelltown land from 'academic use' to 'residential use under development'.

## Abridged Statements of Financial Position

At 31 December	Consolidated		Parent	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Current assets	107,362	78,451	90,576	39,100
Non-current assets	1,682,215	1,569,518	1,653,422	1,566,044
<b>Total assets</b>	<b>1,789,577</b>	<b>1,647,969</b>	<b>1,743,998</b>	<b>1,605,144</b>
Current liabilities	145,133	133,843	144,342	128,484
Non-current liabilities	323,421	279,729	322,814	279,380
<b>Total liabilities</b>	<b>468,554</b>	<b>413,572</b>	<b>467,156</b>	<b>407,864</b>
<b>Net assets</b>	<b>1,321,023</b>	<b>1,234,397</b>	<b>1,276,842</b>	<b>1,197,280</b>

Source: Financial statements (audited).

Current assets increased mainly due to an increase in short term cash deposits of \$24.0 million in 2012.

The non-current asset increase predominately relates to new property, plant and equipment from the capital works program and an increase in the defined benefit superannuation receivable of \$24.6 million to be funded by the Australian Government.

Non-current liabilities increased mainly due to increases in superannuation liabilities of \$24.7 million and borrowings of \$11.5 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
- provides courses of study or instruction across a range of fields, and the carrying out of research, to meet the needs of the community, beginning in Greater Western Sydney
- provides teaching and learning that engage with advanced knowledge and inquiry
- awards diplomas and degrees of Bachelor, Master and Doctor and other certificates and awards.
- exercises commercial functions comprising the commercial exploitation or development, for the University's benefit, of any facility, resource or property of the University or in which the University has a right or interest.

For further information on the University, refer to [www.uws.edu.au](http://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 two of its controlled entities, with the most significant being a \$5.3 million loan to Television Sydney (TVS) Limited. The University has fully impaired the receivable as it is doubtful Television Sydney (TVS) Limited will be able to repay the loan.

The University provided a financial guarantee to Television Sydney (TVS) Limited, to meet going concern considerations.

Entity Name	Website
CADRE Design Pty Limited and CADRE Design Unit Trust (sold 19 April 2012)	<a href="http://www.cadre.com.au">www.cadre.com.au</a>
Television Sydney (TVS) Limited	<a href="http://www.tvs.org.au">www.tvs.org.au</a>
Television Sydney Foundation Limited and Television Sydney Foundation Trust (deregistered April 2012 and were exempted by NSW Treasury from preparing financial statements for 2012)	*
University of Western Sydney Foundation Limited and University of Western Sydney Foundation Trust	*
UWS College Pty Limited	<a href="http://www.uwscollege.edu.au">www.uwscollege.edu.au</a>
UWS Early Learning Limited	*
uwsconnect Limited	<a href="http://www.uwsconnect.com.au">www.uwsconnect.com.au</a>
Whitlam Institute within the University of Western Sydney Limited and Whitlam Institute within the University of Western Sydney Trust	<a href="http://www.whitlam.org">www.whitlam.org</a>

\* This entity does not have a website.

# University of Wollongong

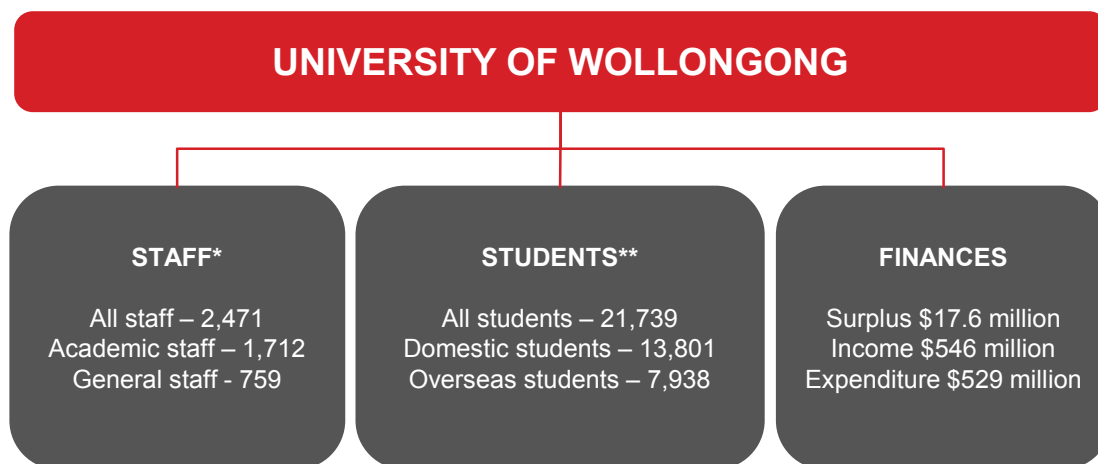
## Audit Opinion

I issued unqualified audit opinions on the University and its controlled entities' 31 December 2012 financial statements.

Without qualifying ITC (New Zealand) Limited's financial statements, the Independent Auditor's Report included an emphasis of matter paragraph, drawing attention to the financial statements being prepared on a liquidation basis. The financial statements were prepared on a liquidation basis because the company was deregistered on 12 February 2013. The company had been dormant for several years.

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

## Operational Snapshot



Source: University of Wollongong.

\* Full-Time Equivalent (unaudited).

\*\* Equivalent Full-Time Student Load (unaudited).

## Performance Information

### Operating Margin

The University continued to make a surplus from its operations. The surplus for the year ended 31 December 2012 was \$17.6 million (\$37.8 million in 2011) resulting in an operating margin of 3.2 per cent (6.9 per cent) of total revenue.

Operating margin was 3.2 per cent for 2012 compared to 6.9 per cent for 2011

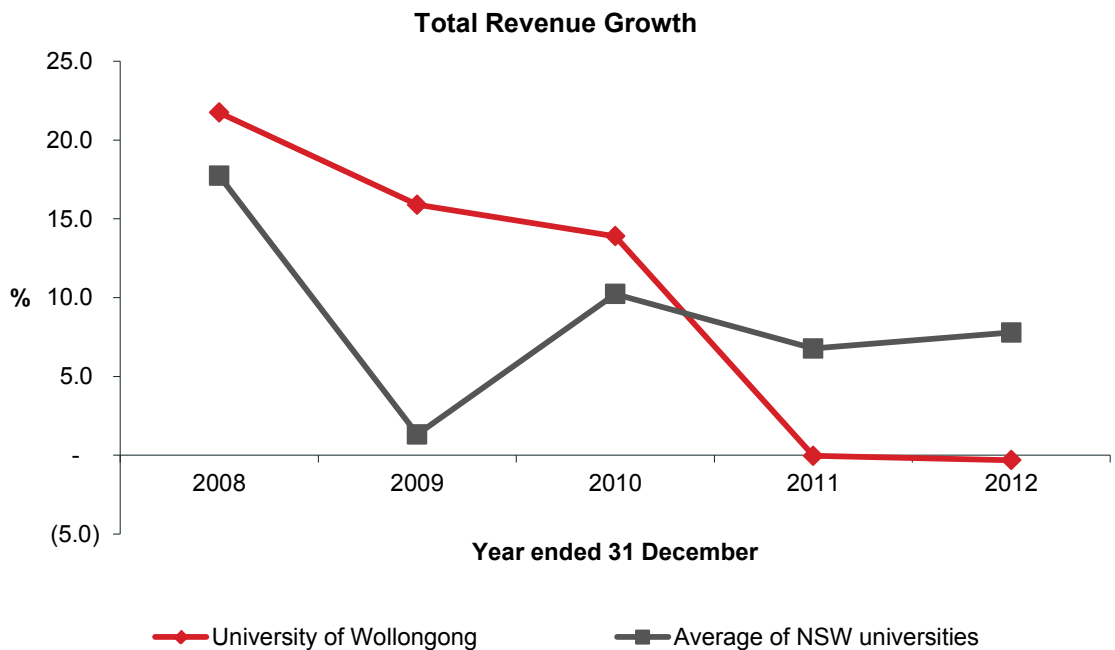


Source: Financial statements (audited).

The University's operating margin has reduced in the last two years, largely because of a drop in capital grants. In 2010, the University received \$58.0 million in capital grants, whereas in 2011 and 2012 it received only \$39.6 million and \$7.5 million respectively.

In its 2012-2020 financial strategy, the University aims to achieve an underlying operating margin of six to eight per cent of total revenue each year. It achieved an underlying operating margin of 7.4 per cent (5.1 per cent) in 2012. The University measures its underlying operating margin by excluding capital grants and depreciation expense from its operating result for the year.

## Revenue Growth



Source: Financial statements (audited).

The University's revenue growth was below the average for NSW universities in the last two years

While the University's total revenue growth has remained fairly static in the last two years, it has grown by 31.6 per cent since 2008. Furthermore, its revenue growth from student course fees, as shown in the table below, has increased by 27.8 per cent from \$180 million in 2008 to \$230 million in 2012.

The University's annual revenue growth over the last five years has been affected by the extent and timing of capital grants.

## Revenue Sources

Year ended 31 December	2012 \$m	2011 \$m	2010 \$m	2009 \$m	2008 \$m
<b>Student course fees</b>					
Domestic students	96	90	86	71	67
Overseas students	134	136	144	133	113
<b>Total student course fees</b>	<b>230</b>	<b>226</b>	<b>230</b>	<b>204</b>	<b>180</b>
Australian Government grants	217	221	226	182	160
Consultancy and contracts	21	20	20	16	20
Investment income	14	18	15	10	5
Other	64	63	59	69	50
<b>Total revenue</b>	<b>546</b>	<b>548</b>	<b>548</b>	<b>481</b>	<b>415</b>

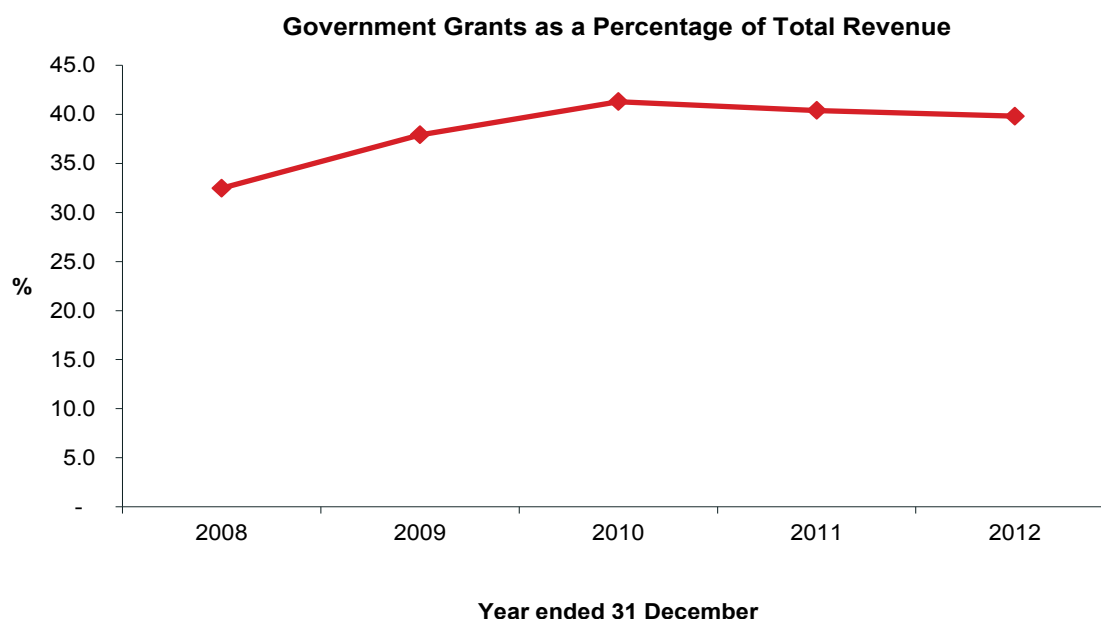
Source: Financial statements (audited).

After reaching a high of \$144 million in 2010, student course fee revenue from overseas students declined for the second consecutive year to \$134 million in 2012. This decrease was offset by a \$5.6 million, or 6.2 per cent, increase in student course fee revenue from domestic students.

## Australian Government Funding

Australian Government grants are the major source of the University's revenue. Over the last five years, the University's reliance on Australian Government grants has remained below 45 per cent of total revenue, as shown below.

Australian Government grants reliance is decreasing



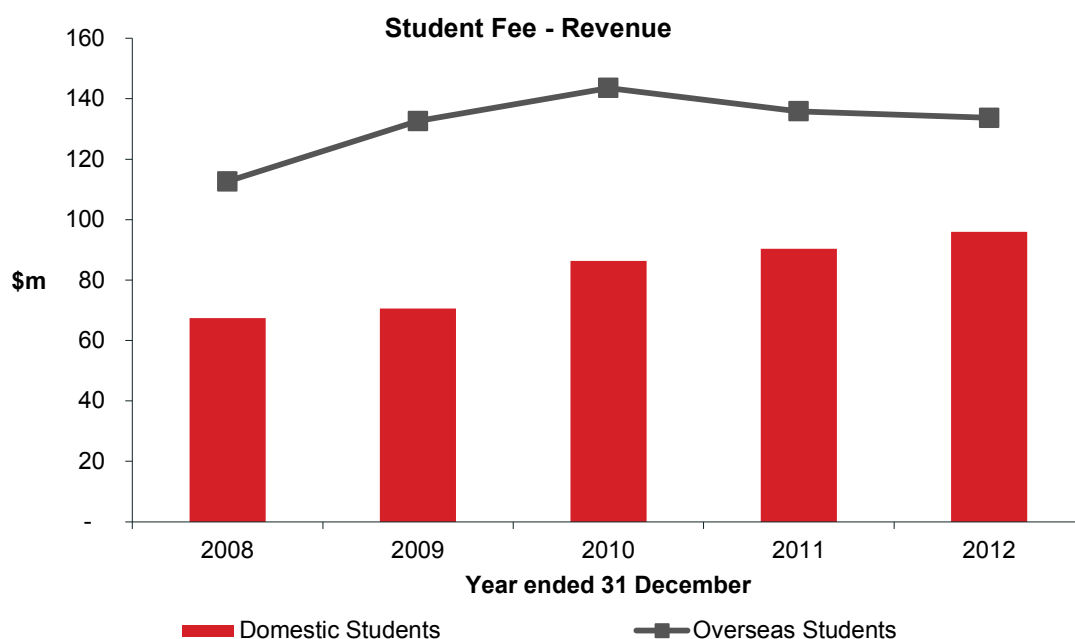
Sources: Financial statements (audited).

In the analysis above, Australian Government grants (including operating and capital) excludes Higher Education Loan Programs. These revenues are included in student fees.

## Student Fees

Student fees comprise:

- domestic student fees including those paid directly by students and fee payments from the Australian Government on behalf of students from Higher Education Loan Programs, such as the Higher Education Contribution Scheme
- fees from overseas students studying at the University.



Fees from overseas students in 2012 were 1.5 per cent lower than for 2011

Source: Financial statements (audited).

Over the last five years, revenue from domestic students grew by 42.3 per cent while revenue from overseas students increased 18.7 per cent. Since 2008, revenue from fee paying overseas students exceeded the revenue received from domestic students. In 2012, it represented 58.2 per cent (60.1 per cent in 2011) of total student fee revenue and was 1.5 per cent lower than for 2011.

## Student Numbers

The University's overall equivalent full-time student load (EFTSL) grew by 24.9 per cent over the last five years. The University's overseas student EFTSL grew by 26.0 per cent since 2008, while domestic student EFTSL grew by 23.0 per cent over the same period. Total student numbers for 2012 increased by 2.3 per cent compared to 2011. Domestic students increased by 0.6 per cent and overseas students by 5.3 per cent.

The University expects the overseas EFTSL to fall slightly in 2013, but this will be partly offset by an expected increase in domestic EFTSL. The University advised all domestic intake levels for the first 2013 session were higher than for the same session last year, except for non-award students.

The table below shows the EFTSL by type over the past five years.

Year ended 31 December	2012	2011	2010	2009	2008
Domestic	13,801	13,721	13,199	12,034	10,954
Overseas	7,938	7,539	7,538	7,137	6,454
<b>Total</b>	<b>21,739</b>	<b>21,260</b>	<b>20,737</b>	<b>19,171</b>	<b>17,408</b>

Sources: 2008 to 2011 Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education (unaudited); Student Load - 2012 University (unaudited). The table includes students at the University's Dubai campus.

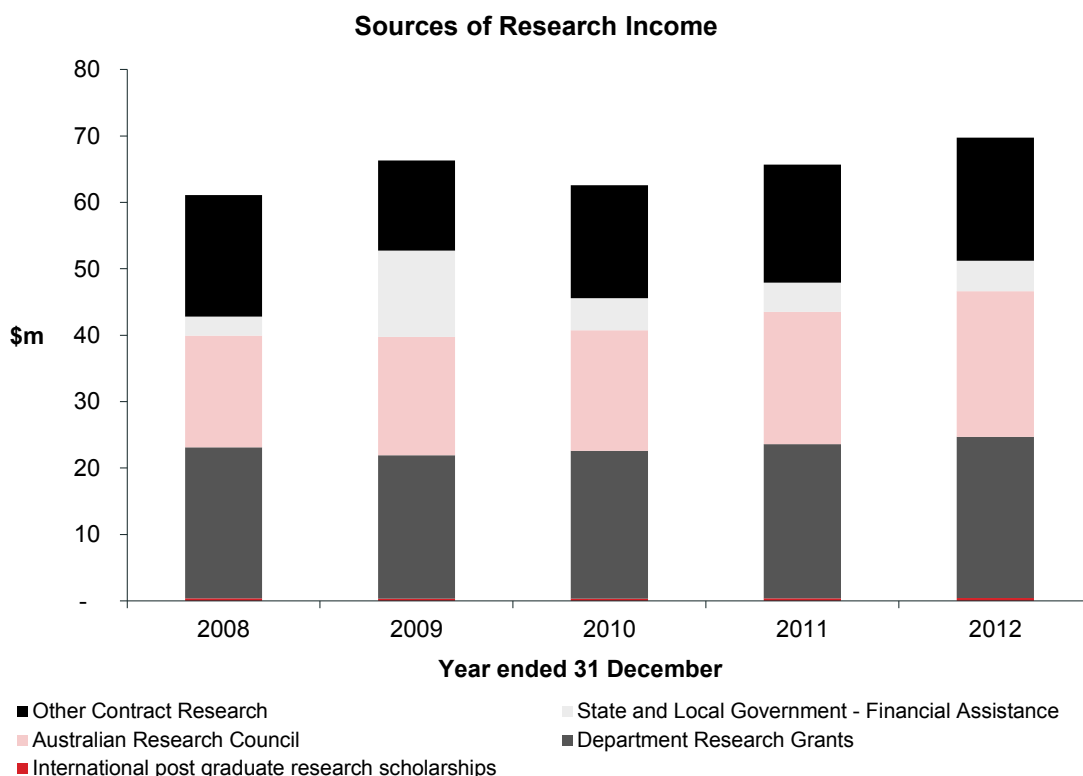
Total student numbers for 2012 increased by 2.3 per cent compared to 2011. Domestic students increased by 0.6 per cent and overseas students by 5.3 per cent

The growth in overseas students studying at the University was attributable to more offshore students, such as those studying at its Dubai campus. In 2012, the number of overseas students studying at the University's campuses in Australia decreased by 7.3 per cent. The University advises nearly half of its overseas students studying in Australia come from China.

## Research Income

The University continued to attract strong revenues for research by winning \$69.8 million in research income in 2012 (\$65.7 million in 2011). This was 14.1 per cent more than its research income five years ago, with most coming from the Australian government sector in the form of grants. Research income continued to grow with a 6.2 per cent increase in 2012.

Research income continued to grow with a 6.2 per cent increase in 2012

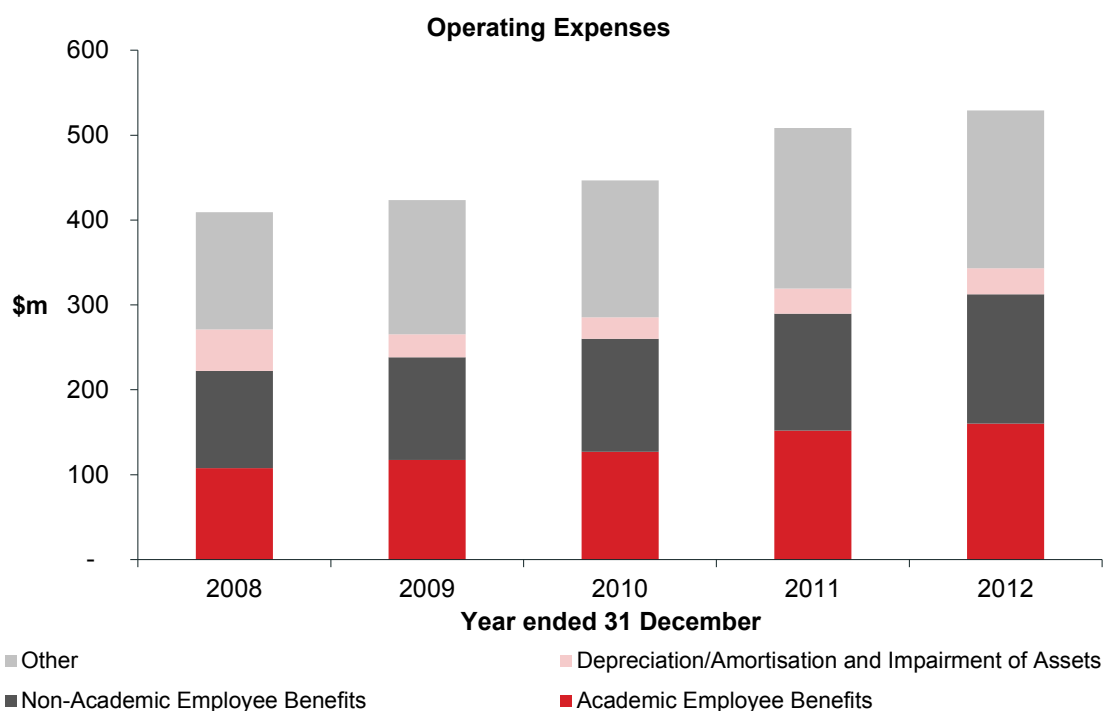


Source: Financial statements (audited).

In 2012, 66.2 per cent (65.7 per cent) of the University's research income came from the Department and the Australian Research Council. It attracted 26.6 per cent (27.1 per cent) of its research funds from commercial organisations.

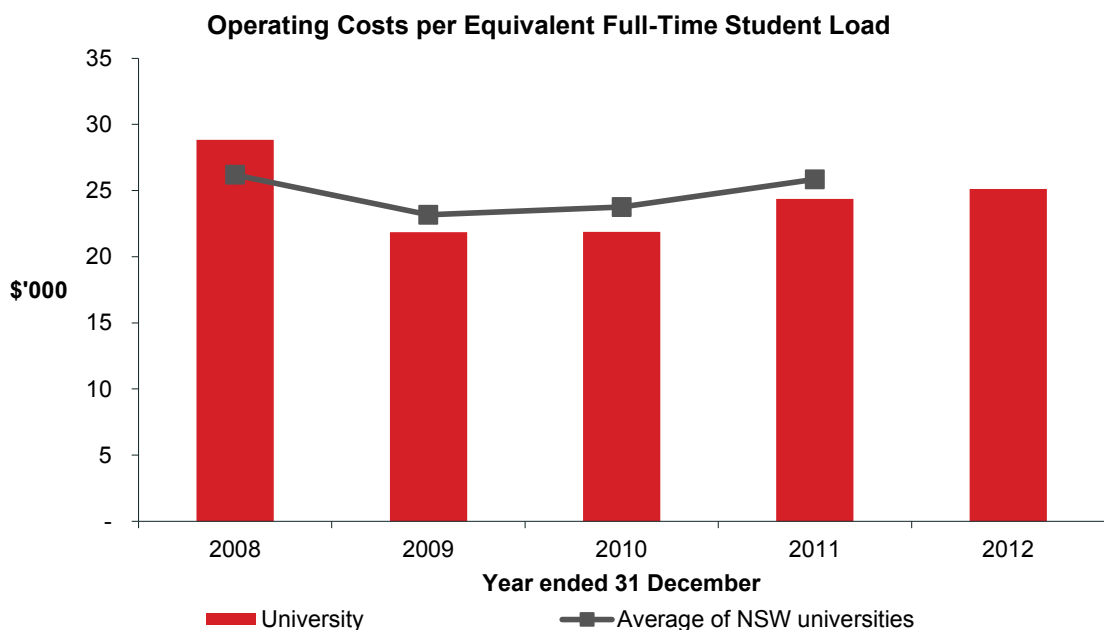
## Operating Expenses

In 2012, total operating costs increased by 4.1 per cent to \$529 million (\$508 million in 2011). Operating expenses grew each year between 2008 and 2012. This was partly attributable to increasing academic employee benefits, which rose from \$108 million to \$160 million (48.1 per cent). At the same time, non academic employee benefits grew from \$115 million to \$153 million (33 per cent).



Source: Financial statements (audited).

Operating costs averaged \$25,125 per student in 2012 compared to \$24,361 in 2011, an increase of 3.1 per cent. The University consistently incurred lower operating costs per student than the average for NSW universities over the four years 2008 to 2011. The average cost for 2012 for all NSW universities was not available at the time of finalising this report as student numbers were not yet published by the Department.



Sources: Student numbers - University (unaudited); Operating Costs - Financial statements (audited).

Note: Numbers in the table are for the University excluding controlled entities.

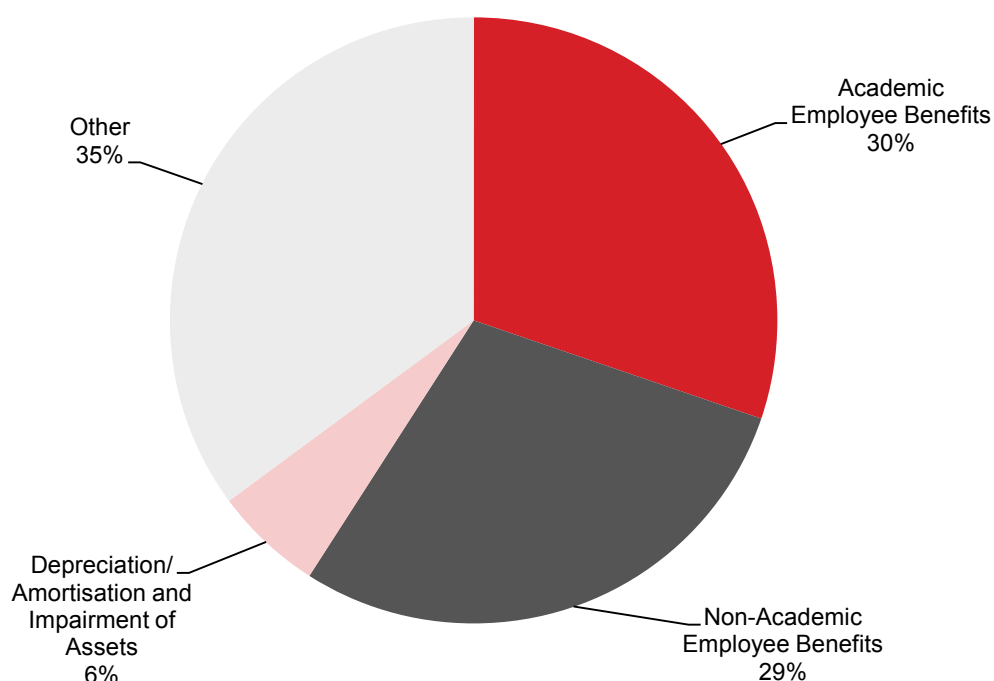


## Where do the dollars go?

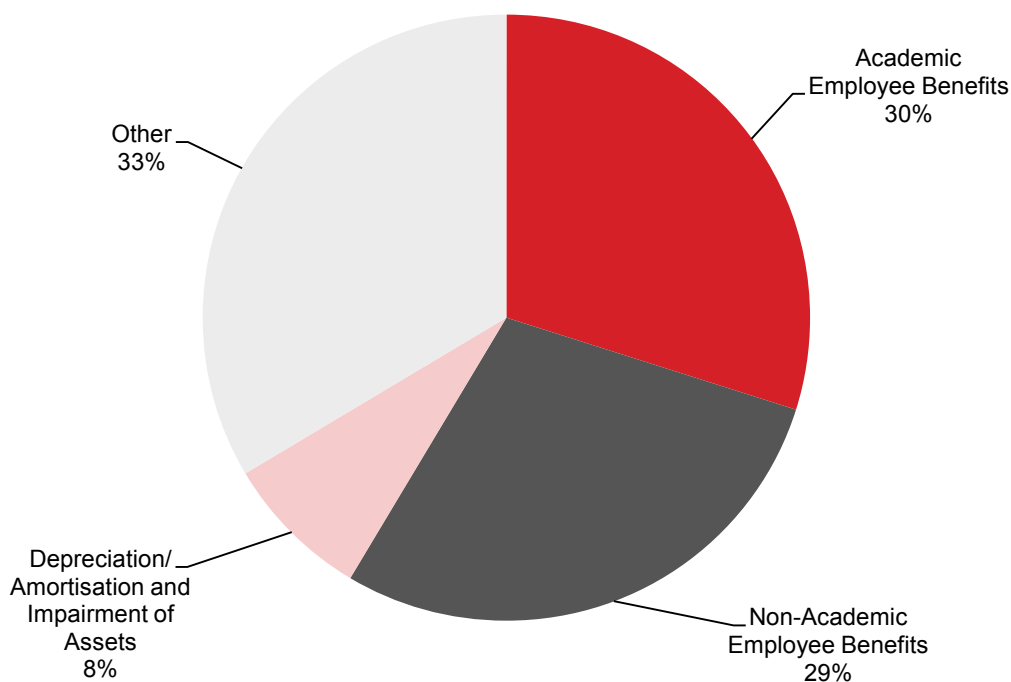
In 2012, the University's academic and non-academic employee benefits expenses, as a proportion of total expenses, were the same as the average of NSW universities and represented 59.1 per cent (57.0 per cent in 2011) of its total operating costs.

While consistent with the NSW universities' average, the University's employee benefits expenses were higher than the target in its 2012-2020 financial strategy. In this strategy, the University wants to keep its employee benefits expenses (excluding those of controlled entities) to less than 55 per cent of total expenses. For the year ended 31 December 2012, it was slightly more at 56.6 per cent (54.5 per cent in 2011).

### 2012 Operating costs of the University of Wollongong



## 2012 Operating costs of all NSW universities

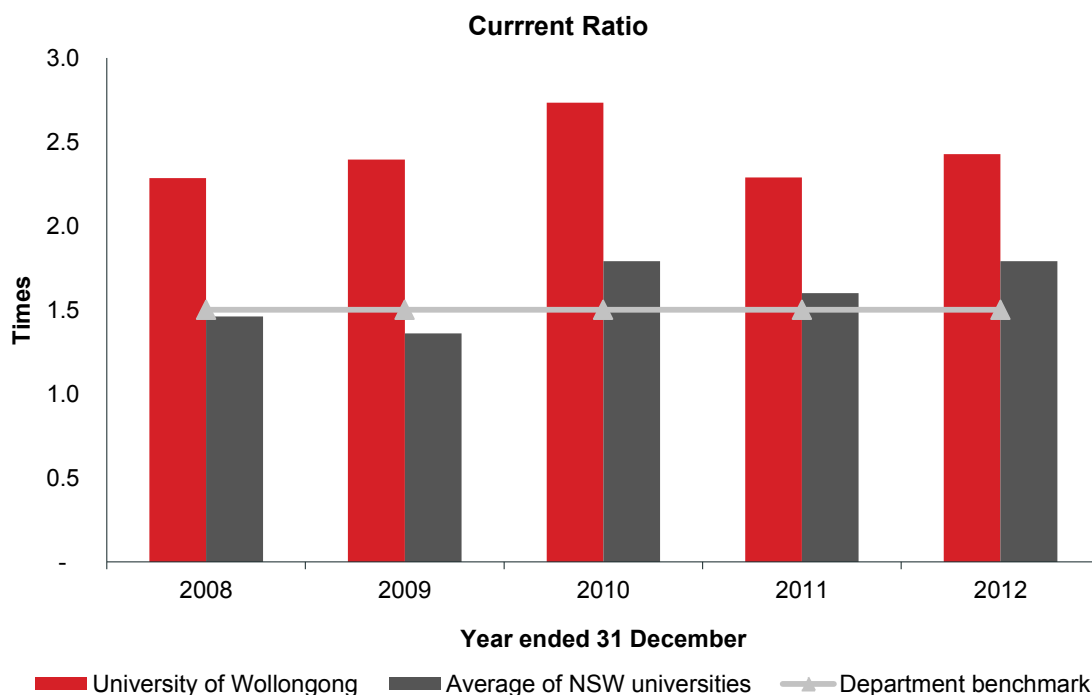


Source: Financial statements (audited).

## Current Ratio

The University's 2012 current ratio of 2.4 is well above the 1.5 good practice guideline set by the Department. It is also well above the average for NSW universities and its own internal target of 1.8.

The University is above the liquidity good practice guideline for paying its short term debts



Sources: Financial statements (audited), the Department of Industry, Innovation, Climate Change, Science Research and Tertiary Education (unaudited).

The current ratio measures the University's ability to pay its short term debts using short term assets. It is calculated by dividing current assets by current liabilities, excluding long service leave liabilities expected to be settled after 12 months of year end. Generally, the higher the ratio the greater is an entity's ability to pay its short term debt obligations when they fall due and vice versa.

## Investment Portfolio Performance

The University had \$124 million in managed fund investments at 31 December 2012 (\$109 million at 31 December 2011). These investments performed favourably in 2012 compared its one, three and five year benchmarks.

Investment returns for 2012 were better than the University's benchmarks

Timeframe	2012		2011	
	Actual return %	Benchmark return %	Actual return %	Benchmark return %
Five years	15.0	13.9	0.9	1.7
Three years	7.0	6.6	7.7	7.8
One year	3.0	2.9	(0.3)	0.1

Source: University (unaudited).

At 31 December 2012, almost half the University's managed fund investments were in Australian and overseas shares.

## Major Projects

Capital expenditure totalled \$64.6 million (\$77.9 million in 2011), a \$13.3 million decrease on the previous year. The table below shows major projects (greater than \$10 million) still under construction.

Project	Forecast completion date	Forecast final cost \$m
Accommodation expansion – Kooloobong precinct	July 2013	45.3
Early Start Initiative	July 2017	44.0
Science Lab Facility	December 2014	33.0
Sustainable Buildings Research Centre	June 2013	32.3

Source: University (unaudited).

Bad weather has delayed some major projects

The University's Kooloobong precinct accommodation expansion and its Sustainable Buildings Research Centre projects are running behind schedule because of bad weather. The University has not experienced significant cost overruns on its major projects.

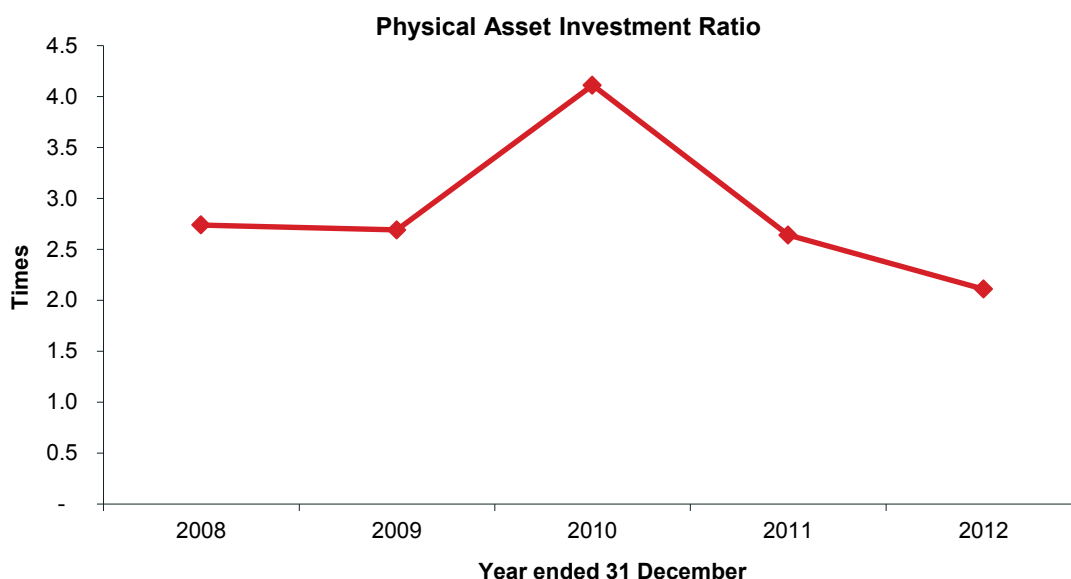
The University's accommodation expansion project will add 360 beds in self-catered units to its student accommodation portfolio. This project has been financed through borrowings.

Once complete, the Sustainable Buildings Research Centre will give the University the opportunity to research, collaborate and link with industry to improve energy efficiency in new and existing buildings.

Excluding student accommodation capital projects, the University plans to spend over \$220 million over the next five years on capital works. It will fund this work largely through internal funds and does not plan on increasing its borrowings.

## Physical Asset Investment Ratio

The University's physical asset investment ratio has consistently been 2.1 or more over the last five years, reaching a high of 4.1 in 2010. This indicates asset additions have been greater than the rate at which they are being used.



Source: Financial statements (audited).

The spike in 2010 was largely due to new buildings at the University's Innovation Campus and the construction of its medical school on the main campus.

The physical asset investment ratio shows the extent to which an organisation renews or grows its physical assets, as measured by depreciation expense. This is especially important to organisations like the University, which has significant capital facilities. A ratio below one may indicate under-investment in renewing facilities, which may lead to higher maintenance costs in the future.

## Debt to equity ratio

The University's debt to equity ratio was higher than the NSW universities' average for the last five years



Source: Financial statements (audited).

At 31 December 2012, the University's debt totalled \$133 million (\$78.7 million at 31 December 2011). The increase, due to the University taking out a bank loan to pay for some of its capital works, resulted in the debt to equity ratio increasing from 10.8 per cent at 31 December 2011 to 17.7 per cent at 31 December 2012. While its debt to equity ratio is more than double the NSW universities' average and slightly higher than the University's target of no more than 15 per cent, the University's financial position remains strong. This was reflected in the most recent credit rating maintaining its AA rating.

The debt to equity ratio shows total borrowings a proportion of equity.

## Employee Entitlements

	2012 \$'000	2011 \$'000	2010 \$'000	2009 \$'000	2008 \$'000
Net liability for defined benefit superannuation	217,177	200,124	127,989	111,740	142,439
Annual leave liability	22,536	18,530	10,634	8,977	7,890
Long service leave liability	51,733	45,403	39,700	35,266	32,550
<b>Total</b>	<b>291,446</b>	<b>264,057</b>	<b>178,323</b>	<b>155,983</b>	<b>182,879</b>

Source: Financial statements (audited).

Employee entitlement liabilities increased by 10.4 per cent in 2012. The largest, superannuation, increased by 8.5 per cent to \$217 million. Defined benefit superannuation liabilities increased from \$200 million at 31 December 2011 to \$217 million at 31 December 2012. The increase was mainly due to a fall in the discount rate used to calculate the present value of the liability from 3.7 per cent to 3.3 per cent. The Australian Government is expected to fund most of these liabilities, minimising the impact on the University's operating result and cash flows. The University is responsible for funding other defined benefit superannuation schemes with a combined liability of \$6.3 million (\$5.8 million at 31 December 2011).

The University is effectively addressing employee excessive annual leave balances. Employees with excess annual leave balances have fallen over the last five years from 128 to 78, or 39 per cent. Of the University's 2,313 employees at 31 December 2012 (2,196 employees at 31 December 2011), 78 or 3.4 per cent (79 or 3.6 per cent), held annual leave balances exceeding the maximum thresholds allowed under the University's leave policy.

The long service leave liability has increased by 13.9 per cent to \$51.7 million (\$45.4 million), mainly due to the decrease in the discount rate (from 3.3 per cent to 2.8 per cent) used to calculate the present value of the liability.

Employee entitlements liabilities increased by 10.4 per cent in 2012. The largest, superannuation increased by 8.5 per cent to \$217 million

The University is reducing excessive employee annual leave balances

## Financial Information

### Abridged Statements of Comprehensive Income

Year ended 31 December	Consolidated		Parent	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Australian Government grants	217,484	221,355	217,484	221,355
Higher Education Contribution Scheme	91,622	86,993	91,622	86,993
Fees and charges	174,416	171,611	131,302	127,401
Other	62,620	67,929	57,880	62,565
<b>Total revenue*</b>	<b>546,142</b>	<b>547,888</b>	<b>498,288</b>	<b>498,314</b>
Employee benefits and on-costs	312,656	289,655	272,249	250,696
Depreciation and amortisation	30,601	29,511	28,162	26,606
Impairment of investment assets	16	(16)	16	(16)
Other	185,454	188,645	179,626	182,369
Deferred expense – superannuation	550	486	550	486
<b>Total expenses</b>	<b>529,277</b>	<b>508,281</b>	<b>480,603</b>	<b>460,141</b>
Income tax expense/(benefit)	(771)	1,095	--	--
Operating result from discontinued operations	68	745	--	--
Operating loss attributable to non-controlling interest	--	1	--	--
<b>Surplus</b>	<b>17,568</b>	<b>37,766</b>	<b>17,685</b>	<b>38,173</b>
<b>Other comprehensive income</b>				
Gain/(loss) in value of available for sale financial assets	9,080	(8,653)	8,991	(8,566)
Profit on translation of foreign operations	103	175	--	--
Actuarial loss from defined benefit superannuation plans	(356)	(1,454)	(356)	(1,454)
Other gains/(losses)	(63)	26	--	--
<b>Total other comprehensive income/(expense)</b>	<b>8,764</b>	<b>(9,906)</b>	<b>8635</b>	<b>(10,020)</b>
Income/(expense) attributable to non-controlling interest	--	(1)	--	--
<b>Total comprehensive income</b>	<b>26,332</b>	<b>27,859</b>	<b>26,320</b>	<b>28,153</b>

Source: Financial statements (audited).

\* The revenue sources table shown earlier classifies revenue differently for analytical purposes.

Australian Government grants were lower than in the previous year primarily due to a \$27.1 million decrease in capital grants from the Education Investment Fund. This was partly offset by a \$14.6 million increase in the University's base operating grant.

The 7.9 per cent increase in employee benefits and on-costs was largely attributable to salary award rate increments and an increase in full-time equivalent staff, which increased by 109 to 2,471 in 2012. The University attributes this growth to an increase in students and the continued expansion of research activities.

The University's managed fund investments performed well in 2012, resulting in an unrealised gain of \$9.1 million. This represents a \$17.7 million turnaround from the previous year.

## Abridged Statements of Financial Position

At 31 December	Consolidated		Parent	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Current assets	200,193	166,989	176,004	139,803
Non-current assets	1,038,433	969,777	1,026,998	960,489
<b>Total assets</b>	<b>1,238,626</b>	<b>1,136,766</b>	<b>1,203,002</b>	<b>1,100,292</b>
Current liabilities	120,694	106,439	102,493	86,569
Non-current liabilities	365,657	304,385	372,927	312,461
<b>Total liabilities</b>	<b>486,351</b>	<b>410,824</b>	<b>475,420</b>	<b>399,030</b>
<b>Net assets</b>	<b>752,275</b>	<b>725,942</b>	<b>727,582</b>	<b>701,262</b>

Source: Financial statements (audited).

The increase in current assets was largely due to the University not spending the entire \$68.0 million loan it drew down during the year. Non-current assets increased because the University spent \$64.6 million on capital works.

The increase in liabilities is largely due to the University taking out a \$68.0 million loan to fund its capital works program. The increase in the University's superannuation liabilities, which increased from \$200 million to \$217 million, also contributed to the rise in 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](http://www.uow.edu.au).

## Controlled Entities

### ITC Ltd (ITC)

In 2012, the University commissioned a review of ITC's operations and its governance arrangements. As a result of the review, the University Council approved several recommendations, including the transfer of the marketing and student recruitment function back to the University and restructuring the governance arrangements of the Dubai campus. The changes are in response to significant change within the higher education sector. The University and ITC advise they will implement the remaining changes by December 2013.

During the year, ITC sold ITC Aviation Pty Ltd for \$200,000, after buying it for \$500,000 in August 2010. ITC invested in the aviation education sector because of existing and projected demand for qualified pilots in the domestic and international markets at that time. However, this did not materialise.

ITC Ltd was established to support and add value to the strategic goals and objectives of the University. Its activities include pathway and English courses for the University and operating the Dubai campus. For the year ended 31 December 2012, it recorded consolidated revenue of \$46.1 million (\$47.0 million in 2011) and achieved a profit from continuing operations (before tax) of \$2.4 million (\$4.5 million).

UniCentre improved the timeliness and accuracy of its financial reporting

URAC is unlikely to settle its \$3.2 million loan with the University in the short term

## Wollongong UniCentre Limited (UniCentre)

Unlike the previous year, UniCentre and its controlled entity, UniCentre Conferences and Functions Pty Ltd, submitted financial statements for audit within the statutory deadline, which contained fewer misstatements. A change and increase in finance team resourcing and a better internal control environment contributed to this.

UniCentre provides services, spaces and activities that enhance the university experience. Its revenue for the year was \$17.7 million (\$18.3 million in 2011) and it achieved an operating result of \$57,000 (\$177,000).

## University of Wollongong Recreation and Aquatic Centre Limited (URAC)

URAC incurred an operating loss of \$586,000 for the year ended 31 December 2012 (\$752,000 in 2011). Since the introduction of voluntary student unionism in 2007, URAC has incurred losses totalling \$5.1 million and expects to incur a further loss in 2013. The continuing losses have reduced URAC's net assets to just \$1.3 million at 31 December 2012.

The continuing operating losses make it difficult for URAC to settle its intercompany loan account with the University, which was \$3.2 million at 31 December 2012 (\$2.8 million at 31 December 2011). In the current environment, it is unlikely URAC will settle this loan with the University in the short term.

URAC provides aquatic and recreational facilities to the University community and the general public.

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
International Film School Sydney Pty Ltd	<a href="http://www.ifss.edu.au">www.ifss.edu.au</a>
ITC (New Zealand) Limited	*
ITC Aviation Pty Ltd	*
ITC Education Ltd	<a href="http://www.itcltd.com.au">www.itcltd.com.au</a>
The Sydney Business School Pty Limited	*

\* This entity does not have a website.



# National Art School

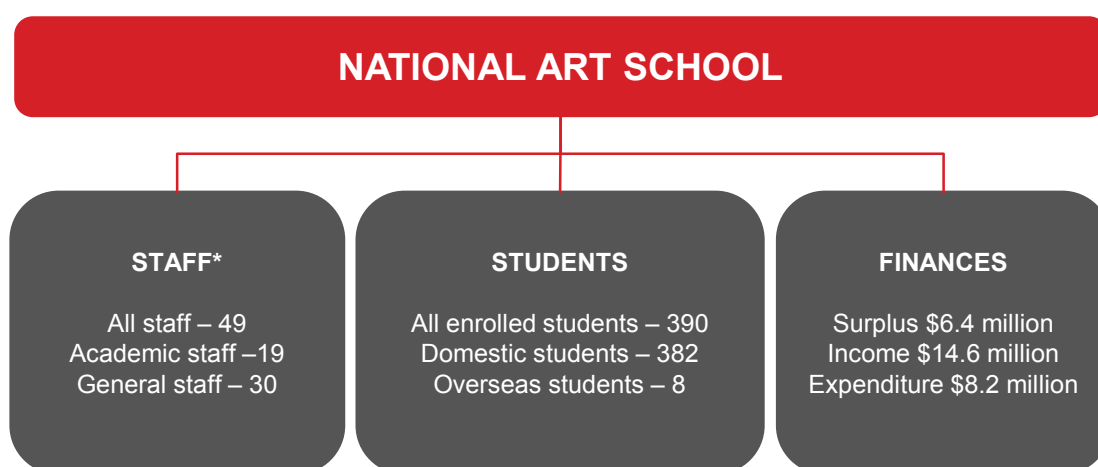
## Audit Opinion

I expressed an unqualified audit opinion on the School's 31 December 2012 financial statements.

Without qualifying the School's financial statements, the Independent Auditor's Report included an emphasis of matter paragraph, highlighting the existence of a material uncertainty over future funding arrangements from the New South Wales Government after 2013.

## Operational Snapshot

The School provides undergraduate and postgraduate degree courses in fine arts, along with short courses and bespoke educational training to the wider public and other organisations.



Source: National Art School.

\* Full-Time Equivalent (unaudited).

## Key Issues

### Financial Viability

The School currently depends on recurrent funding from the New South Wales Government. The intention was for the School to become independent from Government in the future and use its own revenue sources, such as student fees, donations and sponsorship to support ongoing operations. However, these revenue sources do not currently meet the ongoing operating expenses of the School.

The NSW Government is currently reviewing the School's funding arrangements, but this has not been finalised at the date of this report. The School has disclosed this material uncertainty in the notes to its 2012 financial statements.

### Occupancy of the Darlinghurst Gaol Site

#### Recommendation

The School should formalise an arrangement with the NSW Government for the occupancy of the Darlinghurst gaol site.

The School occupies the Darlinghurst gaol site, which is owned and controlled by the NSW Government. The School and the NSW Government have not entered into a formal arrangement for the use of the site. The School was not required to pay any rent for the period up to 31 December 2012.

There is uncertainty regarding future funding arrangements for the School

The School should formalise this arrangement with the NSW Government to provide certainty over continuing occupancy, and clarify responsibility for ongoing maintenance, upgrades and other costs of managing the buildings.

## Financial Information

### Abridged Statement of Comprehensive Income

Year ended 31 December	2012 \$'000	2011 \$'000
Grant income	10,960	7,621
Tuition fee	2,372	2,108
Other	1,283	563
<b>Total revenue*</b>	<b>14,615</b>	<b>10,292</b>
Employee benefits	6,170	6,235
Other	2,071	3,023
<b>Total expenses</b>	<b>8,241</b>	<b>9,258</b>
<b>Surplus</b>	<b>6,374</b>	<b>1,034</b>
<b>Total comprehensive income</b>	<b>6,374</b>	<b>1,034</b>

Source: Financial Statements (audited).

\* The revenue sources table shown earlier classifies revenue differently for analytical purposes.

Grant income increased by \$3.3 million from 2011, primarily due to capital funding provided by Arts New South Wales of \$3.5 million. The School also received \$2.0 million capital funding and \$5.4 million recurrent funding from the Department of Education and Communities in 2012.

Other income increased by \$720,000 primarily due to an increase in donations and an insurance recovery payment.

Other expenses decreased by \$952,000 due to a reduction in spending on facilities and maintenance and transitional expenses.

### Abridged Statement of Financial Position

At 31 December	2012 \$'000	2011 \$'000
Current assets	9,167	2,786
Non-current assets	948	693
<b>Total assets</b>	<b>10,115</b>	<b>3,479</b>
Current liabilities	1,395	1,193
Non-current liabilities	179	118
<b>Total liabilities</b>	<b>1,574</b>	<b>1,311</b>
<b>Net assets</b>	<b>8,541</b>	<b>2,168</b>

Source: Financial Statements (audited).

Current assets mainly comprise cash and cash equivalents which grew by \$6.3 million from \$2.6 million at 31 December 2011 to \$8.8 million at 31 December 2012. The significant increase was due to capital funding received from the Department and Arts NSW and is yet to be spent by the School. The School does not have approval to spend capital monies received from the Department or Arts NSW on its operating activities.

## School Activities

The School is a public company limited by guarantee, incorporated on 23 October 2009. The members of the School are the Minister for Education and the Minister for the Arts.

The School provides higher education through undergraduate and postgraduate specialist, studio-based degree courses in fine arts, and conducts research, scholarship and professional practice in the visual arts and related fields. The School also provides short courses and bespoke educational training in fine art and related fields to the wider public and other organisations.

For further information on the School, refer to [www.nas.edu.au](http://www.nas.edu.au).

# State Records Authority of New South Wales

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## Audit Opinion

I qualified my audit opinion on the Authority's 30 June 2012 financial statements.

The Authority has recognised its archives for the first time at a value of \$938 million. I have been unable to obtain all the information I require to form an opinion on their existence and value, and consequently on whether Property, Plant and Equipment (State archives) in the statement of financial position is free from material misstatement.

## Operational Snapshot

The Authority stores 491 linear kilometres of documents including the State archives collection and official records. It generated income from grants and user charges of \$22.3 million for a cost of \$21.7 million.

## Key Issues

### Valuation of State Archives

#### *Recommendation*

The Authority should provide all information required to support the valuation of the State archives.

During 2012, the Authority determined, for the first time, that the value of the State archives could be reliably measured and valued the archives at \$938 million. The Authority recognised this value in its 2012 financial statements by adjusting the comparative asset values and comprehensive income, as allowed by the accounting standards.

However, because I could not verify the linear measurement of the records valued, I qualified my opinion on the 2012 financial statements.

The Authority has formed a project steering committee to oversee the valuation process. Significant work is in progress to provide all information I require to support the valuation by 30 June 2013.

### Digital Archiving (Repeat Issue)

#### *Recommendation*

The Authority should establish a government digital archiving system that enables it to comply with its enabling legislation.

The Authority is in breach of its enabling legislation because it does not have the necessary equipment or information technology to enable it to access some of the digital records it stores. It received advice from the Crown Solicitor which concluded that if the Authority holds public records that are not accessible, it is in breach of the *State Records Act 1998*.

The Authority is developing its digital archive at present and discussions are continuing with the Department of Finance and Services to ensure ongoing funding.

More information is required to support the valuation of the State archives

## Financial Information

### Abridged Statement of Comprehensive Income

Year ended 30 June	2012 \$'000	2011 \$'000
Sale of goods and services	14,840	13,684
Grants and contributions	7,300	6,450
Other	219	201
<b>Total revenue</b>	<b>22,359</b>	<b>20,335</b>
Personnel services	11,931	11,592
Other	9,826	7,803
<b>Total expenses</b>	<b>21,757</b>	<b>19,395</b>
<b>Net result – surplus</b>	<b>602</b>	<b>940</b>
<b>Other comprehensive income</b>		
Net increase in revaluation of assets	--	945,262
<b>Total other comprehensive income</b>	<b>--</b>	<b>945,262</b>
<b>Total comprehensive income</b>	<b>602</b>	<b>946,202</b>

The Department of Finance and Services provides personnel services to the Authority.

During the year other expenses increased by \$2.0 million mainly due to increases in consultancy, contractors and rental costs.

As discussed earlier, the \$938 million first time recognition of the value of the State archives is reflected in 2011 other comprehensive income of \$945 million, above.

### Abridged Statement of Financial Position

At 30 June	2012 \$'000	2011 \$'000
Current assets	8,905	8,877
Non-current assets	996,555	998,048
<b>Total assets</b>	<b>1,005,460</b>	<b>1,006,925</b>
Current liabilities	4,322	6,439
Non-current liabilities	50	--
<b>Total liabilities</b>	<b>4,372</b>	<b>6,439</b>
<b>Net assets</b>	<b>1,001,088</b>	<b>1,000,486</b>

Non-current assets mainly comprise the Authority's records centre in Western Sydney and the State archives valued at \$938 million.

## Authority Activities

The Authority is established under the *State Records Act 1998*. It is responsible for managing the New South Wales State archives collection, setting the rules and providing guidance on the management of official records. The Authority also provides records storage services to the New South Wales public sector and other public sector entities, such as universities and local government.

The Authority is subject to the control and direction of the Minister for Finance and Services.

For further information on the Authority, refer to [www.records.nsw.gov.au](http://www.records.nsw.gov.au).

# State Emergency Service

## Audit Opinion

I issued an unqualified audit opinion on the Service's 30 June 2012 financial statements.

## Operational Snapshot

The Service incurred a deficit of \$4.1 million in 2011-12 (surplus of \$2.5 million in 2010-11) in responding to emergencies from flood, storm and other incidents. My Volume Seven report of 2012 contains a summary of the emergency services agencies operations.

## Key Issues

### Internal Controls

My audit for 2011-12 identified a substantial number of control deficiencies and a higher than expected number of errors in the financial statements submitted for audit.

The Service has engaged their internal audit provider to review these deficiencies and to recommend improvements to the control environment.

## Financial Information

### Abridged Statement of Comprehensive Income

Year ended 30 June	2012 \$'000	2011 \$'000
Employee related expenses	29,299	24,501
Disaster relief expenses	31,972	27,982
Grants and subsidies	8,241	8,518
Depreciation and amortisation	4,306	4,286
Other expenses	28,200	25,242
<b>Total expenses</b>	<b>102,018</b>	<b>90,529</b>
Grants and Contributions	93,505	88,923
Other revenue	4,445	4,111
<b>Total revenue</b>	<b>97,950</b>	<b>93,034</b>
<b>(Deficit)/surplus</b>	<b>(4,068)</b>	<b>2,505</b>
<b>Other comprehensive income</b>	<b>--</b>	<b>--</b>
<b>Total comprehensive income/expense</b>	<b>(4,068)</b>	<b>2,505</b>

The Service is funded through contributions from insurance companies (73.7 per cent), Local Government (11.7 per cent) and the State Government (14.6 per cent). This is the same funding structure as Fire and Rescue New South Wales and the New South Wales Rural Fire Service.

Increases in employee related expenses relate to full year expenditure for 32 new positions appointed part way through the previous year.

Disaster relief expenditures increased as a consequence of more flood related incidents and increased aerial support during these incidents.

## Abridged Statement of Financial Position

At 30 June	2012 \$'000	2011 \$'000
Current assets	19,172	21,219
Non-current assets	14,890	17,019
<b>Total assets</b>	<b>34,062</b>	<b>38,238</b>
Current liabilities	12,777	12,899
Non-current liabilities	37	23
<b>Total liabilities</b>	<b>12,814</b>	<b>12,922</b>
<b>Net assets</b>	<b>21,248</b>	<b>25,316</b>

Assets comprise cash at bank, inventory and equipment used to respond to incidents.

## Abridged Service Group Information

The Service's net result and net assets on a service group basis is detailed below:

Year ended 30 June	Net result surplus/(deficit)		Net assets	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Community and Organisational preparedness*	1,998	(848)	2,699	44
Emergency management*	(12,377)	(10,182)	18,549	25,254
Community education*	--	(418)	--	18
Not attributable	6,311	13,953	--	--
<b>Total all service groups</b>	<b>(4,068)</b>	<b>2,505</b>	<b>21,248</b>	<b>25,316</b>

\* In 2011-12 the Service reduced the number of service groups from 3 to 2. The former service groups of Recruitment and Training; Operational Readiness and Community Education have been consolidated into the two groups above.

## Service Activities

Using volunteers, the Service manages and responds to emergencies resulting from flood, storm, tsunami and other incidents. Approximately 10,000 volunteers operating through 228 State Emergency Service units located throughout the State help with these activities.

The Service was established in accordance with the *State Emergency Service Act 1989*.

For further information on the Service, refer to [www.ses.nsw.gov.au](http://www.ses.nsw.gov.au).

# Murray Catchment Management Authority

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## Audit Opinion

I issued unqualified audit opinions on 12 of the 13 Catchment Management Authorities' 30 June 2012 financial statements. I issued a qualified opinion on the Murray Catchment Management Authority's 30 June 2012 financial statements.

For the Murray-Darling Catchment Management Authority I was unable to obtain sufficient and appropriate audit evidence about the carrying value of seed inventories recorded in its financial statements. The carrying value was not adjusted for the loss of service potential for seed germination rates and storage conditions and the records confirming the completeness, accuracy and movement of inventory were incomplete.

I also issued an unqualified audit opinion on the Lower Murray-Darling Catchment Management Authority's financial statements for the period ended 19 October 2012. My audit for Sydney Metropolitan Catchment Management Authority's financial statements for the period ended 19 October 2012 is nearing completion.

## Key Issues

### **Structural Changes for the Catchment Management Authorities**

There have been significant changes to the 13 Catchment Management Authorities over the last 18 months with indications that change will continue.

On 21 March 2012, the Minister for Finance and Services transferred all assets, rights and liabilities of the Upper Parramatta River Catchment Trust to the Sydney Metropolitan Catchment Management Authority.

With effect from 19 October 2012, the Minister for Primary Industries:

- abolished the Lower Murray-Darling Catchment Management Authority and Sydney Metropolitan Catchment Management Authority
- transferred the assets, rights and liabilities of the Sydney Metropolitan Catchment Management Authority to the Hawkesbury-Nepean Catchment Management Authority
- transferred the assets, rights and liabilities of the Lower Murray-Darling Catchment Management Authority to the Murray Catchment Management Authority and Western Catchment Management Authority as joint assets, rights and liabilities.

With effect from 31 March 2013, the Minister for Primary Industries ceased these joint arrangements. As a result, the Murray Catchment Management Authority received net assets of \$4.8 million from the former Lower Murray-Darling Catchment Management Authority and Western Catchment Management Authority received net assets of \$1.2 million.

On 4 October 2012, the Minister for Primary Industries announced Local Land Services would replace all Catchment Management Authorities and all Livestock Health and Pest Authorities. The Minister also announced that Local Land Services would include the agricultural advisory services currently provided by the Department of Trade and Investment, Regional Infrastructure and Services.



## Recording of Seed Inventory

### Recommendation

The Murray Catchment Management Authority should design and implement controls to ensure its seed inventory is effectively managed and valued. The controls should include thorough inventory counts and a methodology to evaluate the potential loss of service potential in the seed stock.

As a result of my audit of the Murray Catchment Management Authority, 1,516 kilograms of seed was identified that had not been included in the assessment of the carrying value of seed inventory at 30 June 2012. This resulted in the financial statements being adjusted by a net \$85,000 (\$320,000 gross value less impairment of \$235,000). This issue and others, such as failing to consider germination rates in the valuation of all seed inventory are concerning.

I understand the Authority is already improving its systems and procedures to address these issues. I will review the effectiveness of these improvements during my 2012-13 audit.

## Catchment Management Authorities Activities

Catchment Management Authorities are constituted under the *Catchment Management Authorities Act 2003*. They undertake activities including:

- establish authorities for the purpose of developing operational, investment and decision-making natural resource to catchment levels
- provision of natural resource planning at a catchment level
- providing a framework for financial assistance and incentives to landowners in connection with natural resource management.

For more information on the Catchment Management Authorities, refer to

Entity Name	Website
Border Rivers-Gwydir CMA	<a href="http://www.brg.cma.nsw.gov.au">www.brg.cma.nsw.gov.au</a>
Central West CMA	<a href="http://www.cw.cma.nsw.gov.au">www.cw.cma.nsw.gov.au</a>
Hawkesbury-Nepean CMA	<a href="http://www.hn.cma.nsw.gov.au">www.hn.cma.nsw.gov.au</a>
Hunter-Central Rivers CMA	<a href="http://www.hcr.cma.nsw.gov.au">www.hcr.cma.nsw.gov.au</a>
Lachlan CMA	<a href="http://www.lachlan.cma.nsw.gov.au">www.lachlan.cma.nsw.gov.au</a>
Murray CMA	<a href="http://www.murray.cma.nsw.gov.au">www.murray.cma.nsw.gov.au</a>
Murrumbidgee CMA	<a href="http://www.murrumbidgee.cma.nsw.gov.au">www.murrumbidgee.cma.nsw.gov.au</a>
Namoi CMA	<a href="http://www.namoi.cma.nsw.gov.au">www.namoi.cma.nsw.gov.au</a>
Northern Rivers CMA	<a href="http://www.northern.cma.nsw.gov.au">www.northern.cma.nsw.gov.au</a>
Southern Rivers CMA	<a href="http://www.southern.cma.nsw.gov.au">www.southern.cma.nsw.gov.au</a>
Western CMA	<a href="http://www.western.cma.nsw.gov.au">www.western.cma.nsw.gov.au</a>

# Ministerial Holding Corporation

## Audit Opinion

I qualified my audit opinion on the Corporation's financial statements for the year ended 30 June 2012.

These financial statements were the first prepared by the Corporation since it was established in 1989. I could not obtain sufficient audit evidence to form an opinion over the completeness of the opening balances at 1 July 2010 and certain disclosures in the financial statements.

The Corporation's only asset is its investment in Hunter Valley Training Company Proprietary Limited (HVTC). HVTC applies different accounting policies to the Corporation. The effect of these differences was not determined and no adjustments were made in the financial statements. I was unable to determine whether any such adjustments would have had a significant effect on the financial statements. The Corporation is working towards having this qualification removed in future years.

## Other Information

### Desalination Plant

On 31 May 2012 the Corporation entered into a sale and leaseback arrangement with Sydney Desalination Plant Pty Limited, SDP Assets Trust and SDP Pipeline Trust (together, the 'lessees'). Under the arrangement, the Corporation purchased the desalination plant, associated land, easements and pipeline licence (together the 'assets') from the lessees and leased the assets back to the lessees for 50 years. If certain conditions are met, title to the assets will transfer from the Corporation to the lessees at the end of the lease term.

### Hunter Valley Training Corporation

The Corporation's investment in HVTC was established by the NSW Government in 1981 to address skills shortages in regional areas. It provides training and assessment services through 11 offices across New South Wales.

## Financial Information

### Abridged Statement of Comprehensive Income

Year ended 30 June	2012 \$'000	2011 \$'000
Share of investee's profit	192	604
<b>Total revenue</b>	<b>192</b>	<b>604</b>
<b>Total expenses</b>	<b>--</b>	<b>--</b>
<b>Net result - surplus</b>	<b>192</b>	<b>604</b>
<b>Other comprehensive Income</b>		
Share of investee's other comprehensive expense	(50)	--
<b>Total other comprehensive expense</b>	<b>(50)</b>	<b>--</b>
<b>Total comprehensive income</b>	<b>142</b>	<b>604</b>

The 2012 financial statements for the Ministerial Holding Corporation are the first prepared since 1989

## Abridged Statement of Financial Position

At 30 June	2012 \$'000	2011 \$'000
Current assets	--	--
Non-current assets	5,444	5,302
<b>Total assets</b>	<b>5,444</b>	<b>5,302</b>
<b>Total liabilities</b>	<b>--</b>	<b>--</b>
<b>Net assets</b>	<b>5,444</b>	<b>5,302</b>

Non-current assets represent the Corporation's investment in HVTC.

## Corporation Activities

The Corporation was established under the *State Owned Corporations Act 1989* and is subject to the control and direction of the Premier.

# Crown Entity

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## Audit Opinion

I issued an unqualified audit opinion on the Crown Entity's (the Crown) 30 June 2012 financial statements.

## Operational Snapshot

The Crown is a residual entity that administers government functions not the responsibility of an individual agency. It recognises various State revenues and manages various State liabilities.

Information on State revenue trends, including taxation, fines and regulatory fees, Australian Government grants and State liabilities, including superannuation obligations, is reported in Volume Three of my 2012 Report to Parliament.

## Key Issues

### Investment in Snowy Hydro Limited

The Crown measures its property, plant and equipment assets at fair value. When accounting for the State's interest in Snowy Hydro Limited in 2010-11, it measured that company's assets at cost instead of fair value. My 2010-11 audit opinion was qualified because I was unable to obtain the evidence I needed to determine if adjustments to the amounts reported in respect of the Crown's investment in Snowy Hydro would have been necessary if consistent accounting policies been applied.

In 2011-12, the Crown obtained information to enable application of consistent accounting policies to Snowy Hydro's assets. As a result of the Crown obtaining this information, my 2012 audit opinion was not qualified.

In the 2010-11 financial statements, as a result of measurement of assets at cost, the carrying value of the Crown's 58 per cent interest in Snowy Hydro was recorded as \$1.1 billion. Applying consistent accounting policies to Snowy Hydro's assets resulted in valuations of \$2.8 billion as at 30 June 2011 and \$3.3 billion at 30 June 2012. Carrying values in the 2011-12 financial statements reflected these amounts.

Snowy Hydro Limited owns and operates the Snowy Mountains Hydro Electric Scheme. The company is owned by the New South Wales, Victorian and Australian Governments. The value of the State's investment recognised for accounting purposes is not necessarily indicative of a sale price for that investment.

### Employee Benefit Liabilities

#### Superannuation

The Crown recognises almost 90 per cent of the State's liability for defined benefit superannuation obligations. Consistent with State trends, this liability significantly increased during 2011-12 largely due to the impact of global economic conditions.

Movements in the liability are influenced by returns on superannuation investments, amounts contributed to these investments and the rate used to discount the liability to present value. In 2011-12, investment returns were lower than expected and government bond rates used to discount the liability fell. Offsetting the impact from these events were additional contributions to superannuation investments of \$4.6 billion. Of this, \$3.8 billion was from the proceeds of the 2010-11 electricity sale transaction and \$800 million was from additional borrowings.

Volume Three of my 2012 Report to Parliament contains more information about the impact of economic conditions on superannuation liabilities.

## Long Service Leave

The Crown recognises over 70 per cent of the State's long service leave liability. The Crown's liability and related expense increased significantly during 2011-12 compared to prior years. As with superannuation liabilities, changes in government bond rates used to discount the liabilities to present value significantly impacted the measurement of long service leave.

## Financial Information

### Abridged Statements of Comprehensive Income

Year ended 30 June	2012 \$'000	2011 \$'000
Retained taxes fees and fines	21,015,140	20,455,658
Australian Government contributions	25,863,632	24,794,632
Financial distributions from other agencies	2,155,989	5,456,394
Royalties on minerals	1,464,396	1,240,328
Investment revenue	284,672	216,577
Share of profit from an associate	119,304	266,568
Other revenue	416,847	608,336
<b>Total revenue</b>	<b>51,319,980</b>	<b>53,038,493</b>
Appropriations to agencies	48,953,774	48,091,804
Finance costs	1,512,847	1,280,972
Superannuation expenses	1,475,482	1,484,034
Long service leave	1,392,339	684,103
Grants and subsidies	873,580	434,814
Other expenses	531,157	575,452
<b>Total expenses</b>	<b>54,739,179</b>	<b>52,551,179</b>
loss on disposal of non-current assets	--	(7,904)
Gain/(loss) from financial instruments	(119,579)	20,982
<b>(Deficit)/surplus</b>	<b>(3,538,778)</b>	<b>500,392</b>
<b>Other comprehensive income</b>	<b>--</b>	<b>--</b>
Superannuation actuarial gains/(losses)	(17,726,651)	441,770
Share of associate's other comprehensive income/(expense)	527,896	(928)
<b>Total comprehensive (expense)/income</b>	<b>(20,737,533)</b>	<b>941,234</b>

The Crown recognises most of the State's taxation, fees and fines revenue and contributions from the Australian Government. Volume Three of my 2012 Report to Parliament contains information about trends in these revenue streams.

Financial distributions from other agencies returned to normal levels in 2011-12. The prior year's figure includes one-off dividends of \$3.4 billion from the electricity sector after the sale of retail businesses.

Superannuation expenses are not impacted by the increase in the related liability. The impact of global economic conditions on the liability discussed earlier is reflected as actuarial losses in other comprehensive income. However, this impact is reflected in long service leave expense, explaining the significant increase in 2011-12 compared to 2010-11.

Finance costs increased in 2011–12 as a result of higher debt levels. Grants and subsidies expense increased mainly due to higher payments to other NSW public sector agencies for natural disaster relief and a contribution to the State's investments that back self-insurance liabilities. The contribution to the NSW Self Insurance Corporation was necessary because of poor investment performance, consistent with broader trends. More information on the NSW Self Insurance Corporation investment returns is within Volume Five of my 2012 Report to Parliament.

Movements in appropriations to government agencies are mainly determined by government policy decisions in respect of spending, as set out in Appropriation Acts. Consistent with longer term trends, total recurrent appropriations for 2011–12 were higher than for 2010–11.

## Abridged Statement of Financial Position

At 30 June	2012 \$'000	2011 \$'000
Cash and cash equivalents	2,769,351	4,912,898
Receivables	3,196,147	3,224,313
Advances	1,331,277	1,180,882
Investment in Snowy Hydro Limited	3,329,000	2,821,000
Other assets	24,885	54,326
<b>Total assets</b>	<b>10,650,660</b>	<b>12,193,419</b>
Bank overdraft	2,997,189	2,328,840
Payables	1,791,968	1,765,545
Long service leave provision	6,199,547	5,377,832
Borrowings	23,204,224	19,081,039
Unfunded superannuation liabilities	44,276,305	31,125,506
Other liabilities	1,130,989	1,213,711
<b>Total liabilities</b>	<b>79,600,222</b>	<b>60,892,473</b>
<b>Net liabilities</b>	<b>68,949,562</b>	<b>48,699,054</b>

The reduction in cash and cash equivalents and increase in bank overdraft during 2011–12 reflects the additional superannuation contributions discussed earlier. Additional borrowings in 2011–12 were used to fund operating cash-flow requirements and additional superannuation contributions.

## Crown Entity Activities

The Crown comprises the Consolidated Fund and the Crown Finance Entity. It is a residual entity rather than an entity created via enabling legislation or administrative arrangement of government.

The Consolidated Fund is the central account of the NSW Government into which the State's revenues are deposited and out of which monies are transferred to agencies. The Consolidated Fund collects State taxes, fees and fines, Australian Government grants and financial distributions from agencies. Recurrent and capital appropriations are paid out of the Consolidated Fund to certain general government agencies.

The Crown Finance Entity recognises various functions that are not the individual responsibility of a single agency, including managing the State's debt portfolio and superannuation and long service leave liabilities for certain general government agencies.

# Appendix 1

## Agencies not reported elsewhere in this volume by Minister

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
<b>Minister for Education</b>		
NSW Vocational Education and Training Accreditation Board	*	30 June 2010
NSW Vocational Education and Training Accreditation Board	*	30 June 2011
Technical Education Trust Funds	*	31 December 2012
<b>Minister for Planning and Infrastructure</b>		
Small Business Development Corporation of New South Wales	*	30 June 2012
<b>Minister for Primary Industries</b>		
Lower Murray-Darling Catchment Management Authority	*	19 October 2012
<b>Minister for Regional Infrastructure and Services</b>		
Wild Dog Destruction Board	*	31 December 2012
Wild Dog Destruction Board Division	*	31 December 2012
Wine Grapes Marketing Board	<a href="http://www.wgmb.net.au">www.wgmb.net.au</a>	31 December 2012

\* This entity does not have a website.





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## Our vision

To make the people of New South Wales  
proud of the work we do.

## Our mission

To perform high quality independent audits  
of government in New South Wales.

## Our values

**Purpose** – we have an impact, are  
accountable, and work as a team.

**People** – we trust and respect others  
and have a balanced approach to work.

**Professionalism** – we are recognised  
for our independence and integrity  
and the value we deliver.

**Professional people with purpose**

Making the people of New South Wales  
proud of the work we do.

Level 15, 1 Margaret Street  
Sydney NSW 2000 Australia

**t** +61 2 9275 7100

**f** +61 2 9275 7200

**e** [mail@audit.nsw.gov.au](mailto:mail@audit.nsw.gov.au)

**office hours** 8.30 am–5.00 pm

**[audit.nsw.gov.au](http://audit.nsw.gov.au)**

