

# **UNIVERSITY OF CAPE TOWN**

Incorporated in terms of the Higher Education Act, 1997, and the Statute of the University of Cape Town, promulgated under Government Notice No. 1199 of 20 September 2002 and as amended by Government Notice 259 of 26 February 2004

## **ANNUAL REPORT**

**2007**

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# DETAILS OF THE COUNCIL OF THE UNIVERSITY OF CAPE TOWN

EXECUTIVE MEMBERS OF COUNCIL		REGISTRAR
Professor N S Ndebele (1, 2, 3, 4 & 6)	(Vice-Chancellor)	Mr H T Amoore (5)
Professor C de la Rey (6)	(Deputy Vice-Chancellor)	EXECUTIVE DIRECTOR OF FINANCE
Professor M J Hall (4, 5 & 6)	(Deputy Vice-Chancellor)	Professor E O Uliana (4)
Professor R T Nhlapo (6)	(Deputy Vice-Chancellor)	
Professor M E West (4, 6)	(Deputy Vice-Chancellor)	

## COUNCIL OF THE University of Cape Town (1 JULY 2004 - 30 JUNE 2008)

Mr G M Budlender (1, 3) (Chair)

Mr T D Petersen (1, 3, 4) (Deputy chair)

Professor D G Aschman (1)

Dr A W Barday

Ms D Budlender (4, 6)

Ms V Doo (3)

Professor M P Ensor (to 31 December 2007)

Em Professor P I Folb

Mr P Hlahane

Mr J J Gauntlett SC (1)

Ms E Goliath

Mr A Jakoet (2,4)

Professor E Kahula

Mr P S G Leon

Mr T Madinginye

Professor B Mayosi

Mr T Mhlambiso (1)

Mr L Mphalwa

Councillor O Kinahan (5)

Mr E Patel

Dr L F Platzky (6)

Professor B D Reddy

Mr R B Rosenthal (2, 3)

Em Professor J Terblanche

Mr M A Thompson (3, 5)

1 = Member of Council Executive Committee

2 = Member of Audit Committee

3 = Member of Remuneration Committee

4 = Member of Finance Committee

5 = Member of Building and Development Committee

6 = Member of Strategy Committee

### BUSINESS ADDRESS

Bremner Building  
Lover's Walk  
Rondebosch  
7701

### AUDITORS

Ernst & Young Inc  
P O Box 656  
Cape Town  
8001

### POSTAL ADDRESS

Private Bag X3  
Rondebosch  
7701

### BANKERS

The Standard Bank of SA Limited  
P O Box 1  
Rondebosch  
7700

# STATEMENTS ON GOVERNANCE AND REPORTS ON OPERATIONS

## REPORT OF THE CHAIR OF COUNCIL

I write this report as the four-year term (July 2004 to June 2008) of office of the Council comes to an end, and as our outgoing Vice-Chancellor, Professor Njabulo Ndebele, prepares to hand over to a new Vice-Chancellor, Dr Max Price. It is thus more than usually apposite that I review the state of the University from Council's vantage, consider the work of Council in its governance role, and reflect on the challenges the University now faces.

### Some reflections on 2007

At the end of 2007 we celebrated –

- Ten joyous graduation ceremonies at which we saw record numbers of qualifiers – and in particular record numbers of PhD qualifiers – take their degrees, the culmination of the teaching and learning work of the University;
- Being honoured by a distinguished group of men and women who accepted honorary doctorates – Aung San Suu Kyi, the Burmese leader and Nobel Laureate (accepted on her behalf by the irrepressible and much-loved Archbishop Emeritus Desmond Tutu); Mark Dry, the scientist behind SASOL's position as the leader in oil-from-coal technology; George Philander a recently returned UCT graduate of the 1950s with an extraordinary record of achievement in ocean and atmosphere science; Johan, Lord Steyn, a South African who has made an important contribution to English and international jurisprudence as a Law Lord; and Cape Town's duo of David Kramer and the late Taliep Petersen;
- A very considerable record of research achievement, the highlights of which included: 26 competitive new research chairs awarded to UCT; an increase in the number of post docs working at UCT to 156; the increase in research income to R547,5 million (from R399,7 million in 2006); and the ratings received by UCT academics in the National Research Found (NRF) researcher evaluation process - there are now 279 rated academics at UCT of whom 30 had achieved A rating by the end of 2007 (an A rating is the NRF's category for world leaders renowned for the quality of their research); and
- A ranking (though we must be careful not to put too much store by this) in the top 200 Universities of the World in the Times Higher Education Supplement annual survey (coming as it did on top of several other such rankings for the University as a whole or its constituent parts).

Key financial indicators include the following:

- As the financial statements reflect, the University at the end of 2007 was in a sound financial position. No post-balance sheet date event has changed this.
- Staff compensation has remained competitive in the SA higher-education and all-jobs markets. This is vital to the continued quality of the University's work. At the same time, Council has to be mindful of the impact of higher pay, as staff compensation accounts for more than two-thirds of our costs.
- We have achieved a very small operating surplus (against a small budgeted deficit), and have insignificant levels of debt. Such debt as we have is in government-guaranteed long-term loans for buildings erected before 1990 and will soon be fully paid off.
- Student debt is negligible (over 98% of fees billed in 2007 had been collected by year-end).

This is in no small measure due to the leadership of the Finance Committee and the strength and discipline of management at all levels.

Three important capital and infrastructure projects have been completed or are coming to an end. The new Graca Machel residence, housing 380 undergraduate women students, was handed over in the first quarter of 2007 at a cost of some R90 million, and within budget. A major R80 million IT project to renew the campus IT infrastructure will be wrapped up by June 2008. And our student administration ERP system (Oracle's Campus Solutions product) saw its first full and successful annual cycle after implementation.

Some reflections on the work of the Council

The composition of a University Council is governed by the Higher Education Act. It must have a 60:40 balance of external to internal members, it must include people chosen by all internal constituent groups; and it must include the University's executive officers. Although we come from a range of constituencies, we must all act in the best interests of the University - we do not serve as representatives, and we do not

hold mandates or mandated positions. Members must bring disinterested but informed judgement to bear on the governance questions Council faces. There is a fine line between governance and management, and it is necessary that the Council recognise and respect this line. But the Council must exercise the responsibilities the law requires of it.

In exercising these responsibilities we are assisted by standing committees. The report on corporate governance will deal with the work of these committees. I wish however to mention the key standing committee, which is the EXCO of Council. This has been an innovation of the current Council, and has greatly assisted Council in carrying out its work efficiently and effectively.

I now turn to some of the priorities we faced during 2007.

Faced with the retirement of the Vice-Chancellor at the end of June 2008, much of the energy of Council in 2007 was directed towards executive succession. I believe we are well placed for the future with Dr Max Price as Vice-Chancellor designate. 2008 also sees a number of vacancies in the Deputy Vice-Chancellor positions. To cover the interim period we have appointed a trio of acting Deputy Vice-Chancellors who between them have enviable and possibly unrivalled records of academic and leadership achievement: all three are NRF A rated, and are former deans and former heads of academic departments.

I have referred in previous reports to the importance of the partnership between the University's Faculty of Health Sciences and the Provincial Health Service. This partnership is regulated by a 1966 agreement which is no longer adequate. Much work has gone into negotiating a new agreement, but this has yet to be concluded. I will return to this.

The governance role of the Council requires it to give close attention to the arrangements the University has with third-party service providers. We have developed a code of conduct for contractors operating on the campus, aimed at ensuring decent employment conditions for those who work at the University on the payrolls of these contractors. This comes at a price. It is a reflection on the state of the labour economy that this is necessary. In parallel we have reviewed our contractual arrangements with third-party providers, which have not always given us the necessary protection. We have taken steps to put these relationships onto a sound footing.

One of the services that is provided by a third-party is the Jammie Shuttle. This is a great success story of recent years and may be a model urban transport solution. It is free to staff and students and provides round-the-clock safe, free rides to-and-from the campus. The urban taxi industry is however a highly competitive business, and in 2007 the Jammie Shuttle became the focus of taxi operators who saw it as taking business from them. An ugly situation developed. We have sought to turn this problem into another success story, and another model for urban transport, by contracting with taxi operators for the necessary expansion of our Jammie Shuttle service. Entering into this arrangement was not without risk, but thus far the indications are that this has been a successful venture.

### **Some of the continuing challenges we face**

The Council has to provide the means for academic success in teaching, learning, research and social responsiveness. We have a sound financial base, but our financial position is not as strong as it needs to be. Our budgets are close to the wire, and we need funds to be able to continue to innovate. Corporate and Foundation funding has been generous and invaluable, but the new Vice-Chancellor will have to spend more time raising the funds for projects, operations, capital and endowment on which UCT will increasingly rely. The Council may have to give more attention to financial matters and financial strategy. Closely linked to this is the challenge of ensuring that we are able to attract and retain talented staff.

A further major challenge is to continue and deepen the process of transformation that has been a feature of UCT for three decades or more. The eradication of the legacies of racial discrimination will take more than a single generation. Transformation challenges manifest themselves in most areas of University life. Our graduating classes each year have increasing numbers of black and women achievers at all levels, but the racial profile of our staff is yet to change materially.

The University is first about its students. Our student body is diverse and talented. We draw pride and strength from the number and proportion of international students (now some 20% and from over 100 countries). Overall numbers have dropped slightly in the past few years (though the trend was arrested in 2008), and the proportion of black SA students has not increased materially in a decade. This is not merely a UCT problem; it is also a reflection on what is happening in our country's schools. Our schools

outreach projects are part of the answer to addressing this. We also have to look at what more we can do to train the future generation of school teachers.

Our admissions policies make provision, as they must, for redress. We aim through our admissions policies to create a diverse class, and to provide redress for past inequality in educational opportunity. Over the past five years we have systematically tracked cohort success. It is vital that we close the performance gap. The results are not yet good enough, but they are encouraging and compare well with those of our sister institutions. The academic development programme at UCT, which was started in 1981, is now mature. Much of the success of students admitted from previously disadvantaged backgrounds is due to that programme.

We do not have enough student residences to house all of the students who need accommodation, and to give the valuable residence experience to all of those who seek it. With fewer than 6 000 beds, and an increasing shortage of alternative accommodation for students in Cape Town, we will need to make major and continuing investment in this area. We are acutely aware that because of the priority which is necessarily given to the predominantly black students who have no alternative accommodation, particularly the senior residences are not as diverse as we would wish. The solution is to provide more residences, to open up the residence experience to all who wish to take advantage of it.

Safety remains a concern. The steps we have taken have had positive results, and crime on the campuses is very significantly lower than in the immediate regions. This is an issue which requires continuing vigilance.

The Health Sciences Faculty has long been a jewel in our crown. Its strength in the clinical areas has in very large measure derived from the strength of the partnership between the University, the Province's Department of Health, and the two principal teaching hospitals (Groote Schuur and the Red Cross Children's Hospitals). The partnership has come under increasing strain, in part as changing health service priorities are implemented. Over the past year a great deal of work has been done on this issue, but we have not yet been able to put this relationship on a new and sound footing. It is imperative that we do.

#### **Some concluding remarks**

At the end of June 2008 we will take leave of the Vice-Chancellor. His eight-year term of office has been an important one in UCT's history. He has brought to the office a moral clarity and determination. The quality of his leadership in higher education has been widely recognised regionally, nationally and internationally. We, and the country, look forward to a continued contribution by one of our country's leading public intellectuals, at a time when this leadership is hugely important. At the end of June 2008 Martin West, the Deputy Vice-Chancellor and Vice-Principal, will also leave office, though he will be available to the end of 2008 to assist the new Vice-Chancellor. He is the senior professor. His experience, wisdom and sheer hard work have been the rock on which the success of recent years has been built.

We will also take leave of the current Council. The members of the Council serve without remuneration. Although this is not without its problems, it reflects the best of civic traditions. Several long-standing lay members of committees and Council will not be available for election or appointment for the new term. I pay tribute to them and thank them for their work for UCT.

The new Council will inherit our mistakes and our successes. The University of Cape Town is an important national and international institution. It is the privilege of the Council and of its members to be able to contribute to its work.



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**G M BUDLENDER**  
**CHAIR OF COUNCIL**  
**4 JUNE 2008**

# REPORT OF THE VICE-CHANCELLOR

## | PART 1 |

### STRATEGY AND IMPLEMENTATION

2007 was another successful year for the University of Cape Town (UCT).

Student enrolment grew by 3% between 2003 and 2007, with an enrolment of 21 170 students in 2007. Eighteen percent of these students were masters and doctoral candidates. Enrolment numbers are being shaped by two factors: physical capacity constraints and a drive to increase the postgraduate portion of the students body, flattening the growth of our undergraduate sector. Figures show that UCT continues to attract high achievers. Sixty-six percent of the 2007 first-time entering students had A or B aggregates in their matric exams. In 2007 some 4 753 students graduated with degrees or diplomas.

With national development in mind, UCT's faculties have turned to the challenge of integrating teaching and learning with community upliftment.

The cases presented in our 2007 Social Responsiveness Report are a gauge of innovative civic and community work that complements teaching and research. On the research front, we have worked hard to align our research outputs with national priorities. UCT now has 26 of the 70 Chairs (some 37%) in the South African Research Chairs Initiative. As Chairs were awarded on the basis of alignment with national priorities and institutional strategy, it seems that UCT's Signature Themes initiative and the focus on research priorities allowed the university to take advantage of new national programmes. Further evidence of this is that all five Signature Themes were approved as Research Niche Areas by the NRF in 2006 and continued to receive funding in 2007. These are the Brain Behaviour Initiative, Marine Research Institute, Cities in Africa, Drug Discovery, and Minerals to Metals.

Over the past few years, UCT has given much attention to staff research development, aiming to support career development among the next generation of established researchers at UCT. The expansion of the Emerging Researcher Programme (ERP), as well as UCT's increased participation in the NRF Thuthuka Programme, are indicative of this.

In 2007, UCT earned a place in the top 200 of the widely respected Times Higher Education Supplement (THES-QS) World University Rankings, moving up 57 places from 2006. UCT was the only African university to make it into the top 200 of the THES-QS rankings, conducted each year by the London-based newspaper The Times Higher Education Supplement and study-abroad specialists Quacquarelli Symonds.

For admission to undergraduate study in 2007, UCT again agreed on equity targets for faculty programmes. The objective is to push for continuing change towards a reasonable level of diversity in the student population. UCT has also placed increasing emphasis on student retention and graduation rates, seeking to ensure that each student realises their full potential while at the university. While it will be some time before these objectives are achieved, the university believes that steady persistence of purpose is essential.

UCT has also increased its interventions within the high school system, notably through our Maths and Science Education Project, in partnership with the Western Cape Education Department. UCT believes that focused work with schools and teachers can significantly improve the chances of a more representative cohort of school leavers gaining access to higher education. In parallel with student equity, UCT continues to improve equity in staffing. 2007 saw the completion of the first phase of a range of externally funded programmes that have enabled faculties to make equity appointments with bridging funds and to fast-track development opportunities for key staff.

Institutional climate – those customs and behaviours that structure personal interactions within the university community – received considerable attention in 2007. The Khuluma programme continued throughout the year, and has now been attended by more than 650 staff, with predominantly positive responses. The Respect programme was organised in partnership with the Students Representative Council and saw a number of well-attended events and developing themes. In particular, the programme concentrated on the re-discovery of the history and legacies of slavery, a key aspect of the Western Cape's identity. UCT focused on improving the implementation of the Code of Conduct for campus-based staff employed by major contractors and completed work on new policies for dealing with sexual harassment.

Institutional climate – those customs and behaviours that structure personal interactions within the university community – received considerable attention in 2007. These interventions were reinforced through the implementation of the university's second Institutional Climate Survey, which was conducted in the first part of the year and launched in the second semester. The outcomes of the survey validate the interventions that have been made to improve institutional climate, and point to several additional areas that need attention, and which will be addressed in 2008.

According to UNAIDS research, South Africa has the highest number of HIV infections worldwide. UCT provided ongoing Voluntary Counselling and Testing (VCT), and has added VCT drives on the upper and medical campuses. These tested some 4 677 students and 138 staff in 2007. Free VCT was made available to all students, using the rapid test. VCT campaign drives were also organised on the upper campus and medical school. Additionally, a permanent VCT site opened in August at the Sports Centre.

Institutional responses to AIDS has also found expression in the curriculum. Individual courses that have incorporated HIV and AIDS in the Faculty of Humanities include Understanding Gender in the African Gender Institute, and various modules within education, psychology, social anthropology, sociology and social development. The Faculty of Science explores biological, chemical, molecular, cellular, environmental and other aspects of HIV. At postgraduate level, the commerce faculty offers a selection of courses that explore population projections, demography, and the economic, social and political dimensions of HIV and AIDS. The Faculty of Health Sciences offers a course in epidemiological concepts that relate to the study of infectious diseases, and the evaluation of public health interventions against these diseases. Public health, human rights and ethics are also studied at master's level, as is palliative medicine, paediatric AIDS and oncology as it relates to HIV. Courses are also available in microbiology and clinical pharmacology. A module offered by the Faculty of Law examines human rights law and, in particular, the Constitutional Court's pronouncement on the provision of antiretrovirals to HIV-positive pregnant women.

Our financial policy is to provide for sustainable operations and the ability to invest in educational initiatives, consistent with our mission. We practice conservative financial management, by striving for efficient recurrent operations that generate funds to support strategic initiatives.

Significant progress has been made over recent years to improve the budget process, review system and aligning resource allocation with UCT objectives. The emphasis on the appropriate allocation of resources will continue to grow.

I wish to acknowledge the work and commitment of the executive team, members of the senior leadership group, the Chair and members of Council and every member of the university community.



## | PART 2 |

### SENATE: TEACHING, LEARNING AND RESEARCH

The Senate is responsible for the teaching and research work of the University, including the syllabuses, curricula and examinations. The Senate undertakes much of this work through the Boards of Faculty, and the faculty structures that deal with curricula (the programmes committees), examinations (the faculty examinations committees) and with students whose academic progress is unsatisfactory (the readmission review committees).

#### Student Enrolments and Qualifications

Student head count enrolments grew by 3% between 2003 and 2007, or at a rate of 0.7% per annum. The 2007 unduplicated student headcount enrolment total at year end was 21 170. Enrolments at the undergraduate level grew at 0.9% per annum over the 2003 to 2007 period. The average annual growth rate at the postgraduate level was markedly lower (0.1% per annum).

Physical capacity constraints and a focus on increasing the postgraduate share of the enrolment have resulted in a flattening of growth in UCT's undergraduate sector in recent years. The first-time entering undergraduate intake has stabilised at around 3 600 despite persistent applicant pressure. At the same time, the quality of the new undergraduate intake, measured in terms of prior matric performance, remains high: 66% of the 2007 first-time entering undergraduate intake had obtained either A or B aggregates in the matric examination.

Between 2003 and 2007, enrolments in professional first bachelors degrees grew by 8%. Although enrolments at the honour and masters level diminished slightly, enrolments at the doctoral level increased by 23% over this period. The 2007 year end figures showed a combined total of more than 3 700 masters and doctoral students; masters and doctoral enrolments together made up 18% of the head count enrolment total.

#### Student Output Efficiencies

A total of 4 753 registered students qualified for the award of a degree or diploma in 2007: Amongst these:

- 1 361 graduated in Commerce (470 of these completing BBusSc degrees)
- 737 graduated in Engineering and the Built Environment
- 460 graduated in Health Sciences
- 1 380 graduated in Humanities
- 160 graduated in Law
- 580 graduated in Science

The 2007 graduate total will be augmented by the June 2008 graduation figures as a large proportion of these graduates will be attributed to 2007 rather than to 2008. 2007 graduations in the GSB, for example, do not yet reflect in the figures shown above.

The 2007 graduate proportion of all undergraduates (21.6%) has recovered somewhat from the 2006 reported fraction of 19%, and it is likely that the June 2008 graduation will result in a further increase in this proportion. The proportion of all undergraduates excluded from the university on academic grounds appears to have stabilised at around just 4% of the total undergraduate enrolment.

The low levels of academic exclusions and diminished drop-outs in good academic standing may be ascribed to the strong institutional focus on throughput and retention, and have contributed to improved completion rates amongst first-time entering undergraduate cohorts.

Success rates in undergraduate courses have improved steadily in recent years. In 2007, an overall undergraduate course success rate of 86% was achieved, and the success rates in 100-level, 200-level, and 300-level courses were all in excess of 80%. The overall success rate in fourth level (400-level) undergraduate courses for the year was 91%.

Examination of the longitudinal performance of the 2002 first-time entering undergraduate (FU) entry cohorts shows the following:

- 67% of the 2002 FU entry cohort (in comparison with 65% of the equivalent 1998 FU cohort) had successfully completed undergraduate qualifications within five years of entering UCT;
- 14% of the 2002 FU cohorts had been excluded from UCT on academic grounds during the five-year period of the analysis;
- the rate of drop-out in good academic standing amongst 2002 FU entrants (a term which applies to all students who leave UCT without completing an undergraduate qualification, and who are also not excluded on academic grounds) was 14%;
- the proportion of these students who were still registered at the undergraduate level dropped by 2 percentage points (in comparison with the equivalent 1998 cohort) to 4%.

The improved completion rates amongst recent cohorts suggest that UCT's persistent focus on throughput and retention is yielding positive results. It is of particular interest to note the diminution in the phenomenon of drop-out in good academic standing and in the frequency of students requiring more than five years to complete a first degree.

UCT remains committed to improving its efficiency in relation to student retention and throughput, without compromising quality, particularly as this relates to the continuing transformation of the student body. Attention is currently overtly focussed on teaching and learning in terms of expertise, resources and constructive engagement with problem areas. The formation of Education Development Units in Health Sciences and Commerce, the Academic Development Lecturer Programme in EBE and the implementation of UNIQUIP (which integrates strategies aimed at improving teaching and learning into mainstream faculty plans) are examples of such initiatives. Innovations in practice in teaching and learning are encouraged, and examples of good practice identified in the academic reviews are disseminated widely. There has been significant progress in integrating strategies aimed at improving teaching and learning into mainstream faculty plans.

## Full-time Academic Staffing

UCT's 2007 HEMIS staffing submission shows that a total of 866 permanent instruction/research or academic staff were employed in the six faculties and in CHED. This represents an 11 percent increase over the 2003 figure of 779. The fact that student enrolments grew by 3 percent between 2003 and 2007 suggests that academic staffing provision has more than kept pace with growth in student enrolments.

The proportion of full-time academic staff qualified at the doctoral level in 2007 was 59%. A further 27% of all academic staff held masters level qualifications. Moreover, the Research section of this report suggests that students across the University could expect to be taught by academic staff actively engaged in research in their particular disciplines.

## Social Responsiveness Report

16 qualitative cases appeared in the 2007 report. For the first time, a case profile involving staff from the Centre for Higher Education Development (CHED) and, two case profiles on voluntary student activities are included in the report.

The cases in the report are evidence of a wide range of innovative civic and community engagement work taking place at UCT. They illustrate how SR enhances the core missions of teaching and research. Development is often thought of in economic terms only with a strong focus on technology-based development. The analysis of the cases indicates that SR at UCT takes on a much wider meaning. Indeed UCT is contributing to various dimensions of development namely economic, social, cultural and environmental.

## Collaboration between universities and provincial administration

Arising from the CHEC/PGWC summit held on 16 October 2006 the CHEC Board approved the following initiatives, several of which have already commenced.

- A research study to trace registered students who achieved at least 50 per cent of the credits necessary for qualifications, but dropped out of the courses in targeted scarce skills areas.

- CHEC has nominated representatives to collaborate with the Department of Economic Development and Tourism in developing interventions to address skills needs in targeted economic growth areas.
- The heads of the departments of economics in the CHEC institutions have been approached to identify postgraduate students to assist with various research projects related to the implementation of the Spatial Micro-Economic Development Initiative in various local governments in the Western Cape.
- Building a long-term strategy for enrolment planning in higher education in targeted areas that will bring benefits for both the region and higher education. The areas include: education, biotechnology, heritage and culture, and social development because of their importance to addressing skills shortages, and their potential contribution to promoting social cohesion.
- Discussions with the business schools about the provision of opportunities for continuing professional development
- A Creative Streets Project

### **Colloquium with the City of Cape Town**

On 23 November 2007 a historic colloquium took place between the CHEC and the City of Cape Town, attended by senior officials of the city, including Mayor Helen Zille, and senior management and academic staff from the four universities in the Western Cape.

The colloquium culminated in an agreement that terms of reference for a partnership and possible areas of collaboration should be drawn up by a joint task team. Proposed areas for collaboration include: human resource development, IT, and spatial development in the Bellville area.

### **Promoting networking and building a community or practice around social responsiveness**

In April 2007, UCT organised a colloquium to profile and reflect on the 'portraits of practice' contained in the 2006 Social Responsiveness Report. Presentations were made by speakers involved in various activities straddling social responsiveness and volunteerism. The presentations dealt with key issues of the interconnectedness of research, teaching and social responsiveness, curriculum responsiveness, and the promotion of critical citizenship. The colloquium was attended by about 60 people from within UCT and several people from external constituencies.

### **Providing an enabling framework for social responsiveness at the UCT**

The Social Responsiveness Working Group has released a draft policy document for consultation. The purpose of this draft policy document is to provide an enabling institutional environment that will support, strengthen and promote SR. The policy proposals cover structural arrangements, recognition and reward systems, roles and functions of different parts of UCT in supporting SR, and monitoring and evaluation.

## **UCT Libraries**

The Libraries include the Chancellor Oppenheimer (Main) Library, nine branches, and major research collections such as the African Studies Library, Manuscripts and Archives and Rare Books. The rich and diverse array of research materials and undergraduate resources includes more than 1.1 million print volumes, with over 16,700 print journal titles. More than 29,000 electronic journals and 200 electronic databases are available via the Libraries' extensive website.

A team of subject-specialist librarians is supported by modern equipment and technologies, high-end computer workstations, audio-visual viewing areas, both intranet and wireless Internet access, and ample photocopying and printing facilities.

One of the most popular facilities is the innovative Knowledge Commons, a dedicated undergraduate research facility, and the first of its kind in Africa, where students can access the Libraries' electronic journals and databases, use quality software and IT equipment, and receive assistance in researching and writing their reports, essays, and assignments.

## Research 2007

A highlight has been the University's continued success in participation with the South African National Research Chairs Initiative (SARChI), which resulted in UCT being awarded an additional 19 Chairs over and above the seven Chairs awarded in 2006. This brings the total for UCT to 26 Chairs, out of 70 Chairs awarded nationally. As Chairs were awarded on the basis of alignment with national priorities and institutional strategy, it seems that the signature themes initiative, as well as the focus on research priorities, have enabled UCT to take advantage of new national programmes. Further evidence of this is that all five signature themes were approved as Research Niche Areas by the National Research Foundation (NRF) in 2006 and continued to receive funding in 2007.

Total research income increased by 37% in 2007 to R547.5 million. This large increase, when compared to the 2006 income of R399.7 million, was due in the first instance to a major increase in the value and volume of contracts signed during the two comparative periods: an increase of 40% in the total value of the contracts approved in 2007 vs. 2006. The number of contracts approved has increased by 18% year-on-year, which is much higher than the average of +/- 5% over the last few years. The other major contributor was the NRF (a general increase in the number and value of awards), as well as the SARChI awards described above.

The performance of our researchers through the internationally benchmarked process of peer-evaluation and rating is carried out by the NRF and based primarily on the quality of their recent research outputs. The number of NRF-rated researchers at UCT grew to 279 during 2007. Four new A-ratings and one new P-rating were awarded during this period and six existing A-ratings were renewed. A-rated researchers are defined as world leaders renowned for the high quality and impact of their research, while P-rated researchers are recognised by their peers as having demonstrated the potential of becoming future leaders in their field. UCT remains the top institution nationally in as far as the number of rated researchers are concerned.

The publication count of subsidy-earning publications resulted in a final allocation of 907.11 units for the 2006 academic year; this was marginally higher than the previous allocation of 892.75 units. Subsidy is earned on accredited journals, peer-reviewed books (including chapters in books) and peer-reviewed conference proceedings.

The Emerging Researcher Programme (ERP) – a component of the Framework for Research Development – completed its fifth year of operation in 2007. By the end of 2007, the ERP had 262 active participants, having grown from an initial 44 in 2003. Also as part of the Framework for Research Development, five scholars were selected to visit the University in the course of 2007 under the three-year Mellon Visiting Mentors Project, with a further five being identified for 2008.

A main challenge for the coming year is to shift our benchmarking parameters from the national to the international landscape. Whilst striving to maintain our national ranking, we also wish to benchmark ourselves in terms of our global competitiveness. Since 2003, UCT has been the highest ranked South African and African university, according to the Academic Ranking of World Universities (ARWU), conducted by the Institute of Higher Education at Shanghai Jiao Tong University in China. In 2007, UCT earned a place in the top 200 of the widely respected Times Higher Education Supplement (THES) World University Rankings, moving up 57 places from 2006. UCT was the only African university to make it into the top 200 and one of only four universities from the developing world in the rankings.

## | PART 3 |

### MANAGEMENT AND ADMINISTRATION

#### Changes in Senior Management & Re-structuring

The selection process for a new Vice Chancellor was successfully completed during the year under review, resulting in the appointment of Dr Max Price. Dr Price will take up office on 1 July 2008.

Concurrent with the selection process the Vice-Principal, Professor West, coordinated a project to manage the Vice Chancellor transition period. This project identified different scenarios related to the transition and designed appropriate strategies to ensure a smooth transition. The transition project will conclude with the installation of the new Vice Chancellor.

There was stability in the University Senior Leadership with no staff or significant portfolio changes among the Deputy Vice Chancellors. The new Dean of Commerce, Prof Melvin Ayogu, took up office on 1 January 2007, and, after a successful selection process, Prof Francis Petersen was appointed Dean of Engineering and the Built Environment. He takes up office on 1 April 2008.

Mr Prags Naicker, Executive Director of ICTS, resigned as from end December 2007 and a selection process to identify his successor will take place in early 2008. Mr Dave van Eeden, Executive Director of Human Resources, indicated his intention to step down as Executive Director during 2008. In the light of this, a professional development programme was piloted which targeted possible internal candidates for the position. The selection process for the new Executive Director will take place during the first half of 2008.

The Transformation Manager in the Office of the Vice Chancellor, Ms Nazeema Mahomed, resigned towards the end of the year. This strategic position will only be advertised in 2008 by the new Vice Chancellor who plans to take over the transformation portfolio.

As part of the restructuring of the Office of the Registrar two Deputy Registrars were appointed. Dr Karen van Heerden is responsible for Academic Administration and Mr Paul Ngobeni for Legal Services and the Registrar's Secretariat.

#### Administrative Systems

##### supaTsela Project

The supaTsela Project proceeded more slowly than anticipated due to delays in civil works, the rollout of the new network design across all campuses, and the implementation of the Electronic Directories System. The Project is now due to be officially signed off by Council in June 2008. The project is within budget and there is a detailed costing for the remaining portions of the project.

In 2007, the use of ISA (Microsoft Internet Security and Acceleration server) technology was extended to all Campuses and all users and this now enables the University to determine the most popular URLs (by volume) and to report on what volume of internet traffic is attributable to a particular website or service. Rolling out the new network to all academic and administrative buildings on all campuses occupied most of the Network Infrastructure team's resources in 2007. Other achievements during 2007 include the installation of software that enables monitoring of email, file services, printing etc, and the implementation of ZENworks Remote Access which allows a Helpdesk consultant to troubleshoot at a distance. Installation and commissioning of secondary optic fibre links to provide a degree of redundant routing will take place by April 2008.

##### SAP Upgrade

The SAP R/3 upgrade to version 4.6C, the new mySAP Business Suite product, was successfully completed during the first half of 2007. Additional staff are being recruited and trained to strengthen the HR support team. Apart from a requirement for additional consulting costs the project ran within budget.

#### Campus risk issues

Significant progress has been made in ensuring basic power supply to the campus and by end June 2008 all venues will either have natural lighting or access to a back-up power supply. Concurrent with this has been the development of a Green Campus project focusing on power and water sustainability

and waste recycling. The enthusiastic participation of the students has been an extremely positive aspect of this. Also positive is the stabilizing of crime on the campus and the progress being made to set up a CID covering the campus and its surrounds. It is hoped that a proposal on this will be taken to Council during the second half of 2008.

## Staffing Matters

An amicable settlement had been reached with the academic sector and NEHAWU on salary increases, however protracted negotiations with the PASS sector resulted in a short strike early in February 2007 and a delayed settlement. Issues centred more around the performance management system than wages.



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**PROFESSOR N S NDEBELE**

**VICE-CHANCELLOR and PRINCIPAL**

**4 JUNE 2008**

# REPORT OF THE INSTITUTIONAL FORUM

The Institutional Forum is a statutory body set up by the Higher Education Act 101 (1998) to advise Council on issues affecting the institution, including –

- The implementation of the Higher Education Act and the national policy on higher education
- Race and gender equity policies
- The selection of candidates for senior management positions
- Codes of conduct, mediation and dispute resolution procedures
- The fostering of an institutional culture which promotes tolerance and respect for fundamental human rights and creates an appropriate environment for teaching, research and learning, and
- Performing functions determined by Council.

## Meetings

The IF met eight times in 2007. There were five regular meetings and three special meetings.

Agenda items included: receiving reports on the Code of Conduct for outsourced service providers at UCT; discussing inputs on the state of industrial relations in the university; discussing and endorsing the "Respect" campaign; discussing the development of a student pregnancy policy; reviewing the strike by the Employees Union; reviewing the Institutional Climate Survey; debating the draft Institutional Climate survey; debating the draft sexual harassment and rape policies; debating the selection and appointment procedures for Vice-Chancellors and Deputy Vice-Chancellors; processing the appointment of the Dean of the Faculty of Engineering and the Built Environment; reviewing the university's disciplinary procedures. Two of the special meetings were concerned with process in respect of the selection of the VC and DVCs (they resulted in positive Advice to Council on both occasions); the other was an assessment of the work of the IF in 2007.

The IF issued three Co-Chairs Circulars in the year under review: one on the procedures for the appointment of DVCs; one on the Sexual Harassment and Rape policies; and the third on procedures for the appointment of new deans.

In 2008 the IF plans to review its functioning so as to make it more effective. It also plans to undertake a review of the selection and appointment procedures for senior management.



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**PROFESSOR T NHLAPO**  
**CO-CHAIR**  
**4 JUNE 2008**



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**MR H KLIENBOOI**  
**CO-CHAIR**

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**MS T CHRISTIANS**  
**CO-CHAIR**

# COUNCIL STATEMENT ON CORPORATE GOVERNANCE

This statement is intended to enable readers of the Annual Report to obtain a better understanding of the governance and legal structure of the University.

The Council considers that it has materially complied with the requirements of the Higher Education Act, 1997, and the Regulations for Annual Reporting by Higher Education Institutions published under that Act (which incorporates by reference and requires compliance with the Code for Corporate Practice and Conduct, as set out in the second King report (King 2) insofar as it can apply to public Higher Education Institutions).

## ***The Council of the University***

*The University's vision is to be a world class. African University educating for life, addressing the challenges facing our society and equipping our students with life-long skills.*

*The Council is enjoined to govern the University, and has recorded that, in governing its key functions and responsibilities are: to decide policy; to influence the affairs of the University; to make key appointments; to make all financial appropriations and decide fees to be charged; to report to the State; and to require the Senate, the Vice-Chancellor and the executive officers to account to it for their areas of responsibility.*

## Council and Council Committees

The University is incorporated in terms of the Higher Education Act, 1997, and the Statute of the University of Cape Town, (promulgated under Government Notice No. 1199 of 20 September 2002, and as amended by Government notice 259 of 26 February 2004) with full juristic capacity.

The legislation provides inter alia for two governance bodies and one advisory body. Each has specific mandates; the Council governs the University in terms of the Act and the Institutional Statute; and the Senate has jurisdiction over the academic and research functions of the University; and the Institutional Forum, a stakeholder body, which advises the Council on matters specified under the Act. Both Council and Senate are supported by specialist committees and working groups.

The Council has arranged, in an effort to promote accountability and transparency that the papers of Senate (including the monthly Principal's Circular which includes a report on Council's work), the Institutional Forum, and many UCT committees are published on an open governance intranet, and for Council papers, other than those dealing with commercial interests and individuals, to be available to staff and student bodies.

The Council is constituted to comply with the requirements of the Act and the Institutional Statute. The term of the Council now in office runs to 30 June 2008, and elections and appointment processes to constitute the new Council are at an advanced stage.

The Council's key functions and responsibilities are to ensure that:

- The University has clear strategy;
- The Executive Officers (Vice-Chancellor and Deputy Vice-Chancellors) account to it for achieving the strategy
- The University's financial position is sound in both the short term and the long term;
- To set fees, make all financial appropriations, and oversee the administration of the University's property;
- Risk management and internal controls are in place;
- All its members (staff, students, and alumni), donors, customers, and suppliers are treated in an appropriate manner;
- The University complies with all relevant laws, regulations and accounting policies; and
- The committees and sub-committees necessary to achieve the above are in place, are properly constituted with a relevant composition and have appropriate terms of reference and reporting procedures.



Members of Council are not remunerated, but where they travel from out of Cape Town they may be reimbursed for travel expenses incurred. In order to ensure that there is both no actual and no perceived conflict of interest, each Council member, all senior managers, and all Committee members are required to make an annual declaration of interests, to declare any conflict or potential conflict ahead of discussion of the relevant issue; and to recuse themselves should any such issue arise.

The Council is supported by a standing Executive Committee. Council has reserved to itself all major issues, and the Executive Committee expedites the work of the Council. The Council and its Executive Committee met in alternate months. The following tables summarise attendance by members at Council and EXCO meetings in 2007.

#### Attendance at Council Meetings – 2007

2007	Mar	May	Jun	Sept	Oct 1	Oct 2	Dec	%
DG Aschman	P	P	P	P	P	P	P	100
AW Barday	P	P	P	Ap	P	Ap	Ap	57.1
D Budlender	P	P	P	P	Ap	P	P	85.7
GM Budlender	P	P	P	P	P	P	Ap	85.7
CM de la Rey	P	P	P	P	P	Ap	P	85.7
V Doo	Ap	Abs	Ap	Ap	P	P	P	42.9
MP Ensor	P	P	P	P	P	P	P	100
PI Folb	P	Ap	P	Ap	P	Ap	P	57.1
R Garlick	P	P	P	Ap	Ap	Ap		50
JJ Gauntlett SC	P	Ap	P	P	P	P	P	85.7
E Goliath	P	P	Ap	P	P	P	P	85.7
MJ Hall	P	P	P	P	Ap	Ap	P	71.4
LP Hlahane							P	100
A Jakoet	P	P	P	P	P	P	Ap	85.7
R Kadalie	P	Ap	P	P				75
O Kinahan	P	P	P	P	P	P	P	100
PSG Leon	P	Ap	P	P	Ap	P	Ap	57.1
B Mayosi	P	P	P	P	Ap	P	P	85.7
T Mhlambiso			P	P	Ap	Ap	P	60
L Mpahlwa	P	Ap	Ap	Ap	P	Ap	Abs	38.6
T Madinginye							P	100
Z Mqolomba	P	Ap	P	P	P	P		83.3
NS Ndebele	P	P	P	P	P	P	P	100
RT Nhlapo	P	P	P	P	P	P	P	100
E Patel	P	P	Ap	P	P	P	P	85.7
TD Petersen	P	P	P	P	P	P	P	100
LF Platzky	P	Ap	P	Ap	Abs	P	Abs	42.9
BD Reddy	Ap	P	P	Ap	P	Ap	P	57.1
RB Rosenthal	Ap	P	P	Ap	P	P	P	71.4
J Terblanche	P	P	P	P	P	P	P	100
M A Thompson	P	P	Ap	Ap	P	Ap	P	57.1
ME West	P	P	P	P	P	P	P	100

	= Not a Council member during highlighted periods	
P = Present	Ap = Apology	Abs = Absent

## Attendance at Council EXCO Meetings – 2007

2007	Feb	April	Jul	Aug	Nov	%
DG Aschman	P	P	P	P	P	100
GM Budlender	P	P	P	P	P	100
JJ Gauntlett SC	P	P	P	P	P	100
R Kadalie	P	P	Ap	P		75
T Mhlambiso					P	100
Z Mqolomba	P	Ap	P	Ap	Abs	40
NS Ndebele	P	P	P	P	P	100
TD Petersen	P	P	P	P	Ap	80

P = Present

Ap = Apology

Abs = Absent

## Code of Ethics

The Council is committed to integrity and ethical behaviour in all its dealings. Council members and all staff who have decision-making functions must subscribe to an ethical code.

The importance of ethical behaviour is particular in all the University's academic work, and a standing committee of Senate, supported by faculty-level committees, promotes and ensures the highest ethical standards in teaching and research, and is supported by faculty level ethics committees.

## Executive Committee of Council

The Executive Committee of Council consists of the Chair and Deputy Chair of Council, four members of Council chosen by the Council and the Vice-Chancellor.

## The Appointments Committee

The Appointments Committee considers nominations for vacancies in the Council in terms of paragraph 45 of the Statute.

## The University Audit Committee

The University Audit Committee is a standing committee of Council and consists of three external members (including the Chair), one external person and the Vice-Chancellor. It met four times in 2007, and both internal and independent auditors have unrestricted access to it. A standing Risk Management Committee, chaired by the Vice-Chancellor, supports this Committee.

The Audit Committee's responsibilities are to:

- Ensure that there is an effective process for assessing and managing risk;
- Assess the financial statements for reasonability and accuracy, and for compliance with accounting policies and with the regulations laid down by the Minister under the Higher Education Act;
- Recommend to Council the approval of the Annual Report, incorporating the Annual Financial Statements;
- Review and approve the scope of the internal audit programme;
- Recommend the appointment and continuance of the independent external auditors;
- Review the scope of the audit conducted by the independent external auditors; and
- Review, on its own and with the help of internal audit, the adequacy and effectiveness of internal control.

During the course of the year the terms of reference of this committee were reviewed by it and approved by the Council, in order to strengthen its role.

## The University Finance Committee

The University Finance Committee is a standing committee of Council. The Finance Committee advises Council on financial strategy, makes recommendations on annual revenue and capital budgets and monitors and reports on progress against these budgets. It met seven times during 2007.

## The Council Remuneration Committee

The Council Remuneration Committee is a standing committee of Council and consists of the Chair and Deputy Chair of Council, the Chairs of the Audit and the Finance Committees and the Vice-Chancellor. (In that the Deputy Chair is Chair of Finance, the Council has appointed an additional lay Council member to the committee). It is responsible for:

- Advising the Council on remuneration policy;
- Setting mandates for consultation and negotiations, on pay and conditions of service, with staff bodies and trades unions; and
- Determining the pay of executive officers and senior staff in terms of the performance management system.

This Committee is required to report its decisions to the Council in the interest of transparency.

## The University Student Affairs Committee (USAC)

The USAC is established in terms of S27 (3) of the Higher Education Act, 1997 as amended. This standing committee of Council is made up of one member of the Executive, members of the academic staff and student representatives, and members of Council. It is the structure established in terms of the Higher Education Act, 1997 to advise the Council on student matters. Council requires the USAC to report twice a year on student concerns and on how these are being addressed.

## The University Human Resources Committee

This standing committee advises Council on HR policy, is responsible for advising Council on employment equity policy and plans, and for keeping abreast of staff issues and staff concerns. The committee met three times during 2007. A Council member chairs this Committee.

## The University Building and Development Committee (UB&DC)

The UB&DC advises Council on physical development and oversees major capital projects. It includes nominees of the Cape Provincial Institute of Architects, and one of its functions is to advise on the development of the University's campus-assembly of spaces and buildings. The committee met eleven times during 2007.

## The University Strategy Committee

Chaired by the Vice-Chancellor, consisting of Council Members, and elected staff and student representatives, this standing committee advises Senate and Council on strategy. This Committee's modus operandi was reviewed in 2007 and it will in future be known as the University Strategy Forum; as a result of this review it met infrequently in 2007.



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**G M BUDLENDER**  
**CHAIR OF COUNCIL**

**4 JUNE 2008**



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**PROFESSOR N S NDEBELE**  
**VICE-CHANCELLOR**

# REPORT ON INTERNAL ADMINISTRATION, OPERATIONAL STRUCTURES AND CONTROLS

The University maintains systems of internal control to mitigate identified risks and to safeguard its assets. The University has a documented organisational structure and division of responsibilities, established policies and procedures, which are communicated throughout the University.

Information systems utilising modern information technology are in use throughout the organisation. All have been developed and implemented according to defined and documented standards to achieve efficiency, effectiveness, reliability and security. The student administration ERP system (Oracle's PeopleSoft Campus Solution product), implemented during 2006, saw its first full and successful annual cycle. In addition, a major project to renew the campus IT infrastructure has been implemented across campus.

The University applies what it considers to be acceptable standards to protect privacy and ensure control over all data, including disaster recovery and back-up procedures. The development, maintenance and operation of all systems are under the control of competent, trained staff.

In addition the external auditors have conducted an assessment of the key accounting systems and have found that, while controls are generally adequate, there are some areas where improvements can be made. These are being attended to.

Major power outages continued during 2007. Significant progress has been made in ensuring basic power supply to all aspects of campus life and, by the end of June 2008, all lecturing venues will either have natural lighting or access to a back-up power supply.

Internal Audit monitors internal control systems and aims to assist line management in ensuring the adequacy of such controls. Council, through its Audit Committee, provides oversight of the financial reporting process.

## Committee structures

The University Audit Committee is a standing committee of the Council, and consists of at least three external (non-executive) members and the Vice-Chancellor. There are presently four external members. The committee was chaired by Mr M Thompson to October 2007, after which Council appointed Mr Colin McClelland as Chair; whereas previously the Chair had been a Council member and Mr McClelland is not, Council decided that Mr McClelland would receive all Council papers and have the right to attend Council and Council Exco meetings as he chooses in order to ensure direct access by the Audit Committee Chair to Council.

A standing Risk Management Committee, chaired by the Vice-Chancellor, reports to the Audit Committee.

Attendance at Audit and Risk Management Committee meetings during 2007 is given in the tables below.

<b>Audit Committee</b>		<b>April</b>	<b>May</b>	<b>Sep</b>	<b>Nov</b>	<b>%</b>
A Jakoet	Deputy Chair	Ap	P	P	P	75
C McClelland	Chair since October	P	P	P	P	100
R B Rosenthal	Member	P	Ap	P	P	75
A C Mopp	Member	P	Ap	P	P	75
Professor N S Ndebele	Member	Ap	Ap	P	Ap	25
M Thompson	Chair to October	P	P	Ab		66

<b>Risk Management Committee</b>	<b>March</b>	<b>May</b>	<b>Aug</b>	<b>Nov</b>	<b>%</b>
Professor N S Ndebele	P	P	P	P	100
Professor M E West	P	P	AP	P	75
Professor K Driver	AP	AP	P	P	50
Professor E Uliana	P	P	AP	P	75
Mr H T Amoore	P	P	AP	P	75
Mr C McClelland				P	100
Mr J Critien	AP	AP	P	P	50
Ms M Khan	P	P	AP	AP	50
Ms G Kruger	AP	AP	AP	AP	0
Professor C T O'Connor	P	AP	AP	AP	25
Mr M Thomson	AP	AP	AP		0

	= Not a member for these meetings	P = Present	Ap = Apology	Abs = Absent
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The Audit Committee's responsibilities are set out in comprehensive terms of reference which were revised during the year under review. Key responsibilities include

- ensuring an effective process for assessing and managing risk;
- assessing the financial statements for reasonability and accuracy, and submitting a recommended set of financial statements and annual report to the Council for approval;
- reviewing and approving the scope of internal and external audit programmes;
- recommending the appointment and retention of the independent auditors; and
- ensuring an effective process for adequate and effective systems of internal control.

## Assessing and managing risk

The Risk Management Committee has continued to identify areas of risk and ensure that controls are in place for managing key risk areas. Areas which have been identified in the current year requiring more detailed work include the health and safety system, legal compliance, and the risks involved in interruptions in the electrical power supply. Insurance has been arranged to cover the risks to the University in conducting clinical trials. A number (three) of significant cases of fraud in the period 2005 to 2007 has enjoyed the attention of the Risk Management Committee and the Audit Committee, and control measures have been reviewed.

The Audit Committee is satisfied that, at a macro level, risks have been identified and appropriately addressed. The Audit Committee remains concerned to ensure that a risk awareness culture is promoted more actively. Extending risk awareness within the University must remain a major focus of risk management.

The risk of HIV/AIDS among staff and students continues to be addressed through a comprehensive direct aids intervention programme, which includes educational programmes, voluntary counselling and testing, and the provision of drug therapies to those who test HIV positive. A parallel programme of support to students who are HIV positive or who have developed AIDS is in operation, to complement a long running HIV/AIDS education programme.

The Quality Assurance Working Group operates largely in the academic domain. Its remit is to help the University put in place the necessary quality assurance mechanisms that will give assurance on teaching and learning, on research, and on social responsiveness. These mechanisms constitute a very important subset of risk management in a university environment. Further reports on its work are included in the report of the Senate. A major feature of its work has been to monitor the progress of the University's quality improvement plan (UNIQUIP) which is a self-improvement plan designed to strengthen those areas of quality assurance that were the subject of recommendations by the HEQC.

## The appointment of Ernst & Young as independent auditors for the 2007 audit

The Committee and Council reviewed the process for the appointment of independent auditors; in this the committee was prompted by the independent auditors' practice of partner rotation. This review led to a decision by Council that in the ordinary course of events an audit firm will be appointed for an initial three-year period, followed by a full-scale review of performance after which, if the performance was judged satisfactory, there would be an expectation of annual appointments for a period of five additional years. The University is able to terminate the appointment at any time during the initial three or five year period. At the end of the second period (i.e. after a total of eight years) the University will seek tenders for the audit appointment. The incumbent audit firm will not be debarred from competing for the appointment. Council approved the Committee's proposal for the appointment of Ernst & Young for the 2007 audit as the first of a three-year period after which the University will seek tenders for the audit appointment; in other words Ernst & Young may look forward to appointments for the 2008 and 2009 audits, but the University will seek tenders for the audit for 2010 and subsequent years.

## The scope of internal and independent audit programme

The Committee reviewed and approved the scope of the independent auditors' programme. A separate independent report was made of the IT environment with a focus on controls and applications that are key from a financial audit perspective.

Concerns about the effectiveness of the internal audit function led to a decision to seek an independent review of this. A report has been received and it is expected that this will lead to a strengthening of the internal audit function in the years ahead, particularly with regard to skills in the area of IT audit. During the year the Committee has interacted with the Internal Audit Department in respect of its programme of work and has established a process of reviewing progress and the findings in Internal Audit Reports.

The Committee has in addition commissioned external reviews of the management of risks the University may face in respect of PAYE and VAT.

## Assurances received and review of Annual Financial Statements

The Committee received an assurance from the independent auditors that there were no material unresolved accounting and audit problems relating to the audit of the 2007 financial year, and was also assured by the auditors that adequate accounting records were being maintained.

## Policy matters

The Committee has considered the application of best practice and the auditors' obligations on reportable irregularities and reached agreement with the independent auditors on the applicability of this requirement to the University; irregularities will be reportable in terms of the IRBA guidelines if they involve the Vice-Chancellor, Deputy Vice-Chancellors, Deans, Executive Directors or the Registrar (as officers responsible for management of the University).



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**C McCLELLAND**  
**CHAIR OF AUDIT COMMITTEE**  
**4 JUNE 2008**



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**H T AMOORE**  
**REGISTRAR**  
**(And responsible for Internal Audit)**

# ANNUAL FINANCIAL REVIEW

## Financial Policy

### ***Securing Financial Stability for UCT***

*Our financial policy is to provide for sustainable operations and the ability to invest in educational initiatives consistent with our mission. We practice conservative financial management, by striving for efficient recurrent operations which generate funds to support strategic initiatives.*

*UCT plans within a multi-year framework. The financial policy is realised by integrating the following areas:*

- We target a surplus from Council Controlled recurrent operations to provide a hedge against unforeseen circumstances and to enable new initiatives.*
- Capital expenditure is undertaken in terms of the strategic framework, and is constrained by affordability as evidenced by available cash resources and borrowing capacity.*
- Debt finance is used conservatively if required and further constrained by the ability to service the debt, in terms of both the interest and capital repayments.*
- Investment income after deducting all financing costs, being volatile in nature, is only used to seed new initiatives and other strategic choices.*

## Financial Management

UCT pays particular attention to financial management, seeking to ensure a combination of good practice, stewardship and forward projection that provides the university with the financial resources needed to meet its objectives.

The comprehensive university financial plan consists of seven distinct yet interrelated components:

- Continuing educational operations. These encompass the main recurrent operating activities that provide and support teaching and learning.
- Research and other operations similarly dependant on specific funding.
- Staff and student housing operations.
- Investment income and financing expenditure.
- Capital expenditure. These include the acquisition of all assets in excess of R15,000.
- Capital structure and financing.
- Cash flow planning.

## Recurrent operations

The essence of our high-level financial plan focuses on sustainability. This is achieved by realising a surplus from Council controlled recurrent operations. Currently our medium-term view is to achieve a “recurrent operating surplus” of 5% of total recurrent operating income. This provides a hedge against unforeseen events. The realised “recurrent operating surplus” is applied to expenditure on strategic needs in the following year, and to enhance medium-term stability.

## Capital expenditure

We evaluate the expenditure on capital items separately from operating expenditure, and it is limited by:

- Available cash resources; the depreciation charge suggests (but does not entitle) an amount available for the replenishment of existing assets.
- Donations from external sources.
- Such portions of the strategic spend allocated to capital expenditure.

- For major infrastructural developments, the borrowing capacity of the University's balance sheet, and the debt servicing capacity of the recurrent operations.

## Other expenditure

The sum of the allocation from the "recurrent operating surplus" of the previous year as described above, and the net financing and investment income in the previous year may be used to support further initiatives consistent with UCT strategies. No allocation from financing and investment income will be made until any operating deficit has been eliminated.

## Medium term budget framework

The financial plans described above are given form through the Medium Term Budget Framework (MTBF), which is steered by the University Finance Committee, reporting to Council. The MTBF provides a financial framework within which to pursue the University's goals, for a period usually of four or five years. While the MTBF has a multi-year time horizon, it is reviewed annually for its continued relevance given the changing environment. It is informed by the recent operating performance of the university in particular, as well as the other financial components detailed earlier. It takes cognisance of the strategic imperatives and risks facing the university. Given these aspects, a desired financial position is targeted at the end of the framework period, and the MTBF constructed to provide a corridor of opportunities and constraints within which to operate.

## Financial Highlights 2007

The annual financial statements cover all the activities of the University, including non-recurrent income and expenditure, specifically designated activities, investment activities and financing transactions; they thus provide a comprehensive overview of the financial position of the University and its progress over the past year. There have been no major changes in the operations during the year.

### Key features of the financial results for 2007 were:

1. Recurrent operating income grew at a faster rate than recurrent operating expenditure for the second year in succession, following two successive years in which the growth in expenditure exceeded that in income. The reversal of the negative trend is mainly due to state subsidies growing at above inflation after many years of modest growth.
2. Major revenue streams that changed significantly in 2007 were:
  - An increase of 61.4% in income from contracts, reflecting the substantial increase in the research activity of the university.
  - A 20.6% increase in service income mainly due to a 54% increase in short course income.
  - An increase in tuition and other fee revenue of 9.8%, largely attributable to the new Graca Machel residence coming on-stream.
3. Total expenditure increased by 17.0% (2006 4.4%), mainly due to:
  - Increases in operating expenditure of 35.0% in designated activities being a consequence of the increased research activity; 24.8% in housing reflecting the increase in catering costs which incorporated the Supplemented Living Level wage agreement for outsourced workers.
  - Bursaries and financial aid increased by 32.3% (see 7 below).
4. The University's net cash position amounted to R440.0 million (2006 R332.2 million), after investing a further R103.9 million in fixed assets. Much of this cash, however, is specifically earmarked for designated activities such as research. The University's free cash, which is available to mitigate risk and for Council controlled initiatives, is estimated at R190 million (2006 – R130 million)
5. The University's liabilities rose by R64.9 million to R346.1 million. A major portion of the liabilities (R196.5 million – relating to employee benefits) represents provisions that do not involve a cash commitment. Interest bearing liabilities total R6.1 million, the remainder are the consequence of normal operations and comprise accounts payable, accruals and deposits.
6. The University's overall operating surplus rose from R325.0 million to R495.3 million, and the surplus attributable to Council controlled unrestricted funds increased from R47.9 million to R95.5 million.



7. Expenditure on bursaries and financial aid increased by 32.3% to R139.3 million. In addition the National Student Financial Aid Scheme and the National Research Foundation provided a further R44.8 million and R12.6 million respectively to UCT students.
8. Designated and endowed investments rose from R1,637.6 million to R1,897.4 million, as a result of the continued strength in equity markets. Growing the free endowment continues to be a focus incorporated in the principles of the medium term budget framework. The UCT Foundation contributed R31.1 million to UCT activities, of this R8.0 million was undesignated.
9. Unrestricted Council controlled funds rose from R592.9 million to R679.8 million; it should be noted, however, that much of this is not supported by readily realisable assets, being primarily invested in buildings and plant.

The results for the core recurrent unrestricted operations are shown in the table below. They reflect the sustainable operating activities under the control of Council. They show the narrow margin between income and expenditure which emphasises the need for continued financial discipline to achieve the targets embodied in the Medium Term Budget Framework required to ensure sustainability.

## Recurrent Unrestricted Council Controlled Operations

	2007	2006	2005	2004	2003
	R'm	R'm	R'm	R'm	R'm
<b>RECURRENT INCOME</b>	<b>1,207</b>	<b>1,083</b>	<b>992</b>	<b>954</b>	<b>869</b>
State appropriations-subsidies & grants	640	570	513	496	460
Tuition and other fee revenue	425	401	364	330	290
Rendering of services	134	106	97	102	91
Donations and gifts	8	6	18	26	28
<b>RECURRENT EXPENDITURE</b>	<b>1,185</b>	<b>1,078</b>	<b>1,013</b>	<b>931</b>	<b>837</b>
Personnel	721	681	644	574	511
Other operating expenses	405	342	313	305	271
Bursaries and financial aid	40	40	41	40	33
Depreciation	19	15	15	12	22
<b>RECURRENT OPERATING SURPLUS/(DEFICIT)</b>	<b>22</b>	<b>5</b>	<b>(21)</b>	<b>23</b>	<b>32</b>

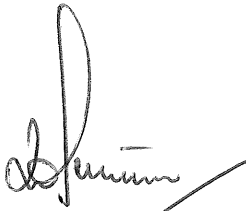
## The Future

The financial management activities of the University are focused on supporting the key strategic thrusts identified by the University's leadership and endorsed by Council, while ensuring appropriate levels of controls and discipline in the various financial processes. Significant progress has been made over recent years in improving the budget process, review system and aligning resource allocation with UCT objectives. The emphasis on the appropriate allocation of resources will continue to grow. Further, the University Finance Committee will continue its focus on the following key issues:

- To continue to build awareness within the University community of the importance and relevance of effective financial management, via broad involvement in the budgeting process, the provision of effective management information and ensuring proper reporting of results.
- To provide a suitable infrastructure that enhances the University's ability to attract and retain the quality of staff needed to grow the teaching and research capability. Such an infrastructure also helps in attracting quality students. Activities over recent years towards these ends include:
  - Significantly increased contributions to research activities;
  - Improvements in salaries for all staff;
  - A major overhaul of the entire information technology infrastructure;

- The ongoing development of the residence infrastructure.
- New and significantly refurbished academic buildings; and
- An integrated student system with enhanced academic and administrative capabilities.
- To create further capacity for planned renewal and maintenance of campus facilities.
- Identify future needs at an early enough stage to enable cohesive financial planning.
- To help develop a more nuanced approach to financial aid and bursaries so as to enhance our affordability and attractiveness to our target students.

In order to achieve these goals, Council has adopted a financial framework which makes provision for continuous improvements to create capacity for strategic spending. It also provides an integrated approach to financial planning whereby the operating budgets are coordinated with investment income, capital expenditure, free cash, and financing policies. While we have begun to address the backlog of demands for spending and development, the finances of the university are finely balanced within pressure from diverse constituencies both internally and externally. Care will need to be taken that the new demands are managed within the University's overall financial capacity.




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**T D PETERSEN**  
**CHAIR: FINANCE COMMITTEE**  
**4 JUNE 2008**




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**E O ULIANA**  
**EXECUTIVE DIRECTOR: FINANCE**

# CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## COUNCIL'S STATEMENT OF RESPONSIBILITY FOR THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

Council is responsible for the preparation, integrity and fair presentation of the financial statements of the University of Cape Town.

The financial statements presented on pages 28 to 59 of this annual report for 2007 have been prepared in accordance with International Financial Reporting Standards and the requirements of the Minister of Education as contained in the manual on annual reporting issued by the Department of Education, and include amounts based on judgements and estimates made by management as more fully laid out in the notes to the financial statements. Council also prepared other information as required to be included in this annual report and is responsible for both its accuracy and consistency with the financial statements.

The 'going concern' basis has been adopted in the preparation of the financial statements. The Council has no reason to believe that the University of Cape Town is not a going concern in the foreseeable future based on forecasts and available cash resources. The financial statements support the viability of the institution.

The financial statements have been audited by Ernst & Young Inc. who have been given unrestricted access to all financial records and related data, including minutes of the meetings of Council and all its committees. Council believes that all representations made to the independent auditors during their audit were valid and appropriate.

### Approval by Council of the Annual Financial Statements

The annual financial statements set out on pages 28 to 59 were approved by the University Council on June 4 2008 and are signed on its behalf by:



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**G M BUDLENDER**  
CHAIR OF COUNCIL



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**T D PETERSEN**  
CHAIR OF FINANCE COMMITTEE



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**PROFESSOR N S NDEBELE**  
VICE-CHANCELLOR

4 June 2008



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**PROFESSOR E O ULIANA**  
EXECUTIVE DIRECTOR OF FINANCE

## REPORT OF THE INDEPENDENT AUDITORS TO THE COUNCIL OF THE UNIVERSITY OF CAPE TOWN

We have audited the consolidated annual financial statements of the University of Cape Town, which comprise the consolidated balance sheet as at 31 December 2007, the consolidated income statement, the consolidated statement of changes in fund balances and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 28 to 59.

### Council's Responsibility for the Financial Statements

Council is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Minister of Education in terms of S41 of the Higher Education Act 101, 1997 (as amended). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditors' Responsibility

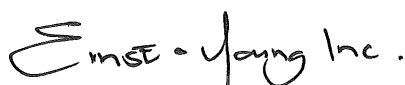
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the University of Cape Town as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Minister of Education in terms of S41 of the Higher Education Act 101, 1997 (as amended).



ERNST & YOUNG INC.  
REGISTERED AUDITOR  
Cape Town  
4 June 2008

**UNIVERSITY OF CAPE TOWN  
CONSOLIDATED BALANCE SHEET  
AS AT 31 DECEMBER 2007**

	Note	2007 R'000	2006 R'000
<b>ASSETS</b>		3,396,643	2,915,027
<b>Non-Current Assets</b>		2,769,560	2,457,639
Property, plant and equipment	5	871,372	810,481
Investments	6	1,897,359	1,637,612
Investments in associates	7	-	-
Non-current receivables	8	829	9,546
<b>Current Assets</b>		627,083	457,388
Inventories	9	373	351
Accounts receivable and prepayments	10	151,473	96,565
Loans to employees	10	1,490	4,553
Student fees receivable	10	33,771	22,553
Current portion of investments	6	-	1,159
Cash at bank and cash equivalents	11	439,976	332,207
<b>ACCUMULATED FUNDS AND LIABILITIES</b>		3,396,643	2,915,027
<b>Accumulated Funds</b>		3,050,546	2,633,807
Non-distributable funds		1,443,206	1,326,116
Endowed funds		1,095,556	890,633
Revaluation reserve		347,650	435,483
Restricted funds designated for specific activities		927,538	714,779
Education and general		808,491	610,086
Student and staff accommodation		119,047	104,693
Unrestricted council controlled funds		679,802	592,912
<b>Non-Current Liabilities</b>		181,267	147,183
Interest bearing borrowings	12	3,787	6,153
Deferred revenues – Government grants	13	30,000	-
Provisions – employee benefits	14	147,480	141,030
<b>Current Liabilities</b>		164,830	134,037
Accounts payable and accrued liabilities	15	88,633	74,861
Student deposits		24,863	9,589
Provisions – employee benefits	14	49,024	45,600
Current portion of interest bearing borrowings	12	2,310	3,987

**UNIVERSITY OF CAPE TOWN  
CONSOLIDATED INCOME STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2007**

(All amounts in R'000)

		Education and General				2007	2006	Change %
Note	Council Controlled Unrestricted	Specifically Funded Activities Restricted	Sub Total	Student and Staff Housing Restricted	TOTAL	TOTAL		
	<b>Recurrent Revenue</b>	1,266,269	736,054	2,002,323	148,808	2,151,131	1,793,024	20.0
	State appropriations- subsidies and grants	640,487	153,401	793,888	-	793,888	678,702	17.0
	Tuition and other fee revenue	424,692	-	424,692	133,384	558,076	508,155	9.8
	Income from contracts	105	328,089	328,194	-	328,194	203,289	61.4
	Rendering of services	134,268	78,832	213,100	13,287	226,387	187,665	20.6
	Donations and gifts	8,108	105,379	113,487	-	113,487	100,549	12.9
	<b>Sub-Total</b>	1,207,660	665,701	1,873,361	146,671	2,020,032	1,678,360	20.4
	Interest and dividends	58,609	70,353	128,962	2,137	131,099	114,664	14.3
	<b>Recurrent Expenditure</b>	1,185,844	592,573	1,778,417	134,608	1,913,025	1,634,515	17.0
	Personnel	721,244	227,689	948,933	19,007	967,940	873,043	10.9
	Other operating expenses	404,644	252,471	657,115	114,280	771,395	624,614	23.5
	Bursaries and financial aid	40,097	99,157	139,254	-	139,254	105,277	32.3
	Depreciation	19,117	13,248	32,365	1,163	33,528	29,994	11.8
	<b>Sub-Total</b>	1,185,102	592,565	1,777,667	134,450	1,912,117	1,632,928	17.1
	Finance costs	742	8	750	158	908	1,587	(42.8)
	<b>RECURRENT SURPLUS</b>	80,425	143,481	223,906	14,200	238,106	158,509	50.2
	<b>NON-RECURRENT ITEMS</b>	15,111	241,700	256,811	375	257,186	166,479	54.5
	Loss on disposal of property, plant & equipment	(4,637)	(4,156)	(8,793)	(211)	(9,004)	(325)	-
	Profit on sale of investments	13,009	232,789	245,798	586	246,384	166,804	47.7
	Other non-recurrent income	6,739	13,067	19,806	-	19,806	-	-
	<b>NET SURPLUS</b>	95,536	385,181	480,717	14,575	495,292	324,988	52.4

**UNIVERSITY OF CAPE TOWN**  
**CONSOLIDATED STATEMENT OF CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

(All amounts in R'000)

Note	Non-Distributable		Funds Restricted for Specific Activities		Unrestricted Funds	TOTAL	
	Endowed Funds	Revaluation Reserve	Education and General	Student and Staff Housing	Council Controlled		
<b>FUND BALANCES AS AT 1 January 2006</b>	707,243	320,805	542,557	79,281	532,887	2,182,773	
Realised gains on available-for-sale investments	6	-	(166,804)	-	-	(166,804)	
Fair value movement in available-for-sale investments	6	-	281,482	-	-	281,482	
Capital inflows – endowments received		11,368	-	-	-	11,368	
Total income and expense for the year recognised directly in funds		11,368	114,678	-	-	126,046	
<b>Net surplus 2006</b>		-	-	250,791	26,298	47,899	324,988
Total income and expense for the year		11,368	114,678	250,791	26,298	47,899	451,034
Transfers between funds		172,022	-	(183,262)	(886)	12,126	-
<b>FUND BALANCES AS AT 31 DECEMBER 2006</b>	890,633	435,483	610,086	104,693	592,912	2,633,807	
Realised gains on available-for-sale investments	6	-	(246,384)	-	-	(246,384)	
Fair value movement in available-for-sale investments	6	-	158,551	-	-	158,551	
Capital inflows – endowments received		9,280	-	-	-	9,280	
Total income and expense for the year recognised directly in funds		9,280	(87,833)	-	-	(78,553)	
<b>Net surplus 2007</b>		-	-	385,181	14,575	95,536	495,292
Total income and expense for the year		9,280	(87,833)	385,181	14,575	95,536	416,739
Transfers between funds		195,643	-	(186,776)	(221)	(8,646)	-
<b>FUND BALANCES AS AT 31 DECEMBER 2007</b>	1,095,556	347,650	808,491	119,047	679,802	3,050,546	

**Endowment Fund income**

Income from specific endowments, comprising investment income and realised profits arising from the sale of investments, are recognised in the income statement as designated for specific purposes in the period when they accrue.

It is the University's policy to utilise only a portion of this income and to re-invest the un-utilised portion in the underlying endowed funds in order to grow the capital base.

Funds made available to operations, whether Council controlled or designated, which cannot be utilised due to a specific event not having occurred, are also capitalised. The utilisation of these funds for operational purposes, and the capitalisation of all un-utilised funds, is effected by transfer within the Statement of Changes in Fund Balances.

# UNIVERSITY OF CAPE TOWN

## CONSOLIDATED CASH FLOW STATEMENT

### FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	2007 R'000	2006 R'000
<b>Cash flows from operating activities</b>			
Cash receipts from students, government and private sources		1,833,617	1,565,052
Cash paid to employees and suppliers		<u>(1,707,150)</u>	<u>(1,505,911)</u>
<b>Cash generated from operations</b>		126,467	59,141
Investment income – interest	17	106,031	90,485
Investment income – dividends	17	25,068	24,179
Finance costs	20	<u>(908)</u>	<u>(1,587)</u>
<b>Net cash inflows from operating activities</b>		<u>256,658</u>	<u>172,218</u>
<b>Cash flows from investing activities</b>			
Additions to maintain property, plant and equipment	5	(94,357)	(136,660)
Proceeds on disposal of property, plant and equipment		493	450
Net cash acquired on acquisition of subsidiary	28	9,775	-
Purchase of available-for-sale investments	6	(355,230)	(267,056)
Proceeds from sale of available-for-sale investments		254,034	214,380
Proceeds from realisation of held-to-maturity investments		<u>1,159</u>	<u>4,643</u>
<b>Net cash used in investing activities</b>		<u>(184,126)</u>	<u>(184,243)</u>
<b>Cash flows from financing activities</b>			
Endowed funds – capital inflows		9,280	11,368
Decrease in long term interest bearing borrowings	12	(4,043)	(8,088)
Increase in deferred revenue – government grants	13	<u>30,000</u>	<u>-</u>
<b>Net cash used in financing activities</b>		<u>35,237</u>	<u>3,280</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		107,769	(8,745)
Cash and cash equivalents at beginning of period		<u>332,207</u>	<u>340,952</u>
Cash and cash equivalents at end of period	11	<u><u>439,976</u></u>	<u><u>332,207</u></u>
<b>Cash generated from operations</b>			
<b>Reconciliation of net surplus to cash generated from operations:</b>			
Net surplus		495,292	324,988
Adjustments for:			
Depreciation	5	33,528	29,994
Net assets acquired by donation on acquisition of subsidiary	28	(13,767)	-
Increase in employee benefit provisions	14	9,874	11,830
Loss on sale of property, plant and equipment		9,004	325
Investment income – interest	17	(106,031)	(90,485)
Investment income – dividends	17	(25,068)	(24,179)
Finance costs	20	908	1,587
Profit on sale of investments		(246,384)	(166,804)
Changes in working capital			
accounts receivable, prepayments and loans	10	(53,200)	(16,910)
inventories	9	(22)	(64)
accounts payable, accrued liabilities and deposits	15	<u>22,333</u>	<u>(11,141)</u>
<b>Cash generated from operations</b>		<u>126,467</u>	<u>59,141</u>



# UNIVERSITY OF CAPE TOWN

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### AT 31 DECEMBER 2007

#### 1 University information

The consolidated annual financial statements of the University for the year ended 31 December 2007 were authorised for issue in accordance with a resolution of Council on 4 June 2008.

The principal activities of the University relate to teaching, research and the providing of residential accommodation to students.

#### 2 Basis of preparation

The consolidated annual financial statements have been prepared on an historical cost basis, except where stated otherwise (refer accounting policies). The consolidated annual financial statements are presented in Rands and all values are rounded to the nearest thousand (R'000) except where otherwise indicated.

The accounting policies set out below are consistent with those applied in the previous year, except where new standards and interpretations have been adopted as stated below. These policies have been applied consistently by all the University's consolidated entities and the financial year ends of these entities are coterminous.

The University has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial statements of the University. They did however give rise to additional disclosures:

- IFRS 7 *Financial Instruments: Disclosures*
  - IAS1 *Amendment – Presentation of Financial Statements*
  - IFRIC 8 *Scope of IFRS 2*
  - IFRIC 9 *Reassessment of embedded derivatives*
  - IFRIC 10 *Interim reporting and impairment*

The University has not early adopted the following IFRS, IAS and IFRIC interpretations:

- IFRS 8 *Operating segments (effective date - 1 January 2009)*
- IFRIC 11 *IFRS 2 – Group and treasury shares (effective date – 1 March 2007)*
- IFRIC 12 *Service concession arrangements (effective date - 1 January 2008)*
- IFRIC 13 *Customer loyalty Programmes (effective date – 1 July 2008)*
- IAS 23 *Borrowing costs (effective date 1 January 2009)*

The impact of applying these standards is expected to have a minimal impact on the reported numbers of the University but may lead to additional disclosure.

#### **Statement of compliance**

The consolidated annual financial statements of the University of Cape Town and its subsidiaries have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS) and in the manner required by the Minister of Education in terms of S41 of Act 101 1997 (as amended).

#### **Basis of consolidation**

The consolidated financial statements comprise the financial statements of the University and its subsidiaries as at 31 December each year.

The financial statements of subsidiaries are consolidated from the date on which the University acquires effective control, up to the date that such effective control ceases. For this purpose, subsidiaries are entities over which the University, directly or indirectly, has the power to govern the financial and operating policies of an entity so as to obtain the benefits from its activities.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2007 (CONTINUED)

### 2 Basis of preparation (continued)

#### Basis of consolidation (continued)

The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the University controls another entity.

Acquisitions are included in the consolidated financial statements using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and liabilities and contingent liabilities assumed at the date of acquisition.

When there is a disposal or loss of control of a subsidiary, the consolidated financial statements would include the results for the part of the reporting period during which the University had control. Any difference between the net proceeds on disposal and the carrying amount of the subsidiary is recognised in the University's income statement.

All inter-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets, are eliminated in full.

The financial statements include the operations of the entities listed below.

Entity	Nature of ownership
The University of Cape Town Foundation	A trust of which the University of Cape Town appoints the trustees and is the sole beneficiary
The University of Cape Town Trust	A trust, formed in the United Kingdom, of which the University of Cape Town is the sole beneficiary
The Student Loan Fund Limited	A Section 21 company controlled by the University of Cape Town
The UCT Lung Institute (Pty) Limited	A wholly owned subsidiary of the University of Cape Town

The UCT Lung Institute (Pty) Limited was formed in late 2006 and commenced trading on 1 January 2007, on which date it acquired the business of the UCT Lung Institute, a Section 21 company, by way of donation. The company is engaged in research into pulmonology, infectious diseases and dermatology by way of clinical research. (Refer note 28)

#### Segment information

A segment is a recognised component of the University that is engaged in undertaking activities and providing services that are subject to risks and returns different from those of other segments. Segmentation provided in the income statement of these financial statements is in terms of the guidelines prescribed by the Department of Education and is specifically not in terms of IAS14. The operating businesses are managed separately but fall under the oversight of the University of Cape Town's executive leadership.

##### *Council controlled*

The Council controlled segment predominantly represents the teaching component of the University of Cape Town. Decision making rights relating to income earned in this segment rests with Council.

##### *Specifically funded activities restricted*

The specifically funded activities restricted consist mainly of research activity. Here decision making rights over income earned and related expenses rest with researchers. Council retains an oversight role in regard to ensuring that expenditure is in accordance with the mandate received from funders.

##### *Student and staff housing*

The Student and Staff housing segment relates to the provision of accommodation to both students and staff. The availability of this accommodation being a strategic initiative aimed at ensuring that students adopt the University of Cape Town as their preferred place of study and that the University is able to attract and retain appropriate staff.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2007 (CONTINUED)

### 3 Significant accounting judgements and estimates

The preparation of the University's consolidated financial statements requires management to make judgements, estimates and assumptions that effect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

In the process of applying the University's accounting policies, management has made the following judgement, apart from those involving estimations, which have most significant effect on the amounts recognised in the financial statements.

#### **Judgement**

##### *Investments*

All investments, with the exception of specific investments which are held-to-maturity, are considered to be available-for-sale investments as the intention is to grow the value of the investment portfolios over a long term horizon.

#### **Estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below.

##### *Impairment*

The University assesses whether there are any indicators of impairment for all non financial assets at each reporting date.

The University classifies certain assets as available-for-sale and recognises movements in their fair value in funds. When the fair value declines, management makes assumptions about the decline in value to determine whether it is an impairment that should be recognised in the Income Statement. At 31 December 2007 no impairment losses have been recognised for available for sale assets (2006: Nil). The carrying value of available for sale assets at 31 December 2007 was R1 897.4 million (2006: R1 637.6 million) refer Note 6.

##### *Depreciation*

At the end of each financial year end management reviews the assets within property, plant and equipment to assess whether the estimated useful lives and estimated residual values applied to each asset are appropriate.

##### *Gratuity provision academic staff*

The University becomes liable to pay out a gratuity only on retirement, retrenchment or death. In order to estimate the probability of incurring this liability, management make assumptions in respect of the number of staff that will reach retirement at the University. In addition, to fair value the liability the University needs to make assumptions regarding both expected future salary increases and a suitable discount rate. More details on these assumptions are provided in Note 14. The carrying value of the gratuity provision for academic staff at 31 December 2007 was R19.25 million (2006: R24.1 million).

##### *Post retirement medical aid benefits obligation*

The University's future obligation in respect of post-retirement medical aid contributions is actuarially valued based on the projected unit credit method. For the purpose of the valuation at 31 December key assumptions were made in respect of the discount rate, expected inflation on medical aid contributions, expected age of retirements and mortality rates. More details on these assumptions are provided in Note 14. The carrying value of the post retirement medical aid obligation at 31 December 2007 was R137.6 million (2006: R125.6 million).

##### *Student fees receivables*

At year end management makes an estimate of the amount of total outstanding student fee debt that it expects to hand over to external debt collectors.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2007 (CONTINUED)

### 3 Significant accounting judgements and estimates (continued)

In addition, management estimates the amounts that it expects to recover from outstanding balances handed over based upon the age profile of debts handed over. A provision for impairment is raised based on these estimates. The carrying value of student fees receivable at 31 December 2007 was R33.8 million (2006: R22.6 million) refer Note 10.

### 4 Summary of significant accounting policies

#### 4.1 Foreign currency translation

The consolidated financial statements are presented in South African rands, which is the University's functional and presentation currency.

Transactions in foreign currencies are initially recorded at the exchange currency rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange currency rate ruling at the balance sheet date. All differences are taken to profit or loss in the year in which they arise.

Non monetary items carried at cost are translated using the exchange rate at the date of the transaction, whilst assets carried at fair value are translated at the exchange rate when the fair value was determined. When a gain or loss on a non monetary item is recognised directly in funds, any exchange component of that gain or loss shall be recognised directly in funds. Conversely, when a gain or loss on a non monetary item is recognised directly in profit or loss, any exchange component of that gain or loss shall be recognised directly in profit or loss.

#### 4.2 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the University and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

##### *State appropriations - subsidies and grants*

State subsidies and grants for general purposes are recognised as income in the financial year to which they relate.

Subsidies and grants for specific research purposes are brought into the income statement in the financial period in which it accrues to the University in accordance with the relevant grants and agreements. Such subsidies and grants are presented separately as credits in the income statement. Subsidies and grants relating to specific expenses are not offset against the expense but are included in the disclosure of State appropriations - subsidies and grants.

Where the grant relates to an asset, it is recognised as deferred revenue and released to income in equal annual amounts over the expected useful lives of the relevant assets.

##### *Designated income from contracts, grants and donations*

Revenue received for designated specific purposes arises from contracts, grants and donations. Such revenue is recognised in the income statement in the financial period in which it accrues to the University in accordance with the relevant agreement.

Capital inflows for endowment purposes are added to endowment capital in the Statement of Changes in Funds Balances in the period in which they are received.

##### *Tuition and residence fees*

Tuition and residence fees charged are applicable to one academic and financial year and are recognised in that year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2007 (CONTINUED)

### 4.2. Revenue recognition (continued)

#### *Interest income*

Revenue is recognised as interest accrues, using the effective interest method that is the rate that discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

#### *Dividends*

Dividends are recognised when the right to receive payment is established.

#### *Rendering of services*

Revenue, involving the rendering of services, is recognised to the extent that it is probable that the economic benefits will flow to the University and the revenue can be reliably measured.

### 4.3 Retirement benefits

#### *Defined contribution retirement plan*

Employer contributions to the University of Cape Town Retirement Fund are recognised in the income statement in the year in which they are incurred.

#### *Medical aid benefits*

Employer contributions to a medical aid fund are recognised as an expense in the period during which the employees render services to the University.

#### *Post-retirement medical aid benefits – defined benefit plan*

The University of Cape Town has an obligation to provide certain post retirement medical aid benefits to its eligible employees and pensioners. The University is required to provide a defined amount of the medical aid contribution due. The plan is not funded.

The costs incurred in respect of post-retirement medical aid benefits are charged to income as incurred, as current service costs, as the employee renders the service. The present value of the future medical aid subsidies for past service costs is actuarially determined annually in accordance with IAS 19 Employee Benefits. The defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions.

The liability is recognised at the balance sheet date. Any curtailment benefits or settlement amounts are recognised against income as incurred. The defined benefit liability is the aggregate of the present value of the defined benefit obligation and unrecognised actuarial gains and losses, reduced by unrecognised past service costs.

Actuarial gains and losses are recognised as income or expense when the cumulative actuarial gains or losses exceed 10% of the defined benefit obligation. These gains or losses are recognised over a period of five years.

### 4.4 Borrowing costs

Borrowing costs are recognised as an expense when incurred.

### 4.5 Research costs

Research costs are expensed as incurred.

### 4.6 Library acquisitions

Library books are written off in the year in which they are acquired.

### 4.7 Property, plant and equipment

Property, plant and equipment are initially stated at cost. The cost of an asset comprises the purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to operate as intended by management.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2007 (CONTINUED)

### 4.7 Property, plant and equipment (continued)

Subsequently, property plant and equipment are stated at cost less accumulated depreciation and any provision for impairment. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the University and the cost of the item can be measured reliably. Maintenance and repairs, which do not meet these criteria, are charged against income as incurred. Donated assets are initially recorded at fair value at the date of donation.

Land is not depreciated as it is deemed to have an indefinite life.

Property, plant and equipment are depreciated on a straight-line basis estimated to write each asset down to its estimated residual value over the estimated useful lives of the assets which range as follows:

	2007	2006
Buildings	50-200 years	50-200 years
Leasehold improvements	Lease period	Lease period
Land improvements other than buildings	30 years	30 years
Motor vehicles	15 years	15 years
Furniture and equipment	5-50 years	5-50 years
Computers and hardware	5-10 years	5-10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is de-recognised.

### 4.8 Impairment of non-financial assets

The University assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the University makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at the revalued amount, in which case the reversal is treated as a revaluation increase.

After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

### 4.9 Financial assets and liabilities

Financial assets and financial liabilities are initially recognised on the balance sheet when the University becomes party to the contractual provisions of the instrument. The trade date method of accounting has been adopted for 'regular way' purchase or sale of financial assets. The trade date is the date that the University commits to purchase or sell an asset.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2007 (CONTINUED)

### 4.9 Financial assets and liabilities (continued)

A 'regular way' contract is a contract for the purchase or sale of financial assets that require delivery of the assets within the time frame generally established by regulation or convention in the market place concerned.

Financial assets and liabilities are initially measured at fair value plus, in the case of a financial asset or liability not at fair value through profit and loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition the measurement of financial assets and liabilities depends upon the class of instrument as follows.

Financial assets in the scope of IAS 39 are classified as either available-for-sale financial assets, held-to-maturity investments, financial assets at fair value through profit or loss and loans and receivables, as appropriate.

The University determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

#### *Available-for-sale financial assets*

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three following categories. Such assets are comprised of investments in listed equity shares, quoted interest bearing corporate and government bonds, quoted unit trusts and money market deposits.

After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of funds until the investment is de-recognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in funds is included in the income statement.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market prices at the close of business on the balance sheet date.

#### *Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity investments when the University has the intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification.

Held to maturity investments are initially measured at fair value and are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in income when the investments are de-recognised or impaired, as well as through the amortisation process.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets comprise student fees receivable, accounts receivable in terms of contracts, student loans and loans to employees. These assets are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in income when the loans and receivables are de-recognised or impaired, as well as through the amortisation process.

Cash and cash equivalents are classified as loans and receivables and are initially measured at fair value. They are subsequently measured at amortised cost. Cash and cash equivalents consist of cash on hand and balances at banks, net of outstanding bank overdrafts, and short-term deposits.

#### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit and loss includes financial assets held for trading, financial assets designated upon initial recognition as at fair value through profit or loss and derivatives. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. All derivatives are accounted for as held for trading instruments.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2007 (CONTINUED)

### 4.9 Financial assets and liabilities (continued)

The University makes limited use of derivative financial instruments such as forward currency contracts and futures and option contracts to hedge its risks associated with equity exposures and foreign currency fluctuations.

A derivative is a financial instrument whose value changes in response to an underlying variable, that requires little or no initial investment and that is settled at a future date. Derivatives are initially recognised at fair value on the date on which the derivatives are entered into. Subsequent to initial recognition, derivatives are remeasured at fair value. Fair values are obtained from quoted market prices and dealer price quotations in active markets.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Gains and losses on realisation or re-measurement are recognised in the income statement. All derivative instruments of the University are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

#### *Financial liabilities*

Financial liabilities are comprised of accounts payable and accrued liabilities, deposits and interest bearing loans and borrowings.

Accounts payable and accrued liabilities are initially measured at fair value. They are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in income when the liabilities are de-recognised as well as through the amortisation process.

Deposits provided by prospective and current students are treated as current liabilities until the amount is billed as due. Deposits are initially measured at fair value. They are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in income when the liabilities are de-recognised as well as through the amortisation process.

All interest bearing loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

Subsequent to initial recognition, interest-bearing loans and borrowings are measured at amortised cost using the effective interest method. Gains and losses are recognised in net profit or loss when the liabilities are de-recognised as well as through the amortisation process.

### 4.10 De-recognition of financial assets and liabilities

#### *Financial assets*

A financial asset, or where applicable, a part of a financial asset or part of a group of similar financial assets is de-recognised where:

- The rights to receive cash flows from the asset have expired;
- The University retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- The University has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.
- Where the University has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the University's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the University could be required to repay.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2007 (CONTINUED)

### 4.10 De-recognition of financial assets and liabilities (continued)

- Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the University's continuing involvement is the amount of the transferred asset that the University may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the University's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

#### *Financial liabilities*

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Financial assets and liabilities are offset and the net amount reported on the balance sheet only when there is a legally enforceable right to set off the recognised amounts and there is an intention on a net basis to realise the assets and settle the liabilities on a net basis.

### 4.11 Impairment of financial assets

The University assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset (a "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset and can be reliably estimated.

#### *Assets carried at amortised cost*

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognised in profit or loss.

The University first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the University will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are de-recognised when they are assessed as uncollectible.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2007 (CONTINUED)

### 4.11 Impairment of financial assets (continued)

In relation to student receivables, a provision for collective impairment is made each year based on management's estimate of the amount of total current year student fee debt that it expects to hand over to external debt collectors, and the amounts that it expects to recover from outstanding balances handed over based upon the age profile of debts handed over in current and prior years. Impaired debts are de-recognised when they are assessed as uncollectible.

#### *Available-for-sale financial assets*

Available-for-sale asset are recognised as being impaired if there is objective evidence of a significant prolonged decline in the fair value of the investment below its cost.

If an available-for-sale asset is impaired, an amount comprising the difference between its acquisition cost and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from funds to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognised in profit.

Reversals of impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

### 4.12 Investment in associates

The University of Cape Town's investment in its associate companies is accounted for under the equity method of accounting. An associate is an entity over which the University has significant influence and which is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. If the University holds, directly or indirectly, 20% or more of the voting power of the investee, it is assumed that the University has significant influence unless it can be clearly demonstrated that this is not the case.

Under the equity method, the investment in the associate is initially recognised at cost and the carrying amount is increased or decreased to recognise the University's share of the profit or loss of the associate after the date of acquisition. The University's share of the profit or loss is recognised in the income statement.

If the University's share of losses of an associate equals or exceeds its interest in the associate, the University discontinues recognising its share of further losses. After the University's interest is reduced to zero, additional losses are provided for, and a liability recognised only to the extent that the University has incurred legal or constructive obligations or made payments on behalf of the associate.

After application of the equity method, including recognising the associate's losses, the University determines whether it is necessary to recognise any additional impairment loss with respect to the University's net investment in the associate.

Where there has been a change recognised directly in the equity of the associate, the University recognises its share of any changes and discloses this, when applicable, in the statement of changes in funds.

The reporting dates of the associates and the University are identical and the associate's accounting policies conform to those used by the University for like transactions and events in similar circumstances.

### 4.13 Inventories

Inventories are valued at the lower of the weighted average cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2007 (CONTINUED)

### 4.14 Provisions

Provisions are recognised when the University has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the University expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

### 4.15 Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- (a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
- (b) A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- (c) There is a change in the determination of whether fulfilment is dependant on a specified asset; or
- (d) There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) and at the date of renewal or extension period for scenario (b).

For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2005 in accordance with the transitional requirements of IFRIC 4.

#### *University as a lessee*

Finance leases, which transfer to the University substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged reflected in the income statement.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the University will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

#### *University as a lessor*

Leases where the University does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2007 (CONTINUED)

### 5 Property, Plant and Equipment

Year ended 31 December 2007

(All amounts in R'000)

	Land, Buildings and Land Improvements	Furniture and Equipment	Computers and Hardware	Motor Vehicles	Assets under Construction	Total
<b>Cost</b>						
Cost 1 January 2007	602,342	246,845	76,843	15,208	67,480	1,008,718
Additions	50,615	29,591	7,255	2,816	4,080	94,357
Additions on acquisition of subsidiary	8,699	525	274	57	-	9,555
Transfers	66,403	-	-	-	(66,403)	-
Disposals	(98)	(13,552)	(14,728)	(1,660)	-	(30,038)
Cost 31 December 2007	727,961	263,409	69,644	16,421	5,157	1,082,592
<b>Accumulated depreciation</b>						
Balance 1 January 2007	80,698	77,329	36,277	3,933	-	198,237
Disposals	(44)	(7,586)	(12,042)	(873)	-	(20,545)
Depreciation charge	7,342	14,950	10,160	1,076	-	33,528
Balance 31 December 2007	87,996	84,683	34,395	4,136	-	211,220
Book value 31 December 2007	639,965	178,716	35,249	12,285	5,157	871,372

Year ended 31 December 2006

(All amounts in R'000)

	Land, Buildings and Land Improvements	Furniture and Equipment	Computers and Hardware	Motor Vehicles	Assets under Construction	Total
<b>Cost</b>						
Cost 1 January 2006	587,940	202,393	64,316	12,913	6,351	873,913
Additions	14,425	44,819	12,626	3,143	61,647	136,660
Transfers	518	-	-	-	(518)	-
Disposals	(541)	(367)	(99)	(848)	-	(1,855)
Cost 31 December 2006	602,342	246,845	76,843	15,208	67,480	1,008,718
<b>Accumulated depreciation</b>						
Balance 1 January 2006	74,864	64,458	26,706	3,295	-	169,323
Disposals	(540)	(209)	(46)	(285)	-	(1,080)
Depreciation charge	6,374	13,080	9,617	923	-	29,994
Balance 31 December 2006	80,698	77,329	36,277	3,933	-	198,237
Book value 31 December 2006	521,644	169,516	40,566	11,275	67,480	810,481

A register of land and buildings is available for inspection at the business address. The University is not permitted to dispose of, or otherwise alienate, its land and buildings without the approval of the Minister of Education. In addition, there are further restrictions on the alienation of certain properties held by deed of grant under the Rhodes Will Act.

Land and buildings above include leasehold improvements with a net book value of R32.7 million (2006 R33.2 million).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2007 (CONTINUED)

	2007 R'000	2006 R'000
<b>6 Investments</b>		
<b>Available-for-sale investments</b>		
Opening balance	1,637,612	1,303,452
Additions	355,230	267,055
Disposals	(7,650)	(47,573)
Realised gains on sale of investments	(246,384)	(166,804)
Fair value movement in investments	158,551	281,482
Closing balance	1,897,359	1,637,612
<b>Held-to-maturity investments</b>		
Sinking fund investments	-	1,159
Public Investment Commission	-	1,159
<b>Total investments</b>	1,897,359	1,638,771
Current portion of held-to-maturity investments	-	(1,159)
<b>Total long term investments</b>	1,897,359	1,637,612
<b>The total investments comprise the following categories:</b>		
Local equities	905,058	824,336
International investments	310,551	275,151
International equity holdings (unit trusts)	211,821	180,995
International interest bearing investments (unit trusts)	98,730	94,156
Capital market interest-bearing investments	289,772	216,185
Money market deposits	391,978	321,940
<b>Total available-for-sale investments</b>	1,897,359	1,637,612
Held-to-maturity – interest bearing investments	-	1,159
<b>Total investments</b>	1,897,359	1,638,771
<b>7 Investments in associates</b>		
African Medical Imaging (Pty) Ltd (44%)	1,211	1,211
UCT Medical Centre (Pty) Ltd – trading as UCT Private Academic Hospital (26%)	2,411	2,411
Total investment	3,622	3,622
Less: share of accumulated losses	(3,622)	(3,622)
Carrying value	-	-
Council values the investment in the associates at carrying value.		
Share of the associate's balance sheets:		
Non-current assets	1,059	721
Current assets	6,209	6,220
Non-current liabilities	(7,567)	(8,189)
Current liabilities	(8,418)	(8,184)
Net Liabilities	(8,717)	(9,432)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2007 (CONTINUED)

	2007 R'000	2006 R'000
<b>7 Investments in associates (continued)</b>		
Share of the associate's revenue and profits/(losses):		
Revenue	10,447	14,754
Losses	(2,812)	(1,148)
The University does not account for its share of the losses of the associates beyond its initial investment in the associates.		
<b>8 Non-current receivables</b>		
Student loans	-	7,546
Loans to employees	829	2,000
	<u>829</u>	<u>9,546</u>
The current receivables relating to employee loans are shown in note 10. Non-current loans to employees are due within 2 years from balance sheet date.		
The weighted average interest rates were as follows:		
Loans to employees – Motor vehicle finance	9.00%	9.00%
Loans to employees - other	13.58%	13.12%
<b>9 Inventories</b>		
Consumables	<u>373</u>	<u>351</u>
<b>10 Accounts receivable and prepayments</b>		
Trade receivables	104,408	67,487
Prepayments	27,199	22,737
Sundry receivables	<u>19,866</u>	<u>6,341</u>
Accounts receivables and prepayments	151,473	96,565
Loans to employees	1,490	4,553
Student fees receivable	<u>33,771</u>	<u>22,553</u>
	<u>186,734</u>	<u>123,671</u>

Accounts receivables are non interest bearing and are generally on 30 day terms.

Student fees outstanding at 30 June and not paid by 31 July of each year are charged interest at prime. The rate of interest for the six months ranged between 13% and 14.5% with the year end rate being 14.5% (between 11% and 12.5% for the period 1 July to 31 December 2006). From 1 January 2008 the rate of interest charged to students is a fixed rate of 1.25% per month.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2007 (CONTINUED)

### 10 Accounts receivable and prepayments (continued)

As at 31 December, the ageing analysis of trade receivables is as follows:

Amounts in R'000	Up to 30 days	30 - 60 days	60 - 90 days	90 -180 days	180 days plus	Total
2007	25,877	21,877	18,888	22,230	15,536	104,408
2006	22,442	15,102	6,112	12,357	11,474	67,487

Debtors past 60 days are considered past due but not impaired.

At the 31 December 2007, trade receivables at a nominal value of R1.3 million (2006: R 4,065 million) were impaired and fully provided for.

Movements in the provision for impairment of trade receivables were as follows:

	Individually Impaired R'000	Collectively impaired	Total R'000
At 31 December 2005	515	-	515
Charge for the year	4,077	800	4,877
Utilised	(527)	-	(527)
At 31 December 2006	4,065	800	4,865
Charge for the year	301	200	501
Utilised	(3,970)	-	(3,970)
Unused amounts reversed	(95)	-	(95)
At 31 December 2007	301	1,000	1,301

As at 31 December, the ageing analysis of student fees receivables, all of which are past due, is as follows:

All amounts in R'000	2007 Fees	2006 Fees	2005 Fees	2004 Fees	Total
2007	29,448	2,370	1,383	570	33,771

Due to the nature of the operations the University only tracks outstanding fees on an academic year basis. The University anticipates that the majority of current year fees will be settled as part of the registration process for the 2008 academic. It is University policy that returning students are not allowed to register with outstanding fee debt.

At the 31 December 2007, student receivables at a nominal value of R28.7 million (2006: R31.8million) were impaired and fully provided for.

Movements in the provision for impairment of student fees receivables were as follows:

	Collectively impaired
At January 2006	28,697
Charge for the year	6,000
Utilised	(2,899)
At 31 December 2006	31,798
Charge for the year	6,000
Unused provision released	(5,000)
Utilised	(4,177)
At 31 December 2007	28,681

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2007 (CONTINUED)

	2007 R'000	2006 R'000
<b>11 Cash at bank and cash equivalents</b>		
Cash at bank and in hand	574	2,969
Short-term bank deposits - Local	436,440	326,786
- Foreign	<u>2,962</u>	<u>2,452</u>
	<u>439,976</u>	<u>332,207</u>

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are redeemable at 24 hour notice, are drawn down or added to depending on the immediate cash requirements of the University, and earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents is R440.0 million (2006: R332.2 million).

At 31 December 2007, the University had available R20 million (2006: R 20 million) of undrawn borrowing facilities in respect of which all conditions precedent had been met.

The weighted average effective interest rate on short-term bank deposits was 9.07% for local deposits and 3.1% for foreign (2006: 7.28% for local deposits and 2.8% for foreign).

Cash and cash equivalents for the purpose of the consolidated cash flow statement are as stated above.

## 12 Interest bearing borrowings

Financial institutions for government – subsidised loans	<u>6,047</u>	<u>10,033</u>
<b>Total interest bearing borrowings</b>	6,047	10,033
Student Loan Fund loans	<u>50</u>	<u>107</u>
<b>Total borrowings</b>	6,097	10,140
Current portion	<u>(2,310)</u>	<u>(3,987)</u>
<b>Total non-current borrowings</b>	<u>3,787</u>	<u>6,153</u>

### Financial institutions for government-subsidised loans

Government subsidised loans are subsidised to the extent of 50% or 85% for both interest and capital repayments, and consist of a number of loans with financial institutions at fixed interest rates ranging from 6.75% to 13.0% and varying repayment terms. The weighted average interest rate was 10.44% (2006 10.96%). The loans are unsecured and the carrying values collectively approximate their fair values.

Interest rate exposure		
At fixed rates	<u>6,047</u>	<u>10,033</u>
Finance costs		
Financial institutions for government subsidised loans	<u>908</u>	<u>1,587</u>

### Student Loan Fund loans

Interest on Student Loan Fund loans is borne by the student. The loan is unsecured and the carrying value of this liability approximates its fair value.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2007 (CONTINUED)

	2007 R'000	2006 R'000
<b>12 Interest bearing borrowings (continued)</b>		
Maturity of interest-bearing non current borrowings		
Between 1 and 2 years	2,810	3,969
Between 2 and 5 years	977	2,161
Later than 5 years	-	23
Total non current borrowings	<u>3,787</u>	<u>6,153</u>

### 13 Deferred revenues – Government grants

Capital grants received from the Government	<u>30,000</u>	<u>-</u>
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This is the first installment of a capital grant of R140 million for buildings from the Department of Education which will be received over three years. No expenditure has yet taken place in relation to this grant.

### 14 Provisions – employee benefits

Gratuity provision for academic staff	19,250	24,100
Leave provision for administrative and support staff	39,624	36,900
Post-retirement medical aid benefit obligation	<u>137,630</u>	<u>125,630</u>
<b>Total provisions – employee benefits</b>	<u>196,504</u>	<u>186,630</u>
Current portion – gratuity provision academic staff	(1,600)	(1,600)
Current portion – leave provision for administration and support staff	(39,624)	(36,900)
Current portion – post retirement medical aid obligation	<u>(7,800)</u>	<u>(7,100)</u>
<b>Total current provisions – employee benefits</b>	<u>(49,024)</u>	<u>(45,600)</u>
<b>Total non-current provisions – employee benefits</b>	<u>147,480</u>	<u>141,030</u>

#### Gratuity provision academic staff

This relates to the policy to pay a gratuity on death, retrenchment or retirement where a member of the academic staff has not taken a sabbatical. Sabbaticals may be granted to allow academic staff uninterrupted research work, usually away from Cape Town, and are not leave in the ordinary sense.

In order to estimate the probability of incurring this liability management has utilised the following assumptions in calculating the liability, which are consistent with the prior year:

- Academics 55 and over - Assume all will stay to retirement;
- Academics 45 to 55 - Assume 70% will stay to retirement; and
- Academics younger than 45 - Assume 40% will stay to retirement.

In addition, in order to fair value the liability, management has assumed that future salary increases will be 5.5% per annum (2006: 4.7%) and the discount rate that has been applied is 8.8% (2006: 8.0%).

#### Leave provision for administrative and support staff

An accrual is made for the estimated liability for annual leave as a result of services rendered by professional, administrative and support staff up to the balance sheet date.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2007 (CONTINUED)

### 14 Provisions – employee benefits (continued)

As the University does not have the unconditional right to defer settlement of this liability for at least twelve months after the balance sheet date the liability is classified as being current.

#### Post-retirement medical aid benefit obligation

The status of the University's obligations towards post-retirement medical aid benefits, determined in terms of IAS 19 Employee Benefits, is set out below.

For the purpose of the valuation at 31 December the following key assumptions were made; discount rate 8.8% (2006: 8.0%); expected inflation on medical aid contributions of 6.8% over the long term (2006: 6.0%). Post retirement mortality is based on PA (90) rated down two years, unchanged from 2006.

It is assumed, in both the current and prior year, that 2.5% of members present will retire at each age from 55 to 59 and ages 61 and 62; and 15% of members will retire at age 60; and 10% of members at ages 63 and 64 will retire; with all the remaining members retiring at age 65. The expected average remaining working lives of the employees participating in the scheme is 17 years (2006: 17 years).

	2007 R'000	2006 R'000
Funding obligation	132,300	119,800
Unrecognised actuarial gains	<u>5,330</u>	<u>5,830</u>
Amount accrued in respect of funding obligation	<u>137,630</u>	<u>125,630</u>

#### The net expense recognised in the income statement is as follows:

- Interest on obligation	9,600	7,700
- Current service cost	7,100	5,800
- Actuarial gains recognised	-	(1,670)
	<u>16,700</u>	<u>11,830</u>

#### Reconciliation of the change in the present value of the funding obligation:

Funding obligation at start of year	119,800	99,500
Interest on obligation	9,600	7,700
Current service cost	7,100	5,800
Actuarial losses	500	10,800
Contributions paid in respect of funding obligation	<u>(4,700)</u>	<u>(4,000)</u>
Funding obligation at end of year	<u>132,300</u>	<u>119,800</u>

A one percentage point change in the assumed rate of increase in medical aid inflation would have the following effect on the defined benefit obligation:

1% Increase	19,900	18,500
1% Decrease	(16,400)	(15,100)

Amounts for the current and previous four periods are as follows:

	Post-employment medical benefits				
	2007 R'000	2006 R'000	2005 R'000	2004 R'000	2003 R'000
Defined benefit obligation	132,300	119,800	99,500	102,000	96,900
Experience adjustments on plan liabilities – losses/(gains)	500	10,800	(13,100)	(5,200)	(5,200)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2007 (CONTINUED)**

	<b>2007 R'000</b>	<b>2006 R'000</b>
<b>15 Accounts payable and accrued liabilities</b>		
Trade payables	29,171	29,132
Accrued expenses	26,689	19,002
VAT	1,697	1,513
Payroll	11,069	11,730
Other payables	<u>20,007</u>	<u>13,484</u>
Total	<u><u>88,633</u></u>	<u><u>74,861</u></u>

Trade and other payables are non-interest bearing and are normally settled on 30 day terms.

**16 State appropriations-subsidies and grants**

Subsidy for general purpose	615,198	544,776
State grants and contracts	175,699	129,951
Subsidy on interest and redemption on state guaranteed loans	<u>2,991</u>	<u>3,975</u>
	<u><u>793,888</u></u>	<u><u>678,702</u></u>

State appropriations - subsidies and grants received by the University are accounted for as grants related to income, other than the capital grant received and disclosed in note 13 above (refer accounting policies note 4.2 for more detail). There are no unfulfilled conditions or other contingencies attaching to the subsidies and grants that have been recognised above.

**17 Interest and dividends**

Bank interest	46,255	30,594
Interest income on accounts and other receivables	18,342	16,147
Income from investments:		
Dividends	25,068	24,179
Interest - available-for-sale	41,330	42,951
- held-to-maturity	<u>104</u>	<u>793</u>
Total interest and dividends	<u><u>131,099</u></u>	<u><u>114,664</u></u>

**18 Personnel costs**

	<b>Academic Professional</b>	<b>Other</b>	<b>Total</b>	<b>Total</b>
Wages and salaries	379,749	448,437	828,186	752,748
Termination benefits	1,377	1,804	3,181	2,201
Pension costs	56,172	63,701	119,873	106,264
Post retirement medical aid benefits	<u>7,826</u>	<u>8,874</u>	<u>16,700</u>	<u>11,830</u>
	<u><u>445,124</u></u>	<u><u>522,816</u></u>	<u><u>967,940</u></u>	<u><u>873,043</u></u>
<b>Average number of persons employed during the year</b>			<b>No.</b>	<b>No.</b>
Full time			3,267	3,267
Part time			<u>1,125</u>	<u>1,177</u>
Total			<u><u>4,392</u></u>	<u><u>4,444</u></u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2007 (CONTINUED)

	2007 R'000	2006 R'000
<b>19 Other operating expenses</b>		
The following items have been charged in arriving at operating surplus:		
<i>Other operating expenses:</i>		
Library acquisitions	38,213	10,968
Repairs and maintenance	76,708	61,856
Software costs	12,344	16,406
General services outsourced	44,899	40,682
Catering services outsourced	37,458	37,156
Auditors' remuneration	3,179	2,952
Current year - Annual Financial Statements	2,251	1,777
- Other audit services	928	1,175
Lease expenses	13,118	12,681
<b>20 Finance costs</b>		
Finance costs	908	1,587

## 21 Financial risk management objectives and policies

The University's principal financial instruments comprise available-for-sale and held-to-maturity financial assets, accounts receivables, student fees and loans receivable; cash and short-term deposits; interest bearing borrowings and accounts payable and accrued liabilities.

The University manages a substantial portfolio of financial assets with a long term view to growing the portfolio in order to provide financial stability and support for new initiatives and strategic choices.

The University may enter into derivative transactions. The University's portfolio managers make limited use of futures and option contracts for hedging purposes only to manage the equity exposure flexibly and cost effectively. This is done in order to achieve desired equity exposures.

The main purpose of the interest bearing loans and borrowings is to raise finance for the University's operations. The University has various other financial assets and liabilities such as accounts and student fee receivables and accounts payables, which arise directly from its operations.

Forward exchange contracts may be entered into to mitigate risks relating to transactional currency exposures.

It is, and has been throughout the year under review, the University's policy that, apart from derivatives, no trading in financial instruments shall be undertaken.

The main risks arising from the University's financial instruments are market risk, credit risk and liquidity risk.

Council, through its finance and investment committees, reviews and agrees policies for managing each of these risks and they are summarised below.

### Market risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: price risk, currency risk and interest rate risk.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2007 (CONTINUED)

### 21 Financial risk management objectives and policies (continued)

The University's exposure to market risk relates primarily to its available-for-sale financial assets.

These financial assets are invested in terms of a considered strategy adopted by the University Council and the Board of Trustees of the UCT Foundation, advised by the Investment Committee. The Strategy takes into account the risk profile of the individual endowed funds and allocates investment to appropriate asset classes. Portfolios are then allocated to selected portfolio managers who operate under defined mandates. The investment decisions made and performances of these managers are closely monitored by the Investment Committee.

This Committee comprises trustees of the Foundation, members of the University's Council and external members with specific expertise relating to investments. The Committee meets quarterly and receives reports from investment managers on a cyclical basis. In addition, the Committee has employed the services of an actuarial firm, 5th Quadrant, who monitor the performance of the portfolio managers, both on a qualitative and quantitative basis, and who also report quarterly to the Committee.

Internally checks are performed regarding the income received and the purchase and sale of investments as reflected on the portfolio statements.

#### Price risk

The following table demonstrates the sensitivity of the University's financial assets that are subject to price risk to a reasonable possible change in market values, with all other variables held constant.

All amounts in R millions	Impact of these variances on Funds Employed in R millions					
	+10%	+5%	+1%	-5%	-10%	-20%
<b>Market Variance</b>						
<b>At 31 December 2007</b>						
Local equities	90.5	45.3	9.1	(45.3)	(90.5)	(181.0)
International equities	21.2	10.6	2.1	(10.6)	(21.2)	(42.4)
International interest bearing capital unit trusts	9.9	4.9	1.0	(4.9)	(9.9)	(19.7)
<b>At 31 December 2006</b>						
Local equities	82.4	41.2	8.2	(41.2)	(82.4)	(164.9)
International equities	18.1	9.1	1.8	(9.1)	(18.1)	(36.2)
International interest bearing capital unit trusts	9.4	4.7	1.0	(4.7)	(9.4)	(18.8)

#### Foreign currency risk

The University reflects no exposure to foreign currency risk within this category of financial asset because in terms of IFRS the gains or losses recognised directly in equity include any related foreign exchange movement.

#### Interest rate risk

All of the University's interest-bearing borrowings are at fixed rates of interest. The University has a number of receivables (i.e. student fees and loans to employees) where interest rates charged are linked to the prime rate. The impact of fluctuations in the interest rates on student fees are negligible as these debts are largely paid off shortly after year end. From 1 January 2008 students are charged interest at a fixed rate of 1.25% per month. The amounts owed by staff are negligible.

The University holds a substantial amount of interest bearing investments and interest earning bank deposits. Interest risks relating to the University's investments are managed and monitored by the Joint Investment Committee in the same manner as outlined above.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2007 (CONTINUED)

### 21 Financial risk management objectives and policies (continued)

The following tables demonstrate the sensitivity of the University's financial assets that are subject to interest rate risk to a reasonable possible change in interest rates, with all other variables held constant.

		Impact of interest changes on Funds Employed in R millions					
Interest Rate Changes in basis points (BP)		-200 BP	-100 BP	-50 BP	+50 BP	+100 BP	+200 BP
<b>Holdings at 31 December 2007</b>							
Local capital market interest bearing investments		33.9	16.2	8.1	(7.5)	(14.8)	(28.4)

		Impact of interest changes on Net Surplus in R millions					
Interest Rate Changes in basis points (BP)		+200 BP	+100 BP	+50 BP	-50 BP	-100 BP	-200 BP
<b>Holdings at 31 December 2007</b>							
Money market and call deposits		7.8	3.9	2.0	(2.0)	(3.9)	(7.8)
Cash and cash equivalents		8.8	4.4	2.2	(2.2)	(4.4)	(8.8)
<b>Holdings at 31 December 2006</b>							
Money market and call deposits		6.4	3.2	1.6	(1.6)	(3.2)	(6.4)
Cash and cash equivalents		6.3	3.2	1.6	(1.6)	(3.2)	(6.3)

#### Foreign currency risk

The University is exposed to foreign currency risk through its holdings of bank accounts (refer Note 11) and certain accounts receivable and payable denominated in foreign currencies. All of the above holdings are in major international currencies (e.g. US Dollars/Pound Sterling).

The University is also exposed to foreign exchange risk to the extent that it does not take forward cover for foreign currency transactions in the course of operations. The University does not have a policy that requires such cover to be taken. This exposure is reduced by the use of both a GBP Sterling and US Dollar bank account through which such foreign obligations are settled.

At the year end the University had R7.7 million (2006 – R20,5 million) of trade receivables and had R0.2 million (2006 – R0.2 million) of trade payables denominated in foreign currencies. As such, the University's foreign currency risk exposure is deemed to be negligible.

#### Credit risk

The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The University trades only with recognised, credit worthy third parties. It is the University's policy that all customers who wish to trade on credit terms are subject to random credit verification procedures.

In addition, receivable balances are monitored on an ongoing basis with the result that the University's exposure to bad debts is not significant, and there is no significant concentration of credit risk at year end. The maximum exposure is the carrying amount disclosed in note 10.

With respect to student fee receivables the University has stringent policies with respect to not allowing students with outstanding balances to either graduate or to register for the new financial year. The outstanding fees balance at year end is widely spread amongst numerous students indicating no particular concentration of credit risk.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2007 (CONTINUED)

### 21 Financial risk management objectives and policies (continued)

With respect to credit risk arising from the other financial assets of the University, which comprise cash and cash equivalents, available-for-sale financial assets and certain derivative instruments, the University's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The University places cash and cash deposits only with major financial institutions with good credit ratings.

#### Liquidity risk

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The timing and nature of the University's cash inflows and outflows are such that liquidity problems are unlikely to arise. Furthermore, the University has access to funds through either its holding of short-term bank deposits or the un-endowed investments portfolio in the event that any unforeseen events occurring. The cash flow position is monitored by management on a weekly basis by means of a cash flow statement.

#### Capital Management

Capital expenditure requirements in the university are vast, only a fraction can be initiated in any particular year. Our policy is that these must be undertaken in terms of the university strategic priorities and affordability. Affordability is determined by available cash resources as generated by operating activities, net investment income and accumulated free reserves, borrowing capacity and donor support. Public/private partnerships of various forms could also be considered.

Initiation of capital projects are appropriately channelled through specialist committees (for example, the Building and Development Committee), however affordability is to be determined by the University Finance Committee (UFC). For major projects it is imperative that a senior member of the finance staff serve on the Project Implementation Committee from their inception. The capital budget is determined annually and each item needs to be approved on its merits as part of the budget process.

Capital expenditure has significant impact on numerous aspects of the university; therefore it is imperative that there be strong co-ordination among all parties including at least the initiator, the Planning department and the Finance department. Further, the approval of a project is not timeless as priorities and affordability change. The approval is valid for one year, if the project has not commenced it must form part of the budget submission for the next year, as should the balance to be completed if the project has commenced.

Financing capacity is determined by the relationship of reserves to assets, and the free operating cash flow to service debt.

On the surface it appears that the university has a healthy relationship of reserves to assets, however it must be remembered that much of the asset base is held in designated endowments and in property, which has restricted alienability. In any event the operations need to generate a sufficient surplus to meet both the interest on the debt and the capital repayments. Given the narrow margins on which the university operates means that is an onerous requirement.

Our policy is to apply conservative financing. In general we avoid debt if possible, preferring to manage our cash flows effectively. For managerial purposes, we may arrange internal loans at an appropriate rate that reflects the inherent risk. Where debt is used we would look to settlement in as short a period as possible and not exceeding 10 years except in exceptional circumstances.

It must also be recognised that leases and arrangements such as build operate and transfer, special purpose vehicles, and numerous other schemes may carry the costs and risks of debt. All debt or arrangements must be approved by the UFC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2007 (CONTINUED)

### 21 Financial risk management objectives and policies (continued)

The table below summarises the maturity profile of the University's financial liabilities at 31 December based on contractual undiscounted payments.

	In R'000				
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
<b>At 31 December 2007</b>					
Interest bearing loans and borrowings	-	-	2,310	3,787	6,047
Trade and other payables	-	88,633	-	-	88,633
<b>At 31 December 2006</b>					
Interest bearing loans and borrowings	-	-	3,987	6,153	10,140
Trade and other payables	-	74,861	-	-	74,861

#### Fair values

Set out below is a comparison by category of carrying amounts and fair values of all of the University's financial instruments.

	Carrying amount		Fair value	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
<b>Financial assets</b>				
Cash	439,976	332,207	439,976	332,207
Available-for-sale investments	1,897,359	1,637,612	1,897,359	1,637,612
Held to maturity investments	-	1,159	-	1,159
Account receivables	124,274	73,828	124,274	73,828
Loans to employees	2,319	6,553	2,319	6,553
Student fees receivable	33,771	22,553	33,771	22,553
Student loans	-	7,546	-	7,546
<b>Financial liabilities</b>				
Interest bearing loans and borrowings:				
- Fixed rate borrowings	6,047	10,033	6,047	10,033
Accounts payable and accrued liabilities	88,633	74,861	88,633	74,861
Student deposits	24,863	9,589	24,863	9,589

Market values have been used to determine the fair value of listed available-for-sale financial assets. The fair value of derivatives and borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates. The fair value of loans and other financial assets has been calculated using the market interest rates.

At the end of December 2007, the University held 11 futures contracts in the ALSFH8/J200 Future Index, maturing on 20 March 2008, with an effective maximum exposure of R2.9 million. In addition, the University held over the counter call and put options in respect of listed stock, that also expire on 20 March 2008, with an effective maximum exposure of R2.0 million. A further open short position had been entered into in respect of 77 ALSI 40 03/08 – RMB futures with an effective maximum exposure of R20.6 million.

At the end of December 2006, the University held 23 futures contracts in the FNDIH7 Index, maturing on 15 March 2007, with an effective maximum exposure of R4.3 million. In addition, the



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2007 (CONTINUED)

### 21 Financial risk management objectives and policies (continued)

University held over the counter call options in respect of a listed stock that expires on 2 April 2007, with an effective maximum exposure of R2.5 million. There are no open forward foreign exchange contracts at year end.

### 22 Contingent liabilities

The University does not have any contingent liabilities that warrant disclosure in terms of IAS 37.

### 23 Commitments

#### Capital commitments

Capital commitments at the balance sheet date but not recognised in the financial statements are as follows:

	2007 R'000	2006 R'000
Approved but not contracted for	49,658	30,869
Contracted	4,630	35,536
	54,288	66,405

It is intended that these commitments will be funded from current resources, with the balance of the required funding being met from contributions from both the public and private sectors.

#### Operating lease commitments – University as lessor

The University has entered into non cancellable commercial property leases. These non cancellable leases have remaining terms of between 1 and 7 years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions

	Within 1 year	2 to 5 years	Later than 5 years	Total
<b>Year ended 2007</b>				
Rental of premises	2,012	2,157	-	4,169
<b>Year ended 2006</b>				
Rental of premises	2,436	3,106	96	5,638

#### Operating lease commitments – University as lessee

The total of future minimum lease payments under non-cancellable operating leases are as follows:

	Within 1 year	2 to 5 years	Later than 5 years	Total
<b>Year ended 2007</b>				
Jammie Shuttle	5,749	5,749	-	11,498
Photo copying machines	1,503	2,042	-	3,545
	7,252	7,791	-	15,043
<b>Year ended 2006</b>				
Jammie Shuttle	5,664	11,498	-	17,162
Photo copying machines	1,641	1,677	-	3,318
	7,305	13,175	-	20,480

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2007 (CONTINUED)**

**24 Remuneration of key management**

The following disclosure, as required by the Minister of Education, relates to compensation paid to members of the University's executive management team. Remuneration is based on cost of employment to the University and comprises a flexible remuneration package. Compensation paid for other services performed within the University is reflected separately.

Name	Job Title	Gross Remuneration R'000	
		For Primary employment	For other services
Prof NS Ndebele	Vice-Chancellor	1,547	
Prof T Nhlapo	Deputy Vice-Chancellor	1,040	
Prof C M de la Rey	Deputy Vice-Chancellor	1,070	
Prof M J Hall	Deputy Vice-Chancellor	1,060	
Prof M E West	Deputy Vice-Chancellor	1,175	
Mr H T Amoore	Registrar	868	
Prof M D Ayogu	Dean: Commerce	828	
Prof F Horwitz	Director: Graduate School of Business	823	37
Prof C T O'Connor	Dean: Engineering and the Built Environment	892	86
Prof M Jacobs	Dean: Health Sciences	873	
Prof P Ensor	Dean: Humanities	883	
Prof H Corder	Dean: Law	822	5
Prof K Driver	Dean: Science	812	
Associate Prof N Yeld	Dean Centre for Higher Education Department	764	
Mr J Critien	Executive Director Properties and Services	882	
Ms M B M Khan	Executive Director: Student Affairs	816	
Ms G Kruger	Executive Director Communication and Development	809	
Dr J MacNamara	Executive Director: Development & Alumni Affairs	812	
Mr P N Naicker	Executive Director Information and Communication Technology	830	
Ms J Rapp	Executive Director University Libraries	855	
Prof E O Uliana	Executive Director Finance and Prof. of Accounting	1,160	57
Mr D Van Eeden	Executive Director Human Resources	1,013	20

Disclosure is made of the following lump sum payments in excess of R249,999, as also required by the Minister:

Purpose/reason for payment	Name	Position held	Amount R'000
Severance/Early Retirement	Ass Prof G Grundlingh	Associate Professor (Michaelis School of Fine Art)	595
Severance/Early Retirement	Mrs L O'Neill	Short Course Co-ordinator (Environmental Evaluation Unit)	339

No remuneration is paid to members of Council for services as Council members, membership or attendance at meetings, nor is it the policy of the University to pay those whom it appoints as board members, trustees or directors of related or affiliated entities.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2007 (CONTINUED)

### 24 Remuneration of key management (continued)

Reimbursements for travel to meetings of Council amounting to R10 476 (2006: R25,243) were paid on behalf of a member of Council.

The following table represents the disclosure required in terms of IAS 24 in respect of key management:

#### Compensation of key management

	2007 R'000	2006 R'000
Short-term employee benefits	16,950	15,999
Post-employment pension and medical benefits	3,886	3,760
Termination benefits	-	933
Total compensation paid to key management personnel	<u>20,836</u>	<u>20,692</u>

The post employment pension and medical benefits reflected above for key management represents payments made to the University's retirement fund.

The University has been unable to accurately estimate the portion of the current year's movement of the post retirement medical benefit provision attributable to this group of employees.

### 25 Retirement benefits

#### University of Cape Town Retirement Fund

The University of Cape Town Retirement Fund is a defined contribution fund, of which the majority of permanent and long-term contract employees are members. The current year's contribution to the Fund for the benefit of employees was R119.9 million (2006: R106.3 million).

The Fund was formed on 1 January 1996, after the majority of employees had elected to transfer from the Associated Institutions Pension Fund, a defined benefit plan underwritten by the State.

### 26 Lessee improvements

#### Groote Schuur Hospital

The Groote Schuur Hospital, located in the Cape Town suburb of Mowbray, has been built on land owned by the University of Cape Town. The initial 99 year lease has 17 years to run with an option to renew of a further 99 years. Lease income on this property is nominal. The original cost of the land is included under property, plant and equipment. In terms of the lease, ownership of the buildings will revert to the University of Cape Town at the end of the lease.

Given the absence of any usufructory rights for 116 years, the University of Cape Town has not accounted for value relating to the improvements made on this land.

#### Pinewood Village

In a similar manner, the Pinewood Village retirement complex, built in the Cape Town suburb of Pinelands, has been erected on ground owned by the University of Cape Town.

The initial lease of 99 years still has 83 years to run with a renewal option of a further 99 years. Lease income on this property is nominal. The original cost of the land is included under property, plant and equipment. In terms of the lease, ownership of the buildings will revert to the University of Cape Town at the end of the lease.

Management consider that the value of improvements made to this land and future income receivable discounted over 182 years would at this point in time be immaterial.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2007 (CONTINUED)

### 27 Related party disclosures

The related party relationships of the University of Cape Town in terms of IAS24 are as follows:

- Subsidiary entities (refer Note 2 – Basis of consolidation);
- Associate companies (refer Note 7);
- Key management personnel, which comprises members of both Council and the University executive management team (refer Note 24); and
- National Government (refer Note 16).

Transactions between related parties have been conducted at arms length.

Due to the nature of the University's operations and the composition of its Council, the Council takes particular care to avoid conflicts of interest, and has an explicit policy requiring disclosure and reporting. Any transaction with third parties in which any council member has a direct or fiduciary interest are subject to this policy, at arms length, and in accordance with approved procurement policy.

The register of direct and fiduciary interests is updated at least annually. The register has been reviewed and no transactions have been identified with a third party controlled by one or more members of the Council.

Mr. T D Petersen is the Deputy Chair of Council, Chair of the University Finance Committee and is a member of the Remuneration Committee. Mr. Petersen is the managing partner of PricewaterhouseCoopers in the Western Cape. The firm provided tax services to the University amounting to R0.3 million (2006: R0.6 million).

### 28 Business combination and acquisition

The UCT Lung Institute (Pty) limited was formed as a wholly owned subsidiary of the University in late 2006 and commenced trading on 1 January 2007, on which date it acquired the business of the UCT Lung Institute, a Section 21 company, by way of donation, and therefore no consideration was paid. The company is engaged in research into pulmonology, infectious diseases and dermatology by way of clinical research.

The following table sets out the fair value of the assets and liabilities acquired with effect 1 January 2007.

	R'000
<b>Assets</b>	20,476
Property and equipment	9,555
Trade and other receivables	1,146
Cash and cash equivalents	9,775
<b>Liabilities</b>	6,709
Trade and other payables	6,416
Provisions	293
<b>Net assets acquired by donation</b>	<u>13,767</u>

### 29 Post balance sheet event

There have been no material non-adjusting events after the balance sheet date.