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

2005

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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	
Ms D Budlender (4, 6)	
Mr A Button	
Ms V Doo	
Em Professor P I Folb	
Mr J J Gauntlett SC (1)	
Ms E Goliath	
Mr S Hlongwane	
Ms R Kadalie (1)	
Professor E R Kalula (1)	
Mr V P Khanyile (2)	
Mr P S G Leon	
Associate Professor B Mayosi	
Mr L Mphalwa	
Mr E Patel	
Dr L F Platzky (6)	
Professor B D Reddy	
Mr R B Rosenthal (2, 3)	
Mr C Sonn (4)	
Em Professor J Terblanche	
Mr M A Thompson (2, 3, 4, 5)	
Dr H M Wesso (6)	
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	AUDITORS
Bremner Building Lovers Walk Rondebosch 7701	Ernst & Young P O Box 656 Cape Town 8001
POSTAL ADDRESS	**BANKERS**
Private Bag Rondebosch 7701	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

The year under review began with the Council's decision to submit a self-review report to the state's Higher Education Quality Council (HEQC) as preparation for the Institutional Audit of UCT to be undertaken by the HEQC. The year ended with receipt of the HEQC's report on the quality assurance mechanisms in place at UCT. It is thus appropriate to begin a review of the year with some reflections on the HEQC audit, and appropriate, too, that the reports that follow this, from the Vice-Chancellor and others, pick up this theme.

The HEQC report is now in the public domain. Its commendations reflect the university's strengths: a good teaching record, an impressive (by South African standards) graduation rate, rigour in assessment practices, and a strong record in research.

Perhaps the most important aspect of the recommendations that the HEQC has now made is that there were no surprises; the areas marked out for improvement were consistent with those that we had identified in our self-review report. This however is no reason for complacency. We now have to address those areas effectively. As this report is being prepared for publication, the Senate is finalising the self-improvement plan that we must submit to the HEQC. What, then, are the main areas for improvement?

First, though our undergraduate and postgraduate throughput rates (the proportions of entering classes who leave with a qualification) are the highest in South Africa, they are not good, and they remain racially skewed with rates for whites significantly better than for Africans. This is a major challenge for UCT. There is no simple solution to this serious problem, and change will not be easily achieved.

Secondly, while we rightfully take pride in UCT's research record, which is reported on more fully below, we have some way to go to realise our vision of being research-led. This is critical both to the quality of the teaching we provide - the excitement of research must be tangible in the classroom - and to South Africa, if we are to play our role in keeping the country competitive.

Thirdly, the HEQC has identified, correctly, key transformation challenges. Some of these are related directly and indirectly to the challenges of improving the throughput rate and assuring that the graduating class reflects the diversity of the entering cohort. Others relate to the research endeavour. Put succinctly, the transformation challenges relate to institutional climate, to diversity among staff (we have a long way to go to meet our modest employment equity targets), and to diversity among the student body. This is not to say that the glass is half-empty; it is at least half-full. Anyone present at one of the nine year-end graduation ceremonies in 2005, at which record numbers of students qualified, will be able to testify to the diversity of the graduating class, to the range and relevance and numbers and diversity of background of the record number of PhD degrees awarded, and to the exuberance everywhere evident.

Those graduation ceremonies, and the financial statements which we are presenting, are two important markers of the health of UCT at the end of 2005. The financial results indicate the success of our medium-term economic framework. We have not yet achieved our medium-term financial goal, which is to have a sufficient operating surplus to allow us the financial muscle to take advantage of strategic opportunities, but we are on track to doing so. For a second year, we achieved a better-than-predicted financial performance. And we have a strong balance sheet. The Council is grateful to its standing finance committee (under the leadership of Trevor Petersen), to the executive, and to the finance department and its executive director, Professor Enrico Uliana, for their work in enabling us to achieve this.

The major revenue elements are state subsidy, tuition and residence fees, and revenue from research. We need to do better in our fund-raising. Discretionary funds from this source can help to create the 'space' in the budget for vital strategic initiatives.

The Council has the unenviable responsibility for setting fees, which fix the price of higher education for our students. The Council struggled with this issue, and finally settled on a year-on-year average fee increase of 7.7% for 2006. And the effective increase for 2006 was higher because we added to it the cost of a decision we made on principle, namely to require the contractors who work on our campuses, performing basic services that we have outsourced, to pay at least a minimum wage. This (the supplemented living level for an African family in the Western Cape) will be phased in over a three-year period. The Council regards this as a minimum, without which commitments to transformation must appear empty. Council struggled with the issue of fees because there are many for whom this increase makes a UCT education unaffordable.

As will be seen from the consolidated income statement, we billed fee-payers R473-million for tuition and housing fees in 2005. We did very well in collecting those fees, writing off less than 2% of fees billed. It is important to understand who pays, and who is unable to contemplate a UCT education. Some have sufficient resources of their own to be able to pay the fees. Some are able to pay because we allocate R41-million from our own *discretionary* funds, and administer a further R61-million of *designated* funds, for financial aid. Those who qualify get a further R38-million from the National Student Financial Aid Scheme. Many win bursary and scholarship support from external agencies. We are proud that our graduate students win a disproportionately high number of National Research Foundation Awards.

There is nonetheless a large gap: there are too many students who wish to be at UCT, and who are well qualified to be here, but who can not achieve this – because they do not meet the financial aid means test but are also not able to bear the costs through their own or family resources; or because they meet the financial aid means test but cannot raise the family contribution that is part of the NSFAS.

Though this is not the place for an essay on financial aid, some observations are in order. First, the significant amount we allocate from discretionary funding demonstrates the priority we give to this issue. Secondly, the extent to which we do this represents cross-subsidy. Thirdly, were we to close this gap, the extent of cross-subsidy would become unaffordable and unsustainable. The NSFAS means test renders any family with gross family annual income of over R135 000 ineligible for financial aid; but it is a rare family with gross family annual income of R200 000 (let alone R135 000) that is able to find the necessary R40 000 to R50 000 in after-tax discretionary income to pay tuition fees and living costs for one daughter or son. This challenge is not one that UCT alone can meet; it is ultimately a national issue.

I have written of graduation ceremonies. Admission to UCT is now competitive in all facilities. Our admissions policies make provision, as they must, for the redress of past educational inequality. They proved sufficiently robust, both in content and in implementation, to withstand a High Court challenge. But we have recognised that they will need to become more sophisticated to enable us to identify current disadvantage, and give recognition to it, in our quest to constitute a diverse class of the greatest potential. Overall student numbers, about which more will be found in the Senate report, reached record levels.

What of the other challenges we face?

The year had barely begun when we witnessed the killing of Professor Brian Hahn in the Mathematics Department, of which he was a much loved and respected member. A recent PhD graduate and colleague has been charged with murder. The incident and its aftermath illustrated as starkly as any, and as tragically, how such incidents can become the focus of unresolved racial tensions, of the perceptions and realities of racial discrimination, and of unresolved institutional climate issues. The burden of these fell on the Vice-Chancellor. I wish to pay tribute to him and to the staff and student bodies who worked with him to reach shared understandings, the results of which included the Vice-Chancellor's renewed transformation initiatives, and the creation of safe spaces for people to raise their concerns.

The increasing student enrolment has put pressure on all aspects of the university. The university's academic staff bear the major responsibility in the classrooms, lecture theatres and labs. The Plan and Budget for the University must increasingly recognise this. Traffic congestion is another pressure. The campus Jammie Shuttle bus service, introduced last year, has come into its own, making access to the campus much easier for many. Student housing (we now have some 5 500 places for 22 000 students) remains a limiting factor. I am pleased to report that Council's last major decision of 2005 was to approve the plans for the new, 390-bed women's residence to be built on the site of the old GSB, in time for the 2007 academic year. And I am very pleased to record that the Chancellor has graciously approved our proposal that this be named after her. The Graca Machel Residence will be both a tribute to the contributions she has made and continues to make in the region, and a great asset to the University.

The strength of UCT's Faculty of Health Sciences has in very large measure been derived from the strength of the partnership between the University and the Provincial Health system. This partnership is based on the necessary and indivisible relationship between clinical teaching, clinical training, patient care, and clinical research, all of which re-inforce each other. The changing health policy priorities of national and provincial government have put this relationship under strain. The future form of this partnership is one of the major unresolved issues we face, and one that the Council will have to tackle in 2006.

It remains for me to express my thanks to Council members whose disinterested service to the University is invaluable, and to the strong executive team under the Vice-Chancellor, Professor Njabulo S. Ndebele, for guiding the University successfully through another year.

MR G M BUDLENDER
CHAIR OF COUNCIL
7 JUNE 2006

REPORT OF THE VICE-CHANCELLOR

| PART 1 |

STRATEGY AND IMPLEMENTATION

Since the time of my previous report to the Department of Education in 2004, I am now in my second and final term of office of three years as Vice-Chancellor and Principal.

The focus of my second term should be seen against the full context of the first one. The Vice-Chancellor's earlier Ten Point Plan provided the framework and direction for UCT's strategic initiatives and was followed by Five Action Guides to achieve tighter focus. This entire process has now yielded seven Council-approved high-level institution-wide strategic objectives. These are:

- Advancing transformation in student and staff profiles, and institutional culture;
- Improving the quality of teaching and learning;
- Strengthening and renewing human capital and infrastructure;
- Improving research outcomes by selecting signature themes and centres of excellence;
- Strengthening and widening continuing professional education, establishing a sustainable source of additional income;
- Achieving sustainable financial stability; and
- Responding to HIV/AIDS.

We continue to be privileged to have a diverse and talented student body. Overall enrolments in 2005 exceeded 21 500 students and, with undergraduate enrolments having reached the desired levels, it remains our objective to grow postgraduate enrolments. Our postgraduate enrolments stood at 28% of total enrolments – masters and doctoral enrolments stood at 19% of total enrolments. Broadly, the overall student body is 50-50 black and white and our international students, drawn primarily from Africa, represent over 100 countries. International students constitute 18% of the full degree enrolment.

It is recognised that important strides have been made in linking the processes of planning and budgeting. We still have our medium-term budget framework objectives of achieving a minimum 5% budget surplus on Council Controlled recurrent operations. Preliminary results of the 2005 performance show us getting closer, but these results have still to be brought before Council. Further, detailed planning processes in 2005 have led us to the implementation of a new student fee structure and academic year pattern in 2006.

UCT made important strides in negotiating with third party contractors and then implementing a new and progressive code of conduct to guide and improve the working conditions and wages of service providers contracted by the University. The new code of conduct recommendations followed intense discussions within the University community and came at a time when many of the five-year contracts with third-party suppliers were due for renewal. I am positive that the new arrangements have improved the working conditions for outsourced workers on our campus.

A number of key consultations took place during 2005. Of particular significance in this regard was the Vice-Chancellor's lekgotla, convened with a number of key constituencies to engage transformation and institutional culture issues. Further consultative discussions with Senate followed. The death of Associate Professor Brian Hahn following an assault by and subsequent arrest of a former student, who previously held a position in the Department of Mathematics and Applied Mathematics, was a devastating time for all at UCT. This incident, and the reaction to it, clearly revealed a need for deeper levels of dialogue on campus, in what we have called "safe spaces". Student concerns over the implementation of the principle of co-operative governance, resulting in the temporary withdrawal of the SRC from participation in the University governance structures, further underscored this needs. In this context, I launched the Living Transformation Plan in October 2005. The approach is to seek ways of making transformation a reality – to live it. The Living Transformation Plan describes the areas of my specific focus originating from, and aiming to realise, our aims as stipulated in the Strategic Objectives, the Action Guides and my original Ten Point Plan.

My focus, as Vice-Chancellor and Principal, through the Living Transformation Plan, has been to:

- Deepen transformation in a changing national and global context and to ensure, through effective co-ordination, that processes for implementation are rigorously followed;
- Revisit our vision and mission since new symbolic expressions of our legacy will serve to deepen its significance;
- Achieve financial sustainability in order to steadily build our endowment and improve our capacity to fund important strategic projects;
- Strengthen the UCT alumni community through appropriate strategies to sustain the link between UCT and its increasingly diverse alumni that are spread throughout the world;
- Change the academic staff profile and pay attention to the quality and equity profile of our professional and administrative staff; and
- Give attention to the interface in the curriculum between our goal to be a research-led university and the challenge of an enriched teaching and learning environment.

2005 has in many ways been a significant year for UCT and higher education generally in South Africa. I acknowledge the role of all at UCT – outstanding members of the senior leadership group, staff and students of the UCT community in their different capacities - for their varied contributions to the life of UCT. In particular, I would like to thank the University Council, under the chairmanship of Mr GM Budlender, for their wise guidance and support during a challenging year.

| PART 2 |

SENATE: TEACHING, LEARNING AND RESEARCH

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

Student Enrolments and Qualifications

UCT's HEMIS submissions show that the overall student head count enrolment grew by 18% between 2001 and 2005. The 2005 unduplicated HEMIS headcount enrolment was 21 731, in comparison with 18 461 in 2001. Over the 2001 – 2005 period, the average annual growth rate at the undergraduate level (4,3% per annum) exceeded that at the postgraduate level (2.7% per annum), with the result that the proportional postgraduate enrolment dropped by two percentage points to 28% of the 2005 head count total. Postgraduate students (including enrolments in postgraduate diplomas, postgraduate bachelors', honours', masters' and doctoral degrees) totalled 6 170 in 2005.

In accordance with UCT's policy of limited undergraduate growth, the first-time entering undergraduate intake has stabilised at around 3 600 in recent years despite a consistent increase in the numbers of new undergraduate applications received. At the same time, the quality of these intakes (as measured by prior matric performance profiles) has improved markedly in most Faculties. Overall undergraduate growth has begun to flatten as a result of the lower first-time entering undergraduate intake: the 2005 undergraduate enrolment (14 548) was only 1% larger than that in 2004 (14 386).

At the undergraduate level, enrolments in general academic bachelors degrees grew by 15%, whilst those in professional first bachelors degrees grew by 17% between 2001 and 2005. Enrolments at the postgraduate diploma level grew by 10% between 2001 and 2005, and there was substantial growth in enrolments at the honours level and above: honours enrolments grew by 36%, masters enrolments by 21% and doctoral enrolments by 37% over this period. The 2005 HEMIS figures show a combined total of more than 4 100 masters and doctoral students; masters and doctoral enrolments together made up 19% of the 2005 head count enrolment total.

Student Output Efficiencies

A total of 5 132 students qualified for the award of a degree or diploma in 2005. Amongst these:

- 1 508 graduated in Commerce (24% of these completing the professional BBusSc degree)
- 137 graduated with MBA's (Graduate School of Business)
- 540 graduated in Engineering and the Built Environment
- 467 graduated in Health Sciences
- 1 539 graduated in Humanities
- 261 graduated in Law
- 680 graduated in Science

The 2005 graduate proportion of all undergraduates (the "graduation rate") was 21% (22% in 2004) despite continued growth in the undergraduate sector. The improved undergraduate graduation rate in recent years relates to a decline in attrition, and may be ascribed to a strong institutional focus on retention and throughput issues. At the end of 2005, just 3% of all undergraduates (4% in 2004) were excluded from the university on academic grounds.

Course success rates at the first and second year undergraduate level appear to have stabilised at around 84% of all students registered for first and second year courses. The overall success rate in third year undergraduate courses in 2005 remained level at 90% of all students registered for courses at this level, whilst the success rate amongst students registered for fourth year courses increased by one percentage point to 94%.

UCT remains committed to improving performance in its educational function, a commitment that is strongly underpinned by the recognition of the need for continuing transformation within the student body, and of the need for greater efficiency without sacrificing either quality or equity. The following inter-linked institutional strategies aim to improve student retention, thereby improving overall throughput and graduation rates:

- Heightening the focus on equity aspects of student access and progression;
- Carrying out a detailed trend analysis of throughput patterns and identifying the factors affecting throughput amongst different groups of students;
- Strengthening foundation/extended curriculum programmes; and
- Understanding – through the 2005 Interrupted Learners Survey – which factors contributed to different groups of students leaving the University without completing a degree/diploma.

Full-time Academic Staffing

The HEMIS staffing submission shows that UCT employed a total of 829 permanent instruction/research staff in 2005. The equivalent figure for 2004 was 812, and thus the institutional academic staffing complement grew by 2% between 2004 and 2005. The number of full-time, permanent instruction/research staff however dropped by 2% (to 779) over the same period.

An examination of the ratios of full-time equivalent enrolled (FTE) students to permanent academic staff across the university indicates this ratio increased from 20:1 in 2001 to 21.7:1 in 2005. Over the same period, the ratio of FTE students to FTE academic staff increased from 11.6:1 to 12.3:1. These trends suggest that growth in academic staffing in general, and in permanent academic staffing in particular, did not keep pace with growth in student numbers between 2001 and 2005.

Quality Assurance in Teaching and Learning

The Senate approved "Quality Assurance Framework at UCT" as well as the "Guidelines for Academic Review", provide the framework through which the University ensures that appropriate quality management systems are in place, and that a culture of self-review with a view to continuous improvement in teaching delivery is achieved. UCT's approach to Quality Assurance necessitates the centrality of reviews, and in this regard a Faculty approved review schedule will allow for the review of each academic unit every five years. Linkages between the process of academic reviews and a well functioning institutional quality management system are currently being addressed, most notably in regard to the design and implementation of a management system that appropriately supports the academic review process.

Fewer academic reviews were conducted in 2005 than in previous years owing to the Department of Institutional Planning's involvement in the preparation for the University's HEQC, which took place during May.

Consequently, three academic reviews took place in 2005:

- Health Sciences Faculty: Division of Communication Sciences and Disorders;
- Law Faculty: LLM/ School of Advanced Legal Studies; and
- Science Faculty: Chemistry.

Reflections from review panel members and the units under review may contribute to the possible amendment to the University's current Guidelines for Academic Review in the following key areas: scope of the review (priorities and limitations as identified by the Formal Review Panels), teaching and learning, research, social responsiveness, management, staffing and transformation.

In accordance with a decision taken by the university's Senate Executive Committee, Faculties are subsequently required to develop and submit a quality improvement plan in response to the review panel's recommendations specified in the final review report and thereafter to submit a progress report eighteen months later. This post-review phase closes the loop on designated areas of the review conversation, but further consideration is being devoted to exploring ways in which the monitoring of post-review activity could improve effectiveness for the review units concerned and the university as a whole.

Social Responsiveness

In 2004, UCT conducted its first annual review of social responsiveness, for the 2003 academic year. The definition of social responsiveness, contained in the footnote below, indicates that UCT defines engagement much broader than institutional engagement with the local community. While the 2003/2004 report was useful, only about 30% of staff replied to the review questionnaire. Based on comments on the review process the format for the 2005 report was changed. To capture the complexity and richness of socially responsive practices, the review of social responsiveness in 2005 was done in the form of 9 descriptive cases and an analysis thereof. In choosing the nine cases, attempts were made to identify examples of teaching, research or extension work, all of which have usefulness and relevance for a constituency outside of campus. The sources of data were in-depth interviews with individuals or unit/centre heads or representatives, documents and annual reports, and papers and other publications.

All the cases describe activities aimed at addressing, or engaging with, different kinds of needs through scholarly activities. The cases illustrate the interconnectedness of teaching, research and social responsiveness and the indirect spin-offs for the university. The cases also illustrate the view that socially responsive activities help to generate new knowledge that is relevant for third world contexts and may benefit people in other parts of the continent and the world.

The report has enabled UCT to develop a deeper understanding of what it means to be 'socially responsive' and how different kinds of scholarly activities can be monitored, assessed and recognised within the university. Future reports of social responsiveness will be modified to provide a more comprehensive picture of social responsiveness across the university. The criteria for conducting performance evaluations are also being reviewed in the light of the lessons learned from the Social Responsiveness Reports.

Research

The University's emphasis on the importance of producing quality research was evident in the significant number of peer-reviewed publications produced in 2005.

Research income from both internal and external sources continued to grow during the financial year under review, with UCT's total research income increasing by 20% to R405-million. Contract research constituted slightly less than two-thirds of UCT's annual research income during the period under review (R256m; 63%), and remains a key source of funding for research at UCT. Government-related grants, which constituted 29% (R118million) of the total revenue, grew by 39% year on year.

The performance of our researchers through the internationally benchmarked process of peer-evaluation and rating, which is carried out by the National Research Foundation (NRF) and based primarily on the quality of their recent research outputs, is yet again deeply encouraging. Of the more than 30 newly rated researchers during the 2005 cycle, three A-ratings and three P-ratings were made; all three in the latter category were awarded to women researchers. UCT remains the top institution nationally in as far as the number of rated researchers are concerned.

A framework for signature themes was approved by the Senate Executive Committee (SEC) in December 2004. The *Marine Research Partnership* and the *Brain-Behaviour Initiative* were subsequently approved by the University Research Committee and the SEC as the first two UCT Signature Themes in November 2005.

Although there are continuing challenges, we are proud that significant progress has been made in the past year with respect to our identity as a leading research university. We have revised our research strategy to give greater substance to our vision to promote research-oriented scholarship that will enhance UCT's national relevance and global competitiveness.

One of the key issues facing most higher education institutions in South Africa is transformation, particularly with respect to changing the gender and race profile of our researchers. This priority is reflected in the University's research development framework, which caters for researchers at different levels of their careers and which is discussed in more detail in other chapters of this report.

(Definition: Scholarly based activities (including use-inspired basic research) that have projected and defined outcomes that match or contribute to development objectives or policies defined by a legitimate civil society organisation, local, regional or national government, international agency or industry.)

MANAGEMENT AND ADMINISTRATION

Changes in Senior Management & Re-structuring

Senior executive portfolios were re-structured in the second half of the year. Deputy Vice-Chancellor Professor Martin West's contract was renewed and he was appointed Vice-Principal with overall responsibility for operations. Among key portfolio changes, Professor Cheryl de la Rey assumed responsibility for the faculties as well as for research, Professor Martin Hall took responsibility for transformation as well as planning, and Professor Thandabantu Nhlapo added the development and alumni portfolio to his responsibilities for student affairs and international relations.

The year saw three decanal vacancies. Professor Kathy Driver was appointed Dean of Science and Professor Marian Jacobs as Dean of Health Sciences – it is of special significance that Professors Driver and Jacobs are the first women ever appointed by the university to their respective positions. Professor Hugh Corder was requested to complete a full second term as Dean of Law, and his contract was renewed.

The newly-appointed Executive Director of Student Development & Services, Ms Moonira Khan, made considerable progress in a major re-structuring and re-alignment exercise for her department, to be implemented in 2006.

Council approved a proposal to replace the existing Department of Communication and Development with two closely-related departments: of Communication and Marketing (Executive Director: Ms Gerda Kruger), and Development and Alumni Affairs. Professor Cyril O'Connor accepted overall responsibility for the new Department of Development & Alumni Affairs pending the appointment of an Executive Director in 2006.

Administrative systems

We conducted final preparations for the implementation of our new student information system, PeopleSoft. The new system will manage the full range of student-related functions, including registration, admissions, student fees, financial aid, and student housing. Historical data from the legacy system was successfully migrated in December, and UCT was confident of a smooth start to the 2006 academic year, when the new system would be used for registration for the first time.

Considerable progress was made with the supaTsela Project, which will put in place a reliable, flexible and cost-effective ICT infrastructure by the end of 2006. Some of the highlights for 2005 can be summarised as follows:

1. A new electronic directories architecture was in place prior to student registration in January and February and was used to provide student information to the library and access control systems and to create network and email accounts for students.
2. A "blueprint" was developed for the design of a new network that will be much faster, more secure, more manageable, and will provide some levels of redundancy to significantly improve network reliability. The core components for this new network have been delivered, configured and tested.
3. New data centres have been built on the Upper and Middle Campuses and both have generators connected that start automatically in the event of power outage. These have already proven their worth with the recent power failures in Cape Town.
4. A new model of "provisioning" ICT services at UCT is currently being configured and tested. It allows for a variety of physical server architectures and supports the possibility of load balancing across multiple systems or fail-over between servers in a cluster in order to provide a service that is much less subject to outright failure.
5. The network provision in student residences has been upgraded and is being expanded to additional residences.

Staffing matters

The end of 2005 saw the final stage in the production of an overall, integrated remuneration policy for the University. New performance-based structures were put in place in previous years for the academic staff and for professional, administrative and support staff. In the final stage, the senior salaries component was completed, for implementation at the start of 2006.

PROFESSOR N S NDEBELE

VICE-CHANCELLOR

7 JUNE 2006

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.

The UCT Institutional Forum met six times in 2005 and had one workshop. Issues discussed at meetings included: the university's climate intervention strategy, alignment of UCT's admissions policy with its residence placement policy, the code of conduct for outsourced workers, a presentation by outsourced workers on their conditions of service, the progress report on the sexual harassment and rape policy, student representation on University Committees and Council, the appointment of senior leadership, the student equity policy, the student climate survey, the Higher Education Quality Committee audit and the singing of the national anthem at graduation. Advice was given to Council on the appointment of senior leadership, the Code of Conduct and the singing of the national anthem at graduation.

The Institutional Forum debated the state of the transformation of UCT at its planning workshop held in March 2005. It also reflected on the contribution of the IF and its effectiveness in meeting its statutory obligations. It was agreed that there was need for an evaluation of the role of the IF and that a performance plan needed to be developed along with an evaluation of the IF's effectiveness in monitoring institutional culture and race and gender equity. It was also agreed that the Institutional Forum should review its operational guidelines. A report on suggested amendments was submitted by the Transformation Manager and there was agreement that this should be discussed at a review workshop. The workshop was postponed to 2006 because of time and agenda constraints.

In its last meeting in 2005, the Institutional Forum recommended that it meet more frequently around specific priority areas in 2006 and that the Vice-Chancellor attends at least one of its meetings. Other substantive changes made at the end of 2005 included shifting the servicing of the Institutional Forum to the Registrar's Secretariat which now services all statutory governance structures in the University and providing professional support to the Institutional Forum via the University's Transformation Office. The Transformation Manager attends all Institutional Forum meetings and is also in attendance at preparatory meetings. The Transformation Office has been tasked with the induction of new members into the Institutional Forum. An Induction Manual, containing university policies and reports that are pertinent to the work of the IF is used by the Transformation Office in induction. All members are given a manual. The Institutional Forum has functioned effectively over 2005.

PROFESSOR R T NHLAPO	**MS V SCHOLTZ**	**MS A AFRICA**
CO-CHAIR	**CO-CHAIR**	**CO-CHAIR**
7 JUNE 2006		

REPORT ON THE HEQC AUDIT VISIT

UCT's approach to the audit

The Higher Education Quality Committee informed UCT in May 2004 that it would be audited the following year, in May 2005. In June 2004, UCT established an Institutional Audit Steering Committee (IASC) to coordinate processes concerning the University's audit preparation, and Council and Senate of that year endorsed IASC's proposed principles and outcomes in respect of the University's approach to the audit.

The Audit Visit

As part of the University's audit preparation, 387 documents were placed on a special website for the panellists, and a further 106 documents were provided before and during the site visit. The scale of the exercise enabled the panel to get a comprehensive picture of UCT's plans, systems and procedures in support of its core functions.

The HEQC's institutional audit visit took place between 16 and 20 May, and approximately 450 people were interviewed during that week. The interviewees were drawn from 57 different sections of UCT including Council, Executive and senior leadership, staff bodies, heads of department, lecturers, undergraduate and postgraduate students, members of Senate Committees, PASS departments, CHED, faculty staff involved in admissions and programme management, and transformation fora. Interviews were also held with alumni and representatives of professional bodies, advisory committees, community organisations, employers and government. Site visits were conducted of the Library, ICTS, CHED and the Health Sciences Faculty.

At the end of the audit visit week, UCT had been left with a general impression of the review panel's findings. A preliminary oral report was provided to members of the Executive, and the HEQC indicated at the time that a draft written report would be sent to the institution, for comment relating to inaccuracies and omissions, possibly in August. The final report would then be received in October.

After the Audit Visit

UCT subsequently conducted its own evaluation of the institutional audit visit. Feedback received indicated that the majority of respondents experienced the institution's self-evaluation as useful, and some expressed reservations about the way in which certain institutional matters had been probed during the audit process.

In early December last year, UCT submitted its response to the draft audit report. The HEQC indicated thereafter that the final report would be received in March 2006.

Ndebele.

PROFESSOR N S NDEBELE

VICE-CHANCELLOR

7 JUNE 2006

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 Vice-Chancellor and the executive and the Senate 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 for two governance bodies and one advisory body with specific mandates; the Council, which governs; the Senate, which is responsible for teaching and research; and the Institutional Forum, a stakeholder body, which advises the Council. 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 as now constituted complies with the requirements of the Act as amended. There was one vacancy at year-end arising from the termination of the membership of Councillor J D Landingwe; the City manager of Cape Town has been asked to arrange for the City Council to fill this vacancy. The term of the Council now in office runs to 30 June 2008.

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

- The University has clear strategic goals and objectives;
- The Executive Officers (the Vice-Chancellor and the Deputy Vice-Chancellors) are held to account in achieving these;
- The University financial position is sound in the short term and the long term;
- No fees are set, and no financial appropriations made, without its approval;
- 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 2005.

Attendance at Council Meetings – 2005

Feb – Dec 2005	Mar	Apr	Jun	Sept	Oct	Dec	%
DG Aschman	P	P	Ap	P	P	P	*83*
D Budlender	Ap	P	P	P	Ap	P	*67*
GM Budlender	P	P	Ap	P	P	P	*83*
CM de la Rey	P	P	P	Ap	P	P	*83*
V Doo	P	Ap	P	P	P	P	*83*
R Esson	Ap	P	P	Abs	Abs	P	*50*
A Fataar	Abs	Ap	Ap				*0*
PI Folb	P	P	P	P	Ap	P	*83*
JJ Gauntlett SC	P	Ap	P	P	Ap	P	*67*
E Goliath	P	P	P	P	P	P	*100*
MJ Hall	P	P	P	P	P	Ap	*83*
R Kadalie	Ap	P	P	P	P	P	*83*
ER Kalula	P	P	P	P	P	P	*100*
VP Khanyile	Ap	P	Ap	Ap	Ap	Ap	*17*
JD Landingwe	Abs	Abs					*0*
PSG Leon	P	P	P	P	P	Ap	*83*
B Mayosi	P	P	P	Ap	P	P	*83*
L Mpahlwa						P	*100*
N Mlilo	P	P	P	Abs	P	Abs	*67*
NS Ndebele	P	Ap	P	P	P	P	*83*
T Nhlapo	P	P	P	P	P	P	*100*
E Patel	Ap	P	P	P	Ap	P	*67*
TD Petersen	P	P	P	P	P	Ap	*83*
LF Platzky	Ap	Ap	P	P	P	P	*67*
BD Reddy	P	P	Ap	P	P	P	*83*
RB Rosenthal	P	P	P	P	P	P	*100*
C Sonn	Ap	P	Ap	P	P	Ap	*50*
J Terblanche	P	P	P	P	P	P	*100*
M A Thompson	Ap	P	P	P	P	P	*83*
HM Wesso	P	Ap	P	P	P	Ap	*83*
ME West	P	P	P	P	P	P	*100*

P	=	Present
Ap	=	Apology
Abs	=	Absent
*	=	On sabbatical

Attendance at Council EXCO Meetings – 2005

Feb – Dec 2005	Feb	May	Jul	Aug	Nov	%
GM Budlender	P	P	Ap	P	P	*80*
JJ Gauntlett SC	P	Ap	P	Ap	P	*60*
R Kadalie	P	P	P	P	Ap	*80*
ER Kalula	P	P	Ap	P	P	*80*
N Mlilo	P	P	P	Abs	Abs	*60*
NS Ndebele	P	P	P	P	P	*100*
TD Petersen	Ap	P	P	P	P	*80*

The composition of the Executive Committee, and of the committees responsible for Audit, for Strategy, for Finance, and for Remuneration, follow the legislative requirement for Council that at least 60% of members be external (that is neither staff nor students) and that both the Chair and Deputy Chair be external. The Council considers that helps to ensure the appropriate levels of accountability of the Executive to the Council.

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 and the Vice-Chancellor.

Council Appointments Committee

The Council Appointments Committee considers nominations for vacancies in the Council in terms 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 2005, and both internal and independent auditors have unrestricted access to it. A standing Risk Management Committee, chaired by the Vice-Chancellor, supports the Committee. During 2005 the Audit and Risk Committees continued with a comprehensive review of risk and put measures in place to manage identified risks. This will continue into 2006. 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 retention 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.

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 2005.

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 trade unions; and
- Determining the pay of senior leadership group members in terms of the performance management system.

The University Student Development and Services Committee (USDSC)

The USDSC 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. It is the structure established in terms of the Higher Education Act, 1997 to advise the Council on student matters. Council requires the USDSC to report twice a year on student concerns and on how these are being addressed. Council has recently decided to add lay Council members to it, and to re-name it as the Student Affairs Committee.

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 twice during 2005. A Council member chairs this Committee.

The University Building and Development Committee

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 11 times during 2005.

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.

MR G M BUDLENDER	**PROFESSOR N S NDEBELE**
CHAIR OF COUNCIL	**VICE-CHANCELLOR**
7 JUNE 2006	

REPORT ON INTERNAL ADMINISTRATION, OPERATIONAL STRUCTURES AND CONTROLS

The University maintains systems of internal control over financial reporting and assets. Such systems are designed to provide reasonable assurance to the University and Council regarding the preparation of reliable published financial statements and the safeguarding of 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. A major implementation of a proprietary (PeopleSoft) system supporting student administration transactions from admissions through to graduation, linked to a Residence Management System (to assist in the transactions necessary to administer the University's 5 500 bed student housing enterprise) and to the existing ERP systems supporting Finance and HR, was begun in 2003 and went live for production at the end of 2005. Data migration, which must be correct, was subject to internal and external audit review.

Accepted standards are applied 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 competently trained staff.

Internal audit monitors internal control systems and aims to assist line management in ensuring the adequacy of such controls. During the year under review four significant cases of fraud were uncovered, including one cases involving an amount of slightly in excess of R1 million. Steps taken to recover the losses have in all cases been successful. The major case was discovered during a routine internal audit review. This exposed control weaknesses which have been rectified. In order to ensure that fraud is appropriately dealt with the Audit Committee has a policy that perpetrators will be prosecuted and named. This is being done in all four cases.

Council, through its Audit Committee, provides oversight of the financial reporting process.

Report on Risk and the Management of Risk and on Quality Assurance

The University enjoys a reputation for the quality of its graduates, the quality of its research and scholarship; for sound financial management and for safety at work. Reputational, financial and other areas of risk exposure are priorities for the Council, for key members of the executive, and for the bodies charged with the management of risk, primarily the Audit Committee (and especially the Risk Management and Health & Safety sub-committees), the Quality Assurance Working Group, and Internal Audit.

A major review of the University's quality assurance mechanisms took place in the year under review through the Institutional Audit conducted by the Higher Education Quality Committee (HEQC), a statutory body established in terms of the Higher Education Act, 1997. The HEQC's inspection visit was preceded by a comprehensive self-assessment review the report of which was provided to the HEQC ahead of the audit. The HEQC has published its report and has made 13 commendations (on areas where it found examples of good practice, strength, excellence and innovation) and 16 recommendations (on areas identified for improvement). The report is now available on the HEQC website at:

www.che.ac.za/heqc_ae/audit2005/Audit_Report_UCT_Mar2006.pdf .

The Risk Management Committee (RMC) has been established with reference to the guidelines outlined in King 2. In terms of its membership, the Committee is required to include the Vice-Chancellor, a Deputy Vice-Chancellor, two Faculty Deans, the Executive Director of Finance, the Executive Director of Properties & Services, the Registrar and up to two other appointees nominated by the Vice-Chancellor, and a non executive Council member.

The Physical Risk Co-ordinating Committee, reports to the RMC and includes in its reports items from its sub committees which are the Genetically Modified Organisms Committee, the Health and Safety Committee and the Radiation Control Committee. The RMC Committee itself reports to the Audit Committee.

- Received and considered reports on Information Technology, Property and Services and Student and Student related risks. In respect of each risk, mitigating controls were identified, assessments of the risk exposure were considered, actions taken and responsibilities assigned were reviewed;
- Received reports from the Physical Risk, Safety and Crime Prevention Co-Coordinating Committee (including its subcommittees); and
- Received reports at each meeting in respect of crime both on the campus and on its fringes and the steps taken to reduce the impact of criminal activities.

During the year under review the Audit Committee has, either directly or through the Risk Management Committee, reassessed areas of risk and redefined accountable and responsible individuals for the management of all key risk areas, having reviewed the impact of failure in each area, the effectiveness of controls, and the management gap between the actual and the desired control effectiveness, as outlined above;

The risk of HIV/AIDS among staff 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. It was actively engaged in the preparation of the self-assessment report submitted to the HEQC, and will be involved in the self-improvement plan designed to strengthen those areas of quality assurance that had been identified by us and were the subject of recommendations by the HEQC.

A South African Revenue Services (SARS) tax audit of PAYE tax returns for the period 1999 to 2004, undertaken during the year under review established significant failure on the part of the University as employer to deduct tax due, largely in respect of fringe benefit arrangements. A settlement figure was agreed in the period under review (and is accrued in the financial statements) and the matter was settled shortly after balance sheet date. The failure occurred despite an independent tax compliance review about which we reported in last year's statements. Steps have been taken to ensure tax compliance going forward, all fringe benefit schemes that gave rise to this were closed off by 28 February 2006 and an independent review (which is in progress at the date of writing) is being undertaken by an external member of the Audit Committee and an independent senior member of the accounting profession of what went wrong and why.

Financial risk decisions are taken within limits decided by Council on the advice of the Finance and Investment Committees.

Insurance policies are in place to cover risk. These are monitored by the Audit Committee, which must satisfy itself that cover against fire and related risks, accidental damage, business interruption, theft, money and fidelity and, critically, both public and employee liability is considered adequate.

MR M A THOMPSON	Hugh Amoore **MR H T AMOORE**
CHAIR OF AUDIT COMMITTEE	**REGISTRAR**
7 JUNE 2006	**(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; and
- 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. Should the operating result be a deficit the first use of the financing and investment income will be to reducing or "paying off" the deficit.

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 2005

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.

During 2005 International Financial Reporting Standards (IFRS) were introduced. All organisations were required to elect whether they would remain with South African Statements of Generally Accepted Accounting Practice or adopt the IFRS. UCT elected to follow best practice, and convert to IFRS. The 2004 results had to be recomputed to be compliant with IFRS so that the 2005 figures could be meaningfully compared to them.

The effect of the switch on the previously reported results for 2004 was as follows:

- Total net surplus increased by R16.9 million to R172.9 million, and the surplus on Council Controlled Unrestricted activities increased by R6.0 million to R47.5 million. Both due mainly to reduced depreciation provisions arising from an evaluation of the expected future economic life of the assets in use.

The effect on the date of transition to IFRS on 1 January 2004 was as follows:

- Property Plant and Equipment increased by R131.1 million to R607.8 million.
- Restricted Accumulated Funds increased by R58.1 million to R452.8 million, and Unrestricted Council Controlled Accumulated Funds increased by R129.8 million to R458.2 million.

Key features of the financial results for 2005 were:

1. Recurrent operating expenditure grew at a faster rate than recurrent operating income for the second successive year. This is mainly due to increased expenditure on staffing for salary realignment, additional allocations to research activities, and a fall in third stream income. In addition state subsidies continue to grow at below inflation.
2. Major revenue streams that changed significantly in 2005 were:
   - An increase in tuition and other fee income of 10.1%, largely due to increases in student numbers, and the opening of a new residence;
   - A 10.4% increase in contract research.
3. Total expenditure increased by 7.1%, major line items that changed significantly in 2005 were:

- An increase in personnel cost of 11.6% as a result of the alignment to professional, administrative and support staff salaries, additional research activity and the additional residences.

4. The University's net cash position improved by R56.7 million to R329.5 million, after investing a further R97.6 million in fixed assets. Much of this cash, however, is specifically earmarked for designated activities such as research.
5. The University's liabilities fell by R200.1 million, following the repayment of the Transitional Retirement loan. This transaction had no effect on the cash position due to a sinking fund specifically created for its settlement. A major portion of the liabilities (R174.8 million– relating to employee benefits) represents provisions that do not involve a cash commitment.
6. The University's overall operating surplus rose from R172.9 million to R193.9 million, and the surplus attributable to Council controlled unrestricted funds decreased from R47.5 million to R15.1 million, due mainly to the market alignment in professional and support staff salaries, partially offset by an increase in student numbers.
7. Expenditure on bursaries and financial aid increased by 6.0% to R102.0 million. In addition the National Student Financial Aid Scheme and the National Research Foundation provided a further R42.9 million and R9.6 million respectively to UCT students.
8. Designated and endowed investments rose from R1,000.2 million to R1,303.5 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 R27.1 million to UCT activities, of this R5.9 million was undesignated.
9. Unrestricted Council controlled funds rose modestly from R517.2 million to R532.9 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 is negative and 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

	2005 R'm	2004 R'm	2003 R'm	2002 R'm	2001 R'm	2000 R'm
RECURRENT INCOME	**992**	**954**	**869**	**772**	**696**	**602**
State appropriations-subsidies & grants	513	496	460	427	395	352
Tuition and other fee income	364	330	290	241	213	185
Rendering of services	97	102	91	88	75	61
Private gifts & grants	18	26	28	16	13	4
RECURRENT EXPENDITURE	**1,013**	**931**	**837**	**760**	**691**	**681**
Personnel	644	574	511	452	430	397
Other operating expenses	290	287	253	240	206	210
Bursaries	41	40	33	33	30	24
Depreciation and minor capital items expensed	38	30	40	35	25	50
RECURRENT OPERATING (DEFICIT)/SURPLUS	**(21)**	**23**	**32**	**12**	**5**	**(79)**

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. The current project being a new women's residence with nearly 400 beds;
    - New and significantly refurbished academic buildings; and
    - An integrated student system with enhanced academic and administrative capabilities.
- Creating the capacity for proper planned renewal and maintenance of campus facilities. The university is committed to reduce the backlog on maintenance, having increased expenditure on maintenance significantly over recent years. The backlog will continue to receive high priority till it has been eliminated.
- Identify future needs at an early enough stage to enable cohesive financial planning.

A financial framework was adopted by Council 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.

Mr T D PETERSEN

CHAIR OF FINANCE COMMITTEE

7 JUNE 2006

PROFESSOR E O ULIANA

EXECUTIVE DIRECTOR OF FINANCE

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

COUNCIL'S STATEMENT OF RESPONSIBILITY FOR THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

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

Up until 31 December 2004, the University prepared consolidated annual financial statements in terms of South African Statements of Generally Accepted Accounting Practice and in the manner required by the Minister of Education in terms of S41 of Act 101 1997 (as amended). The University is adopting International Financial Reporting Standards (IFRS) with effect from the 1 January 2005. As the University publishes comparative information for one year in its consolidated annual financial statements the date of transition to IFRS is effectively 1 January 2004, the start of the earliest comparative period presented.

In terms of the above, the financial statements presented on pages 28 to 61of this annual report for 2005 have been prepared in accordance with IFRS 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 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 61 were approved by the University Council on June 7 2006 and are signed on its behalf by:

MR G M BUDLENDER

CHAIR OF COUNCIL

MR T D PETERSEN

CHAIR OF FINANCE COMMITTEE

PROFESSOR N S NDEBELE

VICE-CHANCELLOR

7 JUNE 2006

PROFESSOR E O ULIANA

EXECUTIVE DIRECTOR OF FINANCE

ERNST & YOUNG

Chartered Accountants (SA)
Ernst & Young House
35 Lower Long Street
PO Box 656
Cape Town 8000

Telephone (021) 443-0200
Telefax (021) 425-4523
Docex 57

www.ey.com/southafrica

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

We have audited the accompanying annual financial statements of the University of Cape Town set out on pages 28 to 61 for the year ended December 31 2005. These financial statements are the responsibility of the University's Council. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly in all material respects, the financial position of the University of Cape Town at December 31 2005 and the results of its operations 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, No. 101 of 1997 (as amended).

Ernst & Young

ERNST & YOUNG
REGISTERED ACCOUNTANT AND AUDITORS
CHARTERED ACCOUNTANTS (SA)

CAPE TOWN

13 June 2006

UNIVERSITY OF CAPE TOWN
CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2005

	Note	2005 R'000	2004 R'000
ASSETS		2,459,905	2,293,581
Non-Current Assets		2,016,843	1,646,861
Property, plant and equipment	6	704,590	635,627
Investments	7	1,304,611	998,730
Investments in associates	8	-	1,211
Non-current receivables	9	7,642	11,293
Current Assets		443,062	646,720
Inventories	10	287	919
Accounts receivable and prepayments	11	81,608	105,601
Loans to employees	11	7,046	7,829
Student fees receivable	11	20,012	20,123
Current portion of investments	7	4,643	239,459
Cash at bank and cash equivalents	12	329,466	272,789
ACCUMULATED FUNDS AND LIABILITIES		2,459,905	2,293,581
Accumulated Funds		2,182,773	1,816,388
Non-distributable funds		1,028,048	770,945
Endowed funds		707,243	616,941
Revaluation reserve		320,805	154,004
Restricted funds designated for specific activities		621,838	528,203
Education and general		542,557	456,563
Student and staff accommodation		79,281	71,640
Unrestricted Council controlled funds		532,887	517,240
Non-Current Liabilities		142,011	136,974
Interest bearing borrowings	13	10,261	18,424
Provisions – Employee benefits	14	131,750	118,550
Current Liabilities		135,121	340,219
Accounts payable and accrued liabilities	15	59,516	43,798
Student deposits		13,338	11,794
Provisions – Employee benefits	14	43,050	34,250
Provisions – Other	16	11,250	7,000
Current portion of borrowings	13	7,967	243,377

UNIVERSITY OF CAPE TOWN
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005

(All amounts in R'000)

	Note	Education and General						
		Council Controlled Unrestricted	Specifically Funded Activities Restricted	**Sub Total**	Student and Staff Housing Restricted	2005 **TOTAL**	2004 **TOTAL**	**Change %**
TOTAL INCOME		1,038,220	607,588	1,645,808	121,588	1,767,396	1,641,500	7.7
Recurrent Revenue		1,036,626	523,694	1,560,320	121,053	1,681,373	1,605,857	4.7
State appropriations-subsidies and grants	17	513,071	111,079	624,150	-	624,150	600,232	4.0
Tuition and other fee income		364,149	-	364,149	109,216	473,365	429,868	10.1
Income from contracts		193	189,064	189,257	-	189,257	171,387	10.4
Rendering of services		97,187	57,727	154,914	11,625	166,539	178,243	(6.6)
Donations and gifts		17,804	109,566	127,370	-	127,370	112,223	13.5
Sub Total		992,404	467,436	1,459,840	120,841	1,580,681	1,491,953	6.0
Interest and dividends	18	44,222	56,258	100,480	212	100,692	113,904	(11.6)
Non-Recurrent Income		1,594	83,894	85,488	535	86,023	35,643	141.4
Profit/(Loss) on disposal of property, plant & equipment		1,594	375	1,969	535	2,504	(497)	-
Profit on sale of investments		-	83,519	83,519	-	83,519	36,140	131.1
TOTAL EXPENDITURE		1,023,150	436,694	1,459,844	113,644	1,573,488	1,468,599	7.1
Recurrent Expenditure		1,023,150	436,694	1,459,844	113,644	1,573,488	1,468,599	7.1
Personnel	19	644,319	168,998	813,317	16,920	830,237	744,180	11.6
Other operating expenses	20	289,690	179,084	468,774	94,255	563,029	533,773	5.5
Bursaries and financial aid		40,837	61,151	101,988	-	101,988	96,248	6.0
Minor capital items expensed		23,121	15,437	38,558	1,278	39,836	30,528	30.5
Depreciation	6	14,682	11,956	26,638	961	27,599	21,596	27.8
Sub-Total		1,012,649	436,626	1,449,275	113,414	1,562,689	1,426,325	9.56
Finance costs	21	10,501	68	10,569	230	10,799	42,274	(74.5)
NET SURPLUS		15,070	170,894	185,964	7,944	193,908	172,901	12.2

Refer to note 33 for the 2004 detailed comparatives

UNIVERSITY OF CAPE TOWN
CONSOLIDATED STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED 31 DECEMBER 2005

(All amounts in R'000)

		Non-Distributable		Funds Restricted for Specific Activities		Unrestricted Funds	
	Note	Endowed Funds	Revaluation Reserve	Education and General	Student and Staff Housing	Council Controlled	TOTAL
FUND BALANCES AS AT 1 JANUARY 2004		573,836	79,376	342,065	52,657	328,314	1,376,248
Adjustment arising from the adoption of IFRS	31	-	-	41,484	16,618	129,844	187,946
ADJUSTED BALANCES AS AT 1 JANUARY 2004		573,836	79,376	383,549	69,275	458,158	1,564,194
Realised gains on available-for-sale investments	7	-	(36,140)	-	-	-	(36,140)
Fair value movement in available-for-sale investments	7	-	110,768	-	-	-	110,768
Capital inflows - Donations		4,665	-	-	-	-	4,665
Total income and expense for the year recognised directly in funds		4,665	74,628	-	-	-	79,293
Restated net surplus 2004 after adoption of IFRS	33	-	-	122,272	3,087	47,542	172,901
Total income and expense for the year		4,665	74,628	122,272	3,087	47,542	252,194
Transfers between funds		38,440	-	(49,258)	(722)	11,540	-
FUND BALANCES AS AT 31 DECEMBER 2004		616,941	154,004	456,563	71,640	517,240	1,816,388
Realised gains on available-for-sale investments	7	-	(83,519)	-	-	-	(83,519)
Fair value movement in available-for-sale investments	7	-	250,320	-	-	-	250,320
Capital inflows - Donations		5,676	-	-	-	-	5,676
Total income and expense for the year recognised directly in funds		5,676	166,801	-	-	-	172,477
Net surplus 2005		-	-	170,894	7,944	15,070	193,908
Total income and expense for the year		5,676	166,801	170,894	7,944	15,070	366,385
Transfers between funds		84,626	-	(84,900)	(303)	577	-
FUND BALANCES AS AT 31 DECEMBER 2005		707,243	320,805	542,557	79,281	532,887	2,182,773

Specified endowment 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 2005

	Note	2005 R'000	2004 R'000
Cash Flows from Operating Activities			
Cash receipts from students, government and private sources		1,507,232	1,358,781
Cash paid to employees and suppliers		(1,387,748)	(1,296,982)
Cash generated from operations		119,484	61,799
Investment income - interest	18	79,333	100,659
Investment income – dividends	18	21,359	13,245
Endowed funds – capital inflows		5,676	4,665
Finance costs	21	(10,799)	(42,274)
Net Cash Inflows from Operating Activities		215,053	138,094
Cash Flows from Investing Activities			
Additions to maintain property, plant and equipment	6	(97,573)	(53,459)
Proceeds on disposal of property, plant and equipment		3,515	712
Purchase of available-for-sale investments	7	(172,105)	(111,574)
Purchase of held-to-maturity investments	7	-	(42,188)
Proceeds from sale of available-for-sale investments		119,129	57,968
Proceeds from realisation of held-to-maturity investments		232,231	6,119
Net Cash Inflows/(Outflows) from Investing Activities		85,197	(142,422)
Cash Flows from Financing Activities			
(Decrease)/increase in long term interest bearing borrowings	13	(243,573)	20,416
Net Cash (Outflows)/Inflows from Financing Activities		(243,573)	20,416
Net Movement in Cash and Cash Equivalents		56,677	16,088
Cash and cash equivalents at beginning of period		272,789	256,701
Cash and cash equivalents at end of period	12	329,466	272,789

Cash Generated from Operations

Reconciliation of net surplus to cash generated from operations:

	Note	2005 R'000	2004 R'000
Net surplus		193,908	172,901
Adjustments for:			
Depreciation	6	27,599	21,596
Increase in employee benefit provisions	14	22,000	5,950
Increase in other provisions	16	4,250	7,000
(Profit)/Loss on sale of property, plant and equipment		(2,504)	497
Property, plant and equipment costs written off		-	827
Investment income - interest	18	(79,333)	(100,659)
Investment income - dividends	18	(21,359)	(13,245)
Finance costs	21	10,799	42,274
Profit on sale of investments		(83,519)	(36,140)
Associate company losses	8	1,211	-
Changes in working capital			
accounts receivable, prepayments and loans		28,538	(36,924)
inventories		632	168
accounts payable, accrued liabilities and deposits		17,262	(2,446)
Cash generated from operations		119,484	61,799

UNIVERSITY OF CAPE TOWN
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2005

1 University Information

The consolidated annual financial statements of the University for the year ended 31 December 2005 were authorised for issue in accordance with a resolution of Council on 7 June 2006.

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

2 Adoption of IFRS

Up until 31 December 2004, the University prepared consolidated annual financial statements in terms of South African Statements of Generally Accepted Accounting Practice and in the manner required by the Minister of Education in terms of S41 of Act 101 1997 (as amended). The University is adopting International Financial Reporting Standards (IFRS) with effect from 1 January 2005. As a consequence of the need for the University to provide comparative information for one year in its consolidated annual financial statements the date of transition to IFRS is 1 January 2004, the start of the earliest comparative period presented.

Impact from the adoption of IFRS

The impact of adopting IFRS has affected the financial position and financial performance of the University as at the transition date of 1 January 2004 and the comparative reporting period ended 31 December 2004.

Details of the impact on the financial position and financial performance previously reported in accordance with South African Statements of Generally Accepted Accounting Practice are reflected in notes 31 and 32.

IFRS 1 Exemptions applied

The University has elected to use the exemption relating to employee benefits as available under IFRS 1 and has therefore recognised all unrecognised cumulative actuarial gains and losses at the date of transition to IFRS. The impact of this election is addressed in note 31.

3 Basis of preparation

The accounting policies set out below are consistent with those applied in the previous year except for changes made as a result of the adoption of IFRS. The revised IFRS policies have been consistently applied to both years presented. These policies have been applied consistently by all the University's consolidated entities and the financial year ends of these entities are coterminous.

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 (R000) except where otherwise indicated.

The consolidated annual financial statements have been prepared on the basis of the statements that are effective for periods commencing on or after 1 January 2005. The University has not early adopted any of the IFRS standards or IFRIC interpretations that have been issued with a later effective date. The impact of applying these standards is expected to be minimal.

Basis of consolidation

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

3 Basis of preparation (Continued)

govern the financial and operating policies of an entity so as to obtain the benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the University controls another entity.

All inter-entity 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 Graduate School of Business (Proprietary) Limited	Wholly owned
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

On the first of January 2005, the business of the Graduate School of Business (Proprietary) Limited was transferred to the University of Cape Town as a going concern. The company has therefore been dormant since 1 January 2005, and has been wound up during the year. As the company was a wholly owned subsidiary of the University of Cape Town and was consolidated the transfer of the business has had no impact on the consolidated results of the University.

Segment information

A segment is a recognised component of the University that is engaged in providing products or 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.

Statement of compliance

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

4 Significant accounting judgements and estimates

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

Judgements

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.

Depreciation

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

Academic sabbatical leave provision

The University becomes liable to pay out academic sabbatical leave only on retirement, retrenchment or death. In order to estimate the probability of incurring this liability, management to 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 leave provision for academic staff at 31 December 2005 was R21.1 million (2004: R17.7 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 2005 was R117.8 million (2004: R107.2 million).

Student Fees Receivables

At year end management makes an estimate of the amount of total outstanding student fee debt that it expects it will hand over to external debt collectors. 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 2005 was R20.0 million (2004: R20.1 million), refer Note 11.

5 Summary of significant accounting policies

5.1 Foreign currency translation

The consolidated financial statements are presented in 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.

5.1 Foreign currency translation (Continued)

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.

5.2 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. 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 in which they accrue.

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.

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.

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 by reference to the stage of completion of the transaction at the balance sheet date. Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

5.3 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2005 (CONTINUED)

5.3 Retirement benefits (Continued)

Post-retirement medical aid benefits – defined contribution 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 liability is recognised at the balance sheet date. Any curtailment benefits or settlement amounts are recognised against income as incurred.

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.

5.4 Borrowing costs

Borrowing costs are recognised as an expense based on the effective interest rate.

5.5 Research costs

Research costs are expensed as incurred.

5.6 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.

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 group 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.

Property, plant and equipment costing less than R15,000 are not capitalised and are expensed to the income statement. Library books are written off in the year in which they are acquired. Donations 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:

Buildings	50-200 years
Land improvements other than buildings	30 years
Motor vehicles	15 years
Furniture and equipment	5-50 years
Computers and software	5-10 years

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

5.6 Property, plant and equipment (Continued)

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition 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 derecognised.

5.7 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.

5.8 Financial assets and liabilities

Financial assets and financial liabilities are initially recognised on the balance sheet when the enterprise 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 an enterprise commits to purchase or sell an asset. 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, except for financial assets at fair value through profit and loss where transaction costs are expensed. 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 financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets, as appropriate.

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

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the University commits to purchase the asset.

5.8 Financial assets and liabilities (Continued)

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss. 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 unless they meet the criteria for hedge accounting. 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.

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 derecognised 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 derecognised or impaired, as well as through the amortisation process.

Cash and cash equivalents are classified as loans and receivables originated by the enterprise 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.

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 preceding 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 equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity 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 bid prices at the close of business on the balance sheet date.

5.8 Financial assets and liabilities (Continued)

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 derecognised 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 derecognised 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 derecognised as well as through the amortisation process.

5.9 Derecognition 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 derecognised 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.

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 derecognised 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 derecognition of the original liability and the

5.9 Derecognition of financial assets and liabilities (Continued)

recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

The University assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

5.10 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.

The University therefore raises a provision for its loans and receivables based on the impairment assessment above. Bad debts are written off when identified.

Available-for-sale financial assets

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 profit or loss, is transferred from equity 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 profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2005 (CONTINUED)

5.11 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' 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 equity.

5.12 Inventories

Inventories are stated at the lower of the weighted average cost and net realizable 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.

5.13 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.

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.

6 Property, Plant and Equipment

Year ended 31 December 2005 (all amounts in R'000)

	Land, Buildings and Land Improvements	Furniture and Equipment	Computers and Software	Motor Vehicles	Assets under Construction	Total
Cost						
Cost 1 January 2005	485,984	175,685	48,091	11,837	58,873	780,470
Additions	45,900	29,391	16,488	1,450	4,344	97,573
Transfers	56,866	-	-	-	(56,866)	-
Disposals	(810)	(2,683)	(263)	(374)	-	(4,130)
Cost 31 December 2005	587,940	202,393	64,316	12,913	6,351	873,913
Accumulated depreciation						
Balance 1 January 2005	69,418	53,214	19,727	2,484	-	144,843
Disposals	(41)	(2,468)	(237)	(373)	-	(3,119)
Depreciation charge	5,487	13,712	7,216	1,184	-	27,599
Balance 31 December 2005	74,864	64,458	26,706	3,295	-	169,323
Book value 31 December 2005	513,076	137,935	37,610	9,618	6,351	704,590

Year ended 31 December 2004 (all amounts in R'000)

	Land, Buildings and Land Improvements	Furniture and Equipment	Computers and Software	Motor Vehicles	Assets under Construction	Total
Cost						
Cost 1 January 2004	479,035	163,574	46,283	10,640	49,055	748,587
Additions	7,177	25,649	6,390	2,420	11,823	53,459
Transfers	4	-	-	-	(4)	-
Disposals	(232)	(13,538)	(4,582)	(1,223)	(2,001)	(21,576)
Cost 31 December 2004	485,984	175,685	48,091	11,837	58,873	780,470
Accumulated depreciation						
Balance 1 January 2004	64,536	55,575	17,790	2,885	-	140,786
Disposals	(17)	(12,034)	(4,401)	(1,087)	-	(17,539)
Depreciation charge	4,899	9,673	6,338	686	-	21,596
Balance 31 December 2004	69,418	53,214	19,727	2,484	-	144,843
Book value 31 December 2004	416,566	122,471	28,364	9,353	58,873	635,627
Book value 1 January 2004	414,499	107,999	28,493	7,755	49,055	607,801

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.

7 Investments

	2005 R'000	2004 R'000
Available-for-sale investments		
Opening balance	1,000,156	834,300
Additions	172,105	111,574
Disposals	(35,610)	(20,346)
Realised gains on sale of investments	(83,519)	(36,140)
Fair value movement in investments	250,320	110,768
Closing balance	1,303,452	1,000,156
Held-to-maturity investments		
Sinking fund investments	5,802	238,033
Public Investment Commission	5,802	17,325
Standard Corporate and Merchant Bank Limited	-	220,708
Total investments	1,309,254	1,238,189
Current portion of held–to-maturity investments	(4,643)	(239,459)
Total long term investments	1,304,611	998,730

Held-to-maturity investments

Public Investment Commission

Various deposits from which the proceeds are to be used to redeem fixed period loans of R5.8 million included under government subsidised loans of R18 million (Refer note 13).

Interest accrues at 75% of the rate applicable to the individual fixed period loans, varying between 16.25% and 18.5%. The carrying value approximates the fair value.

Standard Corporate and Merchant Bank Limited

Deposit which had accrued interest at 17.9%, ceded to Standard Bank of SA Limited. The proceeds were used to redeem the Standard Bank of SA transitional retirement loan that matured on 13 March 2005 (Refer note 13).

	2005 R'000	2004 R'000
The total investments comprise the following categories:		
Equity – local	639,839	470,989
International investments	215,751	176,019
Capital market interest-bearing investments	315,612	237,946
Money market deposits	132,250	115,202
Available-for-sale investments	1,303,452	1,000,156
Held-to-maturity – interest bearing investments	5,802	238,033
Total investments	1,309,254	1,238,189

	2005 R'000	2004 R'000

8 Investments in associates

	2005 R'000	2004 R'000
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
Investment	3,622	3,622
Less share of accumulated losses	(3,622)	(2,411)
	-	1,211

Council values the investment in the associates at carrying value.

9 Non-current receivables

	2005 R'000	2004 R'000
Student loans	6,682	4,474
Loans to employees	960	6,819
	7,642	11,293

The current receivables relating to employee loans are shown in note 11. Non-current loans to employees are due within 2 years from balance sheet date. Student loans are mostly receivable 5 years after balance sheet date. The carrying value of the non-current receivables is considered to approximate fair value. These amounts are unsecured.

The weighted average interest rates were as follows:

	2005	2004
Student loans	9.15%	9.8%
Loans to employees - car scheme	9.0%	14.4%
Loans to employees - other	9.6%	14.4%

10 Inventories

	2005 R'000	2004 R'000
Consumables	287	919

11 Accounts receivable and prepayments

	2005 R'000	2004 R'000
Accounts receivables and prepayments	81,608	83,132
Payment towards the acquisition of the Princess Christian Home	-	22,469
Loans to employees	7,046	7,829
Student fees receivable	20,012	20,123
	108,666	133,553

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 average rate for the six months was 10.5% (2004: 11.04%).

During the year the University of Cape Town acquired title to the Princess Christian retirement home and the 2004 prepayment was accordingly capitalised to buildings.

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12 Cash at bank and cash equivalents

	2005 R'000	2004 R'000
Cash at bank and in hand	1,047	673
Short-term bank deposits - Local	324,373	270,638
- Foreign	4,046	1,478
	329,466	272,789

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 R 329,466 (2004: R 272,789).

At 31 December 2005, the University had available R 20 million (2004: 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 7.41% for local deposits and 2.5% for foreign (2004: 7.67% for local deposits and 2% for foreign).

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

13 Borrowings

	2005 R'000	2004 R'000
Financial institutions for government-subsidised loans	18,001	34,133
Standard Bank of SA Limited transitional retirement loan	-	227,245
Total interest bearing borrowings	18,001	261,378
Student Loan Fund loans	227	423
Total borrowings	18,228	261,801
Current portion	(7,967)	(243,377)
Total non-current borrowings	10,261	18,424

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 5.5% to 18.5% and varying repayment terms. The weighted average interest rate was 13.25% (2004 14.8%). The loans are unsecured and the carrying values collectively approximate their fair values.

Standard Bank transitional retirement loan

The promissory notes with a face value of R235.4 million in favour of the Standard Bank of South Africa were settled on 13 March 2005 utilising the proceeds of the transitional retirement loan sinking fund (Refer note 7). The notes were discounted for R38 million accruing interest at a fixed rate of 18.4%.

	2005 R'000	2004 R'000

13 Borrowings (Continued)

Student Loan Fund loans

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

Interest rate exposure

	2005 R'000	2004 R'000
At fixed rates	18,001	261,378
At floating rates	-	-
Total interest bearing borrowings	18,001	261,378

Finance costs

	2005 R'000	2004 R'000
Current		
Standard Bank of SA Limited transitional retirement loan	6117	36,306
Non Current		
Financial institutions for government subsidised loans	4,682	5,968

Maturity of interest-bearing non current borrowings

	2005 R'000	2004 R'000
Between 1 and 2 years	6,474	11,955
Between 2 and 5 years	3,470	5,493
Later than 5 years	317	976
Total non current borrowings	10,261	18,424

14 Provisions – Employee benefits

	2005 R'000	2004 R'000
Leave provision academic staff	21,150	17,750
Leave provision for administrative and support staff	35,850	27,850
Post-retirement medical aid benefit obligation	117,800	107,200
Total provisions – employee benefits	174,800	152,800
Current portion – leave provision academic staff	(1,600)	(1,600)
Current portion – leave provision for administration and support staff	(35,850)	(27,850)
Current portion – post retirement medical aid obligation	(5,600)	(4,800)
Total current provisions – employee benefits	(43,050)	(34,250)
Total non-current provisions – employee benefits	131,750	118,550

Leave provision academic staff

This relates to academic staff accrued study and research leave. There is, however, limited entitlement to this leave. Entitlement only arises on death, on retirement or on retrenchment from the University.

	2005 R'000	2004 R'000

14 Provisions – Employee benefits (Continued)

In order to estimate the probability of incurring this liability management has utilised the following assumptions in calculating the liability:

Academics 55 and over	- Assume all will stay to retirement;
Academics 45 to 55	- Assume 75% 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 4.5% per annum (2004: 4.75%) and the discount rate that has been applied is 7.75% (2004: 8.25%).

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.

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 International Accounting Standard 19 Employee Benefits, is set out below.

For the purpose of the valuation at 31 December the following key assumptions were made; discount rate 7.75% (2004: 8.25%); expected inflation on medical aid contributions of 5.75% over the long term (2004: 6.25%). 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 16 years (2004: 16 years).

	2005 R'000	2004 R'000
Funding obligation	99,500	102,000
Unrecognised actuarial gains	18,300	5,200
Amount accrued in respect of funding obligation	117,800	107,200
Reconciled as follows:		
Net obligation at the beginning of the year	107,200	96,900
Net expenses	14,700	14,000
- Interest on obligation	9,000	9,000
- Current service cost	5,700	5,000
Deduct:		
Contributions paid in respect of funding obligation	(4,100)	(3,700)
	117,800	107,200

15 Accounts payable and accrued liabilities

	2005 R'000	2004 R'000
Trade payables	16,883	11,524
Accrued expenses	20,350	11,281
VAT	1,101	888
Other payables	21,182	20,105
Total	59,516	43,798

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

16 Provisions – Other

	2005 R'000	2004 R'000
Provision for tax liability at start of year	7,000	-
Additional provision raised during the year	4,250	7,000
Provision for tax liability at end of year	11,250	7,000

Provision for tax liability

The 2004 provision raised in respect of the potential tax liability arising from the South African Revenue Services (SARS) audit as to the University's compliance with the Pay As You Earn provisions of the Income Tax Act resulted in an amount of R11.25 million being raised as a provision in 2005 as a consequence of the settlement with SARS. The amount was settled in March 2006.

17 State appropriations-subsidies and grants

	2005 R'000	2004 R'000
Subsidy for general purpose	485,689	468,842
State grants and contracts	132,553	124,428
Subsidy on interest and redemption on state guaranteed loans	5,908	6,962
	624,150	600,232

All State appropriations - subsidies and grants received by the University are accounted for as grants related to income (refer accounting policies note 5.2 for more detail). There are no unfulfilled conditions or other contingencies attaching to the subsidies and grants that have been recognised above.

18 Interest and dividends

	2005 R'000	2004 R'000
Bank interest	31,647	27,367
Interest income on accounts and other receivables	8,000	7,500
Income from investments:		
Dividends	21,359	13,245
Interest - available-for-sale	29,849	28,256
- held-to-maturity	9,837	37,536
	100,692	113,904

			2005 R'000	2004 R'000

19 Personnel costs

	Academic Professional	Other	Total	Total
Wages and salaries	333,753	382,740	716,493	644,358
Termination benefits	634	-	634	298
Pension costs	50,025	48,385	98,410	85,524
Post retirement medical aid benefits	6,905	7,795	14,700	14,000
	391,317	438,920	830,237	744,180

Average number of persons employed during the year	**No.**	**No.**
Full time	3,293	3,319
Part time	1,330	1,166
Total	4,623	4,485

20 Other operating expenses

The following items have been charged in arriving at operating surplus:

	2005	2004
Library acquisitions	23,623	21,042
Repairs and maintenance	75,995	74,453
Expenditure on computer equipment written off	20,477	20,861
Software costs	7,217	4,199
General services outsourced	29,664	29,835
Catering services outsourced	36,250	37,080
Auditors' remuneration	2,280	2,155
Current year - Annual Financial Statements	1,630	1,489
- Other audit services	650	666
Lease expenses	5,522	271

21 Finance costs

	2005	2004
Finance costs	10,799	42,274

22 Financial risk management objectives and policies

The University's principal financial instruments, comprise available-for-sale and held-to-maturity investments; 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 investments with a long term view to growing the portfolio in order to provide financial stability and support for new initiatives and strategic choices. 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.

The University also enters into certain 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.

22 Financial risk management objectives and policies (Continued)

Forward exchange contracts are 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 cash flow interest rate risk, foreign currency risk, commodity price 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.

Cash flow 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 University holds a substantial amount of interest bearing investments and interest earning bank deposits. Interest risks relating to the University's investments are managed by selected portfolio managers who operate under defined mandates, which are designed to limit the exposures of the University. The investment decisions made and performances of these managers are closely monitored by the Joint Investment Committee. This Committee comprises trustees of the University of Cape Town Foundation, members of the University's Council and external members with specific expertise relating to investments. The risks in these areas are managed through natural hedges, hedge instruments and the restriction of the ability to spend interest income that is subject to the fluctuation of interest rates.

Foreign currency risk

The University is exposed to foreign currency risk through its holdings of foreign denominated investments (refer Note 7) and bank accounts (refer Note 12). All of the above holdings are in major international currencies (e.g. US Dollars/Pound Sterling). Foreign currency risk is managed by the Universities portfolio managers whose ability to invest in foreign funds is limited by their mandates.

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.

Commodity price risk

The University is exposed to price risk in respect of its investment portfolio. The University manages this risk through the use of a number of portfolio managers who operate under defined mandates.

Credit risk

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 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.

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. With respect to credit risk arising from the other

22 Financial risk management objectives and policies (Continued)

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 only places cash and cash deposits with major financial institutions with good credit ratings.

Liquidity risk

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 occur.

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	
	2005 R'000	2004 R'000	2005 R'000	2004 R'000
Financial assets				
Cash	329,466	272,789	329,466	272,789
Available-for-sale investments	1,303,452	1,000,156	1,303,452	1,000,156
Held-to-maturity investments	5,802	238,033	5,802	238,033
Trade and other receivables	81,608	105,601	81,608	105,601
Loans to employees	8,006	14,648	8,006	14,648
Student fees receivable	20,012	20,123	20,012	20,123
Student loans	6,682	4,474	6,682	4,474
Financial liabilities				
Interest bearing loans and borrowings:				
- Fixed rate borrowings	18,001	261,378	18,001	261,378
Accounts payable and accrued liabilities	59,516	43,798	59,516	43,798
Student deposits	13,338	11,794	13,338	11,794

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.

Interest rate risk

The following table sets out the carrying amount, by maturity, of the University's financial instruments that are exposed to interest rate risk:

22 Financial risk management objectives and policies (Continued)

Year ended 31 December 2005

Fixed rate

	Within 1 year	1 -2 years	3 – 5 years	Later than 5 years	Total
Interest-bearing loans and borrowings	7,967	6,247	3,470	317	18,001

Floating rate

	Within 1 year	1 -2 years	3 – 5 years	Later than 5 years	Total
Cash Assets	329,466	-	-	-	329,466
Interest bearing investments - available-for-sale	447,862	-	-	-	447,862
- held-to-maturity	4,643	1,159	-	-	5,802
Loans to employees	7,046	960	-	-	8,006
Student fees receivable	20,012	-	-	-	20,012
Student loans	-	625	950	5,107	6,682

Year ended 31 December 2004

Fixed rate

	Within 1 year	1 -2 years	3 – 5 years	Later than 5 years	Total
Interest-bearing loans and borrowings	243,377	11,955	5,493	976	261,801

Floating rate

	Within 1 year	1 -2 years	3 – 5 years	Later than 5 years	Total
Cash Assets	272,789	-	-	-	272,789
Interest bearing investments - available-for-sale	353,148	-	-	-	353,148
- held-to-maturity	232,231	4,643	1,159	-	238,033
Loans to employees	7,829	6,400	419	-	14,648
Student fees receivable	20,123	-	-	-	20,123
Student loans	-	595	680	3,199	4,474

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year.
Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument.
The other financial instruments of the University that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.
Hedging activities
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.

22 Financial risk management objectives and policies (Continued)

At the year ended 31 December 2005 no forward contracts or derivatives existed.

At the end of December 2004, the University held 3 futures contracts in the ALSI 40 Index, maturing in March 2005, with an effective maximum exposure of R0.3 million.

23 Contingent liabilities

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

24 Commitments

	2005 R'000	2004 R'000

Capital Commitments

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

	2005 R'000	2004 R'000
Approved but not contracted for	128,568	59,782
Contracted	2,950	21,028
	131,518	80,810

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

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
Jammie Shuttle	5,240	15,720	-
Photo copying machines	1,692	7,698	-

25 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.

Of the total cost of employment for key management listed below R0,167 million relates to a taxable fringe benefit and R2,973 million 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 Remuneration of key management (Continued)

		Gross Remuneration R'000	
Name	Job Title	For Primary employment	For other services
Prof N S Ndebele	Vice-Chancellor	1,291	
Prof T Nhlapo	Deputy Vice-Chancellor	798	
Prof C M de la Rey	Deputy Vice-Chancellor	798	
Prof M J Hall	Deputy Vice-Chancellor	798	
Prof M E West	Deputy Vice-Chancellor	840	
Mr H T Amoore	Registrar	714	
Prof D Pitt	Dean: Commerce	687	
Prof F Horwitz	Director: Graduate School of Business	687	22
Prof C T O'Connor	Dean: Engineering and the Built Environment	701	46
Prof A M Perez	Dean: Health Sciences (Acting)	676	
Prof P Ensor	Dean: Humanities	672	
Prof H Corder	Dean: Law	667	12
Prof B D Reddy	Dean: Science	695	
Ms M B M Khan	Executive Director: Student Affairs (Appointed 1 March 2005)	690*	
Ms G Kruger	Executive Director Communication and Development	735	
Prof E O Uliana	Executive Director Finance and Prof. of Accounting	866	67
Mr D Van Eeden	Executive Director Human Resources	913	17
Mr P N Naicker	Executive Director Information and Communication Technology	735	
Ms J S Favish	Director Institutional Planning	535	
Ms J Rapp	Executive Director University Libraries	735	
Mr J Critien	Executive Director Properties and Services	640	
Assoc. Prof N Yeld	Dean Centre for Higher Education Department	634	

* Annualised

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
Settlement	GN Padayachee	Dean: Health Sciences	545

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.

Reimbursements for travel to meetings of Council amounting to R 16,170 (2004: R22,098) were paid on behalf of one member of Council.

26 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 R98.4 million (2004: R85.5 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.

27 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 lease has 19 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 118 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 85 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.

Again, management consider that the value of improvements made to this land and future income receivable discounted over 184 years would at this point in time be immaterial.

28 References to the University

In the context of these financial statements all references to the University of Cape Town refer specifically to the University itself, while all other references include the group comprising the University and its entities, the accounts of which are consolidated (Refer to the accounting policies).

29 Related party disclosures

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

- Subsidiary entities (refer Note 3 – Basis of Consolidation);
- Associate companies (refer Note 8);
- Key management personnel, which comprises members of both Council and the University executive management team (refer Note 25); and
- National Government (refer Note 17).

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

29 Related party disclosures (Continued)

amounting to R1.3 million (2004: R1.3 million) and audit services in 2004 to the Graduate School of Business (Proprietary) Limited amounting to R160,000.

30 Post balance sheet event

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

31 Reconciliation of the Impact of Adopting IFRS

The tables below set out a reconciliation of the balance sheet as previously reported under South African Statements of Generally Accepted Accounting Practice and the restated balances after the adoption of IFRS at both the transition date, 1 January 2004, and the end of the comparative period, 31 December 2004.

31 Reconciliation of the Impact of Adopting IFRS (Continued)

At 1 January 2004 (date of transition to IFRS)

	Notes	Previously Reported SA GAAP	Effect of Transition to IFRS	IFRS
ASSETS				
Non-Current Assets		1,522,293	131,092	1,653,385
Property, plant and equipment	**(i)**	476,709	131,092	607,801
Investments		1,030,145	-	1,030,145
Investments in associates		1,211	-	1,211
Non-current receivables		14,228	-	14,228
Current Assets		349,882	1,600	351,482
Inventories		1,087	-	1,087
Accounts receivable and prepayments	**(ii)**	65,327	1,600	66,927
Loans to employees		5,208	-	5,208
Student fees receivable		21,559	-	21,559
Cash at bank and cash equivalents		256,701	-	256,701
TOTAL ASSETS		1,872,175	132,692	2,004,867
ACCUMULATED FUNDS AND LIABILITIES				
Accumulated **Funds**		1,376,248	187,946	1,564,194
Non-distributable funds		653,212	-	653,212
Endowed funds		573,836	-	573,836
Revaluation reserve		79,376	-	79,376
Restricted funds designated for specific activities		394,722	58,102	452,824
Education and general		342,065	41,484	383,549
Student and staff accommodation		52,657	16,618	69,275
Unrestricted Council controlled funds		328,314	129,844	458,158
Non-Current Liabilities		418,302	(85,004)	333,298
Interest bearing borrowings		224,348	-	224,348
Provisions – Employee benefits	**(iii) (iv)(v)**	193,954	(85,004)	108,950
Current Liabilities		77,625	29,750	107,375
Accounts payable and accrued liabilities		41,237	-	41,237
Student deposits		11,201	-	11,201
Provisions – Employee benefits	**(v)**	8,150	29,750	37,900
Current portion of borrowings		17,037	-	17,037
TOTAL ACCUMULATED FUNDS AND LIABILITIES		1,872,175	132,692	2,004,867

31 Reconciliation of the Impact of Adopting IFRS (Continued)

At 31 December 2004

	Notes	Previously Reported SA GAAP	Effect of Transition to IFRS	IFRS
ASSETS				
Non-Current Assets		1,494,850	152,011	1,646,861
Property, plant and equipment	**(i)**	483,616	152,011	635,627
Investments		998,730	-	998,730
Investments in associates		1,211	-	1,211
Non-current receivables		11,293	-	11,293
Current Assets		645,120	1,600	646,720
Inventories		919	-	919
Accounts receivable and prepayments	**(ii)**	104,001	1,600	105,601
Loans to employees		7,829	-	7,829
Student fees receivable		20,123	-	20,123
Current portion of investments		239,459	-	239,459
Cash at bank and cash equivalents		272,789	-	272,789
TOTAL ASSETS		2,139,970	153,611	2,293,581
ACCUMULATED FUNDS AND LIABILITIES				
Accumulated Funds		1,611,516	204,872	1,816,388
Non-distributable funds		770,945	-	770,945
Endowed funds		616,941	-	616,941
Revaluation reserve		154,004	-	154,004
Restricted funds designated for specific activities		459,208	68,995	528,203
Education and general		405,317	51,246	456,563
Student and staff accommodation		53,891	17,749	71,640
Unrestricted Council controlled funds		381,363	135,877	517,240
Non-Current Liabilities		214,585	(77,611)	136,974
Interest bearing borrowings		18,424	-	18,424
Provisions – Employee benefits	**(iii) (iv)(v)**	196,161	(77,611)	118,550
Current Liabilities		313,869	26,350	340,219
Accounts payable and accrued liabilities		43,798	-	43,798
Student deposits		11,794	-	11,794
Provisions – Employee benefits	**(v)**	7,900	26,350	34,250
Provisions – Other		7,000	-	7,000
Current portion of borrowings		243,377	-	243,377
TOTAL ACCUMULATED FUNDS AND LIABILITIES		2,139,970	153,611	2,293,581

32 Reconciliation of the impact of adopting IFRS on the surplus for the year ended 31 December 2004

	Notes	Previously Reported SA GAAP	Effect of Transition to IFRS	IFRS
TOTAL INCOME		1,641,500	-	1,641,500
Recurrent Revenue		1,605,857	-	1,605,857
State appropriations-subsidies and grants		600,232	-	600,232
Tuition and other fee income	**(vi)**	433,868	(4,000)	429,868
Income from contracts	**(vi)**	173,887	(2,500)	171,387
Rendering of services	**(vi)**	179,243	(1,000)	178,243
Donations and gifts		112,223	-	112,223
Sub Total		1,499,453	(7,500)	1,491,953
Interest and dividends	**(vi)**	106,404	7,500	113,904
Non-Recurrent Income		35,643	-	35,643
(Loss) on disposal of property, plant & equipment		(497)	-	(497)
Profit on sale of investments		36,140	-	36,140
TOTAL EXPENDITURE		1,485,525	(16,926)	1,468,599
Recurrent Expenditure		1,485,525	(16,926)	1,468,599
Personnel	**(vii)**	740,188	3,992	744,180
Other operating expenses		533,771	2	533,773
Bursaries and financial aid		96,248	-	96,248
Minor capital items expensed		30,531	(3)	30,528
Depreciation	**(i)**	42,513	(20,917)	21,596
Sub-Total		1,443,251	(16,926)	1,426,325
Finance costs		42,274	-	42,274
NET SURPLUS		155,975	16,926	172,901

32 Reconciliation of the impact of adopting IFRS on the surplus for the year ended 31 December 2004 (Continued)

Notes to IFRS reconciliation tables

(i) The University has re-assessed the useful lives of all classes of property, plant and equipment. The resulting adjustments reduced the accumulated depreciation balance as at the transition date by R131.1 million. In addition, the depreciation charge for 2004 was reduced by R20.9 million.

(ii) Impairment adjustment of R1.6 million made in order to reflect amounts receivable by the University in terms of the new impairment methodology required by IAS39.

(iii) The University has elected to use the exemption relating to employee benefits as available under IFRS 1 and has therefore recognised all the cumulative actuarial gains of R50.2 million as at the date of transition to IFRS. The University still applies the corridor approach for recognising later actuarial gains and losses, however, there were no unrecognised gains to recognise in 2004 as a result of the above. Under previous GAAP actuarial gains of R8.1 million were recognised in 2004.

(iv) The University's long term liability in respect of the leave provision for academic staff is required to be fair valued in terms of IFRS to reflect the period over which the liability is expected to be settled. This has resulted in a reduction of the leave liability of R9.2 million and R9.2 million as at the date of transition and 31 December 2004 respectively.

(v) The total leave provision in respect of administrative and support staff has been reclassified as a current liability in terms of IAS1 as the University does not have an unconditional right to defer settlement of the liability for at least twelve months after year end. The impact of this change has been to reclassify R29.8 million of the provision as current which was previously reflected as a long term liability as at the date of transition and R26.4 million as at 31 December 2004.

(vi) The University has assessed and adjusted for the embedded economic interest in revenue earned during the year in terms of IAS 18. This has resulted in the revenue previously reported for 2004 in respect of tuition fees, income from contracts and rendering of services being reduced by R4.0 million, R2.5 million and R1.0 million respectively and interest income being increased by R7.5 million. This adjustment has no overall income statement impact.

(vii) The adjustment to personnel costs reflects a combination of the impact on the income statement of the adjustment for the IFRS treatment of the provisions for both retirement medical aid benefits and academic sabbatical leave (refer iii & iv above).

33 Consolidated income statement for the year ended 31 December 2004 - restated in terms of IFRS for comparative purposes

(All amounts in R'000)

	Note	Education and General				
		Council Controlled Unrestricted	Specifically Funded Activities Restricted	**Sub Total**	Student and Staff Housing Restricted	2004 **TOTAL**
TOTAL INCOME		1,023,822	507,154	1,530,976	110,524	1,641,500
Recurrent Revenue		1,023,618	471,663	1,495,281	110,576	1,605,857
State appropriations-subsidies and grants	17	495,998	104,234	600,232	-	600,232
Tuition and other fee income		330,090	-	330,090	99,778	429,868
Income from contracts		51	171,336	171,387	-	171,387
Rendering of services		102,137	65,406	167,543	10,700	178,243
Donations and gifts		26,351	85,872	112,223	-	112,223
Sub Total		954,627	426,848	1,381,475	110,478	1,491,953
Interest and dividends	18	68,991	44,815	113,806	98	113,904
Non-Recurrent Income		204	35,491	35,695	(52)	35,643
(Loss) on disposal of property, plant & equipment		(149)	(296)	(445)	(52)	(497)
Profit on sale of investments		353	35,787	36,140	-	36,140
TOTAL EXPENDITURE		976,280	384,882	1,361,162	107,437	1,468,599
Recurrent Expenditure		976,280	384,882	1,361,162	107,437	1,468,599
Personnel	19	574,304	154,525	728,829	15,351	744,180
Other operating expenses	20	290,861	154,170	445,031	88,742	533,773
Bursaries and financial aid		40,466	55,782	96,248	-	96,248
Minor capital items expensed		17,410	11,014	28,424	2,104	30,528
Depreciation	6	12,265	8,425	20,690	906	21,596
Sub-Total		935,306	383,916	1,319,222	107,103	1,426,325
Finance costs	21	40,974	966	41,940	334	42,274
NET SURPLUS		47,542	122,272	169,814	3,087	172,901