5.7

The *XYZ* Higher Education Institution

Consolidated Cash Flow Statement for the year ended 31 December 20nn

	NOTES	20nn	20nn-1
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Retained from /(utilised by) Operations	18	21 931	(10 779)
Investment Income less Cost of Finance			
Finance Income		85 549	84 122
Finance Costs		(15 493)	(11 511)
NET INFLOW FROM OPERATING ACTIVITIES		91 987	61 832
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Property, Plant and Equipment		(82 521)	(60 472)
Purchase of Non-Current Investments		(315 701)	(562 185)
Disposals of Property, Plant and Equipment		3 870	21 200
Disposals of Non-Current Investments		323 002	479 684
(Increase)/Decrease in Student Loans		(2 897)	1 559
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(74 247)	(120 214)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net Amount capitalised to/(expended from) from Reserves		20 483	95 735
Increase/(Decrease) in Interest Bearing Borrowings		6 208	(5 540)
NET CASH INFLOW FROM FINANCING ACTIVITIES		26 691	90 195
INCREASE IN CASH AND CASH EQUIVALENTS		24 533	31 813
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		31 260	(552)
CASH AND CASH EQUIVALENTS AT END OF YEAR		55 793	31 261

NB: Expenditures on renewal of property, plant and equipment should be deducted from cash generated by operations

5.8 Notes of explanation and elaboration to the Financial Statements

The numbered notes that follow relate directly to the content of the financial statements above and are numbered accordingly. In addition examples of notes that do not apply to the above statements but could apply in certain circumstances, are included in *italics* and are all 'numbered' XX. The wording and format of the notes are partly based on a document produced jointly by PriceWaterhouseCoopers and the Committee of Technikon Principals.

Reference to the appropriate South African Statements of Generally Accepted Accounting Practice is essential for the preparers of financial statements.

(In the notes all amounts are shown in Rands thousands (R'000s) unless otherwise stated)

AC 123 1 **Property, plant and equipment**

	Land & buildings	Furniture & equipment	Computer equipment	Vehicles	Library-, Museum- and Art collections	Total
Year ended 31 December 20nn						
Opening net book amount	215 725	47 159	18 725	4 855	-	286 464
Additions	14 975	19 165	10 934	2 854	16 774	64 702
Disposals	(159)	(2 523)	(928)	(260)	-	(3 870)
AC 128 Depreciation charge	(23 064)	(18 591)	(7 382)	(1 914)	(16 774)	(67 725)
Closing net book amount	207 477	45 210	21 349	5 535	-	279 571
At 31 December 20nn						
Cost or valuation	363 790	94 347	40 860	10 593	127 147	636 737
Accumulated depreciation	(156 313)	(49 137)	(19 511)	(5 058)	(127 147)	(357 166)
Net book amount	207 477	45 210	21 349	5 535	-	279 571

The depreciation charge includes amounts of 'additional depreciation' provided in respect of deferred maintenance resulting in the 'impairment' in the use of a respective asset.

[Institutions are exempted from providing a statement of comparatives of movements on PPE as required by AC128.]

XX Included in the depreciation charge for furniture and equipment as an amount of R1 075 for research equipment that is no longer needed. The recoverable amount (that is, the carrying amount after deducting the impairment charge) represents the net selling price, determined by reference to market prices for equivalent assets.

AC 128 Additions include R850 (20nn-1 - R500) for vehicles leased under finance leases and disposals include R2,260 (20nn-1 - R1,435) vehicles sold under finance leases.

Leased assets included above comprise vehicles under financial leases:

	20nn	20nn-1
Cost - capitalised finance leases	10 996	8 074
Accumulated depreciation	(2 150)	(2 926)
Net book amount	8 846	5 148

Bank borrowings are secured on properties to the value of R (Note XX).

AC 100
AC 129
XX Intangible assets

(Intangible assets would not be a standard part of the financial statements of an HEI, but are shown for illustrative purposes as the possibility exists that some HEIs may start with R&D activities.)

		Goodwill costs	Deferred development	Other intangible assets	Total
	Year ended 31 December 20nn				
	Opening net book amount				
	Additions				
	Transferred to patents				
AC 128	*Impairment charge (Note XX)*				
	Amortisation charge (Note XX)				
	Closing net book amount				
	At 31 December 20nn				
	Cost				
	Accumulated amortisation				
	Net book amount				

[Institutions are exempted from providing a statement of comparatives of movements on Intangible assets as required by AC128.]

AC123 does not strictly require the above reconciliation of movements on intangible assets for the comparative year.

The impairment charge in 20nn represents the full write-off of goodwill and deferred development costs as part of the restructuring of one of the faculties.

Deferred development costs principally comprise internally generated expenditure on R&D development costs on major projects where it is reasonably anticipated that the costs will be recovered through future commercial activity. Other intangible assets comprise acquired patents and trademarks.

AC 110 **XX *Investments in associated companies***

Information required to be disclosed about investments in associated companies is set out in AC110.27. Investments in associated companies may not be common for HEIs but would be included for instances where an HEI does have shares in a company in which it exercises significant influence. This influence might have been obtained through a share endowment to the HEI.

AC 125 **2 Non-current investments**

	20nn	20nn-1
Opening net book amount	724 323	641 822
Additions	312 701	562 185
(Disposals)	(323 002)	(479 684)
Closing net book amount	714 022	724 323
Market Value	784 810	789 719

Investments comprise marketable securities that are revalued annually at the close of business on 31 December by reference to Stock Exchange quoted prices. The market value approximates the fair value. Revaluation surpluses and deficits are taken to revaluation and other reserves.

AC 101 **3 Non-current receivables**

		20nn	20nn-1
AC 133	**Student loans**	12 528	9 631
	Refundable contributions made to NSFAS		
	Loans to employees		

The current receivables relating to the above items are shown in Note XX. All non-current receivables are due within 5 years from the balance sheet date. The weighted average interest rates on receivables (current and non-current) were as follows:

Student loans	7.1%	6.8%
Refundable contributions made to NSFAS	*6.0%*	*5.5%*
Loans to employees	*8.7%*	*8.5%*

All loans advanced to employees during the year are unsecured

AC 108 **4 Inventories**

	20nn	20nn-1
Stationery, technical inventories, study material, cleaning material, etc.	6 393	5 324

Stationery
Technical inventories
Cleaning material
Study materials
Food

AC 101 **5 Receivables and prepayments**

	20nn	20nn-1
Student debtors	26 930	28 488
State subsidies and grants	23 222	5 325
Prepayments	14 209	15269
Loans to employees	12 464	16 673
Car scheme loans	2 485	4 635
Other receivables	115 385	85 092
Provision for irrecoverable debt	(21 499)	(21803)
	173 196	133 589

AC 125 ***XX Marketable securities***

	20nn	*20nn-1*
Opening net book amount		
Exchange differences		
Additions		
Decrease in market value		
Closing net book amount		

The HEI has a trading portfolio of marketable securities which are valued at a market value of R415,876 at the close of business on 31 December nn by reference to Stock Exchange quoted prices.

Realised gains/losses and increases/decreases in market value are included in the line 'Finance cost' in the income statement (see Notes XX and XX).

In the Cash flow statement proceeds from disposal of marketable securities comprise:

	20nn	*20nn-1*
Net book amount		
Gain on sale (Note XX)		

AC 118 **6 Cash and cash equivalents**

	20nn	20nn-1
Cash at bank and in hand	55 793	33 202
Bank overdrafts		(19420)
	55 793	31 260

XX *The weighted average effective interest rate on short-term bank deposits was 14.9% (nn-1: 15.6%).*

7 Interest-bearing borrowings

	20nn	20nn-1
Long term borrowings	74 395	81 965
Secured loan	14 432	-
	88 827	81 965
Current portion transferred to current liabilities	654	-
Total amount outstanding	88 173	81 965

The long-term borrowing reflects the balance owing on loans raised to finance the acquisition of property, plant and equipment. The loans are fully secured by guarantees issued by the State. The annual costs of interest and redemption, together with the state subsidy on these payments, are disclosed in the Income Statement.
The secured loan bears interest at 16,03% and is repayable in equal instalments of R239 451 over a period of ten years. The borrowing is secured by land and buildings with a book value of R15 508 138.

AC 118

XX For the purposes of the cash flow statement, the year-end cash and cash equivalents comprise the following:

	20nn	*20nn-1*
Cash and bank balances		
Bank overdrafts (Note XX)		

XX Interest bearing borrowings

Current		
Bank overdraft		
Bank borrowings		
Debentures		
Lease liabilities		
Non-current		
Bank borrowings		
Debentures and other loans		
Lease liabilities		
Total borrowings		

Interest-bearing borrowings include secured liabilities (leases and bank borrowings) in a total amount of R12,366 (20nn-1 - R15,196). The bank borrowings are secured over certain of the land and buildings. Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

After taking account of interest rate swaps, the interest rate exposure of the borrowing of the HEI was as follows:

	20nn	*20nn-1*
Total borrowings:		
- at fixed rates		
- at floating- rates		
Weighted average effective interest rates:		
- bank overdrafts	*17.6%*	*17.3%*
- bank borrowings	*17.0%*	*16.8%*
- debenture and other borrowings	*17.2%*	*17.0%*
- lease liabilities	*17.4%*	*17.0%*

The carrying amounts and fair values of certain interest-bearing borrowing are as follows:

	Carrying amounts		*Fair values*	
	20nn	*20nn-1*	*20nn*	*20nn-1*
Interest-bearing bank borrowings				
Debentures and other loans				

The fair values are based on discounted cash flows using a discount rate based upon the borrowing rate that the council expects would be available to the HEI at the balance sheet date. The carrying amounts of short-term borrowings and lease obligations approximate their fair value.

Maturity of interest-bearing borrowings (excluding finance lease liabilities):

	20nn	*20nn-1*
Between 1 and 2 years		
Between 2 and 5 years		
Over 5 years		

Finance lease liabilities - minimum lease payments:

Not later than 1 year		
Later than 1 year and not later than 5 years		
Later than 5 years		
Future finance charges on finance leases		
Present value of finance lease liabilities		

Representing lease liabilities:
- current
- non current

The present value of finance lease liabilities may be analysed as follows:

Not later than 1 year
Later than 1 year and not later than 5 years
Later than 5 years

Where these exist, disclosure must be made of the basis for determining contingent rent payments, renewal or purchase options and escalation clauses, and financing restrictions arising from leases.

AC 101 **8 Trade and other payables**

	20nn	**20nn-1**
Trade amounts payable	169 836	117 807
Student deposits	1 867	1 760
	171 703	119 567

AC116 *XX* ***Pension and other post retirement obligations***

Amounts recognised in the balance sheet:

	20nn	***20nn-1***
Pension scheme	*3,138*	*1,438*
Other post retirement benefits	*1,402*	*692*
	4,540	*2,130*

Pension scheme

The HEI has established a pension scheme covering substantially all employees. The pension scheme is a final salary defined benefit plan and is funded. The assets of the funded plan are held independently of the HEI's assets in a separate trustee administered fund. The scheme is valued by independent actuaries every three years. The latest actuarial valuations were carried out as at 31 December 20nn-2.

XX ***The amounts recognised in the balance sheet are the following:***

	20nn	***20nn-1***
Present value of funded obligations		
Fair value of plan assets		
Present value of unfunded obligations		
Unrecognised actuarial gains / (losses)		
Unrecognised prior service cost		
Liability in the balance sheet		

The amounts recognised in the income statement are the following:

	20nn	***20nn-1***
Current service cost		
Interest cost		
Expected return on plan assets		
Net actuarial losses recognised in year		
Past service cost		
Losses on curtailment		
Total included in staff costs (Note XX)		

The actual return on plan assets was Rxxx xxx (20nn-1 – Rxxx xxx).
Movement in the liability recognised in the balance sheet:
At beginning of year

Exchange differences
Total expense as above
Contributions paid
At end of year

The principal actuarial assumptions used for accounting purposes were:

Discount rate	*7.0%*	*6.8%*
Expected return on plan assets	*8.5%*	*8.3%*
Future salary increases	*5.0%*	*4.5%*
Future pension increases	*3.0%*	*2.5%*

Post employment medical benefits

The HEI operates a number of post-employment medical benefit schemes. The method of accounting and the frequency of valuations are similar to those used for the defined benefit pension schemes.

XX *In addition to the assumptions used for pension schemes, the main actuarial assumption is a long-term increase in health costs of 12% per year (20nn-1 - 8%).*

The amounts recognised in the balance sheet are the following:

	20nn	*20nn-1*
Present value of funded obligations		
Fair value of plan assets		
Present value of unfunded obligations		
Unrecognised actuarial losses		
Liability in the balance sheet		

The amounts recognised in the income statement are as follows:

	20nn	*20nn-1*
Current service cost		
Interest cost		
Expected return on plan assets		
Net actuarial losses recognised in year		
Total included in staff costs (Note XX)		

The actual return on plan assets was R51 (20nn-1 - R24).

Movement in the liability recognised in the balance sheet:

At beginning of year
Exchange differences
Total expense as above
Contributions paid
At end of year

XX ***Provisions for liabilities and charges***

	Warranty	*Restructuring*	*Other*	*Total*
At 31 December 20nn-1				
Exchange differences				
Additional provisions				
Unused amounts reversed				
Charged to income statement				
Utilised during year				
At 31 December 20nn				

9 **Finance income**	**20nn**	**20nn-1**
Income from investments	55 626	83 676
Interest received – call accounts	12	446
	55 638	84 122

10 **Non-recurrent income**	**20nn**	**20nn-1**
Proceeds of sale of Laboratory and computer equipment, furniture and vehicles previously expensed	7 700	-

11 Staff costs

	20nn	20nn-1
Academic professional	321 293	323 239
Other personnel	117 095	87 603
Pension costs	37 568	32 099
Other post-retirement costs	4 194	2 978
	480 150	445 919

XX Staff costs

	Academic Professional	Other	Totals 20nn	20nn-1
Wages and salaries				
AC 116 *Termination benefits*				
AC 116 *Pension costs - defined benefit plans (Note XX)*				
AC 116 *Other post retirement benefits (Note XX)*				

Average weekly number of persons employed by the HEI during the year:

Full time
Part time

12 Other operating expenses

The following items have been charged in arriving at operating profit:	**20nn**	**20nn-1**
Supplies and services	228 550	376 347
Cost of services outsourced	16 717	15 338
Fixed property cost – rental	37 568	32 099
Maintenance of PPE (incl. "additional depreciation")	15 267	9 248
Bursaries	32 792	30 087
	330 894	463 119

13 Finance costs	**20nn**	**20nn-1**
AC 112 Net foreign exchange transaction gains/(losses)		
Interest expense		
Long-term borrowings		
- bank borrowings	15 493	11 491
- finance leases		21
	15 493	11 512

AC 133 *XX* ***Financial instruments***

i) Objectives and significant terms and conditions

In order to manage the risks arising from fluctuations in currency exchange rates and interest rates, the HEI makes use of the following derivative financial instruments:

Interest rate swaps

The HEI has entered into interest rate swap contracts that entitle it to receive interest at floating rates on notional principal amounts and oblige it to pay interest at fixed rates on the same amounts. The interest rate swaps allow the HEI to raise long term borrowings at floating rates and swap them into fixed rates that are lower than those available if it borrowed at fixed rates directly. Under the interest rate swaps, the HEI agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed rate and floating rate interest amounts calculated by reference to the agreed notional principal amounts. At 31 December 20nn the fixed interest rates vary from 6.9% to 7.4% (20nn-1 6.7% to 7.2%) and the floating rates are linked to the repo rate.

The remaining terms and notional principal amounts of the outstanding interest rate swap contracts at 31 December were:

	20nn	***20nn-1***
Less than one year		
One to five years		
Five to ten years		

Forward foreign exchange contracts

Forward foreign exchange contracts are entered into to manage exposure to fluctuations in foreign currency exchange rates on specific transactions. In general the HEIs policy is to enter into forward foreign exchange contracts for up to 75% of net foreign currency receipts anticipated in each month over the following two years.

At 31 December 20nn and 20nn-1 the settlement dates on open forward contracts ranged between 3 months and 1 year. The local currency amounts to be received and contractual exchange rates of the HEIs outstanding contracts were:

	20nn	***20nn-1***
Deutschmarks [at rates averaging 1 R= DM 2.835 (20nn-1 -, 1 R= DM 2.795)]		
US dollars [at rates averaging 1 R= USD 1.635 (nn-1 - 1 R= USD 1.614)]		

The net unrecognised gains at 31 December 20nn on open contracts which hedge anticipated future foreign currency sales amounted to R12 (20nn-1, - R3). These gains will be recognised in the income statement when these open contracts mature at various dates between 6 months to 1 year from the balance sheet date.

Net fair values

The net fair values of the HEIs derivative financial instruments at the balance sheet date were:

	20nn	***20nn-1***
Favourable interest rate swap contracts		
Favourable forward foreign exchange contracts		
Unfavourable interest rate swap contracts		
Unfavourable forward foreign exchange contracts		

The fair values of interest rate swaps and forward foreign exchange contracts have been calculated (using rates quoted by the HEIs bankers) to terminate the contracts at the balance sheet date.

ii) Credit risk

The HEI has no significant concentrations of credit risk. Derivative instruments are entered into, and cash is placed with substantial financial institutions. The credit exposures of derivatives are represented by the net fair values of the contracts, as disclosed above.

iii) Fair values

The carrying amounts of the following financial assets and financial liabilities approximate to their fair value: cash, investments, trade receivables and payables, other receivables and payables, finance lease receivables and obligations, short term borrowings and floating rate long-term borrowings. Information on the fair values of borrowings, interest rate swaps and foreign currency forward exchange contracts is included in Note 10 and in Section (i) of this note.

14 Changes in Funds

The Changes in Funds Statement contains direct additions to and subtractions from individual funds that are not reflected in the Income Statement or are apparent elsewhere in the Annual Financial Statements:

Capital gains of disposal of investments	R 8 331 million
Transfers – credit **[detail should be provided]**	R 44 748 million
Funds utilised or written off **[detail should be provided]**	R 16 969 million
Transfers – debit **[detail should be provided]**	R 321 185 million

15 The following disclosures relate to compensation paid to Executive staff. Remuneration is based on the cost of employment to the institution comprising flexible remuneration packages.

Annualised gross remuneration
Format of disclosure

NAME	OFFICE HELD	AGGREGATE AMOUNT R,000s
AA	Vice-Chancellor	1 265
AB	Vice-Principal	884
AC	Deputy Vice-Chancellor Research	721
AD	Executive Director – Finance	720
AE	Deputy Vice-Chancellor Academic	658
AF	Deputy Vice-Chancellor Personnel	658
AG	Registrar	542
AH	Deputy Vice-Chancellor Student affairs	537
AI	Executive Dean - Business School	488
AJ	Executive Dean - Health Sciences	480
AK	Executive Dean – Science	478
AL	Executive Dean – Engineering & Built Environment	478
AM	Executive Dean – Commerce and Business Studies	475
AN	Executive Dean – Humanities	475

Exceptional payment amounts – each exceeding in annual aggregate R249 999
Format of disclosure

	NAME	TO WHOM PAID	AMOUNT R's
Commutation of leave	AN	Executive – Dean Humanities	277 500
	AM	Exec. Dean – Commerce	276 650
Pension top-up	BZ	Retired Dean Humanities	285 000

Payments for attendance at meetings of the Council and its Committees

Format of disclosure

TO WHOM PAID	NUMBER OF MEMBERS	ATTENDANCE AT MEETINGS AGGREGATE AMOUNT PAID – R'000s	REIMBURSEMENT OF EXPENSES AGGREGATE AMOUNT PAID – R'000s
Chair of Council	1	15	7
Chairs of committees	4	30	9
Members of Council	28	85	27
Members of committees	20	36	18

AC130 **16 Contingencies**

Contingent liabilities

Bank and similar guarantees
At 31 December 20nn the HEI had contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business from which it is anticipated that no material liabilities will arise. In the ordinary course of business the HEI has given guarantees amounting to R18,624 (20nn-1 - R19,629) to third parties in respect of housing loans supplied to employees.

17 **Commitments**

Capital commitments

Capital expenditure contracted for at the balance sheet date but not recognised in the financial statements is the following:

	20nn	20nn-1
Property, plant and equipment	4,053	4,141

AC105 *XX Operating lease commitments*

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

	20nn	*20nn-1*
Not later than 1 year		
Later than 1 year and not later than 5 years		
Later than 5 years		

AC 118 18 **Cash generated from operations**

Reconciliation of profit before tax and extraordinary items to cash generated from operations:

	20nn	20nn-1
Surplus before appropriations and transfers	13 795	47 717
Adjustments for:		
Depreciation (Note 1)	57 725	51 231
Additional depreciation (Impairment resulting from deferred maintenance) (Note 1)	10 000	1 000
Net amount capitalised to (expended from) reserves	20 483	(95 735)
Finance income	(85 549)	(84 122)
Finance costs	15 493	11 511
Changes in working capital:		
-receivables and prepayments	(39 607)	10 066
-inventories	(1 257)	1 778
-trade and other payables	30 848	2 271
Cash retained/(utilised by) operations	21 931	31 813

AC 126 19 **Related party transactions**

During the year there were transactions with entities controlled by members of Council and with joint ventures in which the University was a party. All these transactions were conducted at "arms length" and comprised purchases of goods and services totalling R326 848 and sales of goods and services totalling R179 286.

AC 107 20 **Post balance sheet event**

In March 20nn the HEI reached an agreement with the College of Nursing to merge at the earliest practicable date. The College of Nursing has total income of some R11 million, 1 600 full-time and 1 900 part time students and nearly 300 staff. The College trains nurses for the whole of Goliath Regional Health Authority and some nurses for a number of adjoining Health Authorities.

AC 136 21 **Post employment benefit plans**

A number of pension/retirement schemes exist covering permanent and part-time employees. These are all established in terms of existing legislation and are all defined contribution schemes. Actuarial valuations are performed every three years and all funds are fully funded based on most recent valuations. The assets of each fund are held separately under the control of the duly appointed trustees of the funds. The cost charged to income represents contributions payable by the employer at rates specified in the rules of each fund.

CHAPTER 6

SUPPLEMENTARY AUDITED FINANCIAL DATA AND "PERFORMANCE/STATUS" INDICATORS TO BE SUBMITTED IN ELECTRONIC FORMAT ON COMPUTER DISKS

EXCEL spreadsheets that must be completed and certified by an institution's auditors for submission to the Department of Education at the same time as the audited financial statements.
A printed copy of the spreadsheets, initialled by the auditors, must accompany the audit report.

6.1 Example of an independent auditor's report on these data

To the (name of institution) on factual findings.

Scope

We performed the procedures agreed with you as described below with respect to the schedules on computer disk and set forth in the accompanying schedules - "Supplementary financial data and performance/status indicators from Universities and Technikons" in respect of the year ended *dd/mm/yyyy*, which we have initialled for identification purposes. Our engagement was undertaken in accordance with the statements of South African Auditing Standards applicable to agreed-upon procedures agreements. The responsibility for determining the adequacy or otherwise of the procedures agreed to be performed is that of the Council. Our procedures were performed solely to assist you in evaluating the accuracy of the above mentioned schedules and are summarised as follows;

- We performed such checks as to satisfy ourselves that the calculations are mathematically correct
- The information used in the calculations and included on the schedule of "financial data" agree to the financial records of the *HEI.*

Because the above procedures do not constitute either an audit or a review made in accordance with statements of South African Auditing Standards, we do not express any assurance on the Schedule "Performance/status indicators from Universities and Technikons" for the year ended *dd/mm/yyyy*.

No audit procedures have been performed by us on the projected figures for yyyy and yyyy according to the attached schedules and thus we express no opinion thereon.

Had we performed additional procedures or had we performed an audit or review of the financial data included in accordance with South African Auditing Standards, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set out in the first paragraph of this report and for your information and is not to be used for any other purpose, nor to be distributed to any other parties. This report relates only to the items specified above and does not extend to any financial statements of the *HEI* taken as a whole.

XYZ & Co., Public Accountants and Auditors
Date
Address

6.2 The content of the Excel spreadsheets follows: -

CHAPTER 7

EXPLANATORY COMMENTS ON ANNUAL FINANCIAL STATEMENTS OF HIGHER EDUCATION INSTITUTIONS

7.1 Introduction

To assist users in understanding and using the data contained in the annual financial statements required in the Annual Report by the Higher Education Act, the following definitions and descriptions of the basic concepts and data elements used are provided.

7.2 Scope

The financial statements of Higher Education Institutions (HEIs) must include as "consolidated entities" all entities, whether legal entities or not, and including incorporated limited companies, close corporations and trusts, over which the institution exercises legal control by way of appointment of the majority of the governing body/trustees or other means of control of the activities of such an entity, or by authorising the entity to issue Income Tax certification on its behalf for deduction by the donor of funds donated to it for the benefit of the institution. (See "Identifying Control, Joint Control and Significant Influence Relationships" a paper by Prof A Watson reproduced in the Appendix B).

7.3 Balance Sheet

7.3.1 Funds – available/utilised

The various sources of funding received or accumulated by the institution over time and represented by its net assets at the date of its financial statements comprise its net disclosed financial position. For universities/technikons this comprises a variety of different groupings.

For higher education institutions this component is separated into two major categories –**AVAILABLE FUNDS (RESTRICTED USE** and **UNRESTRICTED USE) AND UTILISED FUNDS.** Within each category there are groupings that identify accurately the nature of the items comprising each individual group. (See Appendix A)

7.3.1.1 Funds utilised or available only for the acquisition of fixed assets: PPE (fixed asset) funds

These comprise the aggregate of expenditure funded separately for fixed properties (land, buildings, land improvements other than buildings, e.g. roads), movable property (equipment, library collections, museum and art collections, livestock) and construction of immovable and movable assets in progress. In addition are included, moneys received or appropriated specifically for use to finance new constructions or acquisitions of Property, Plant and Equipment (PPE), servicing of debt acquired for the financing of PPE as well as for the renewal or replacement of PPE. Any appropriations that are the result of designations made by the Council and which can be reversed must be included among "unrestricted funds".

7.3.1 Restricted use funds

7.3.1.2.1 Residences' funds

Institutional residences are separate funding entities and, primarily because of the diversity between institutions of the extent of the use of such facilities, need to be separately identified both in the income statement and the balance sheet. In the latter any such accumulated fund or funds are grouped as "restricted".

7.3.1.2.2 Other funds – restricted use

These comprise income received by an institution the use of which is legally beyond the control of its Council. These will comprise, for example, state appropriations, contracts, grants, donations or other income that, in terms of a legal requirement must be used only for the specified purposes. In terms of the separate reporting structure of the income statement, such donations will be reported accordingly under the heading "Specifically funded activities". The terns of use of such funds will normally be in writing and the detailed accounting records of the institution should identify each such amount and the extent to which it is unexpended. An institution in this situation acts as a "trustee" in respect of such funds. Where the use of any such fund will extend over more than one financial period, the expenditure of the fund in a financial period will be "matched" in the income statement with an equivalent transfer from the fund to income. The encumbered nature of any unspent amounts of these funds at the date of the financial year-end must be indicated in the statement of changes in funds. If a situation arises that the intention of the provider cannot be achieved, for whatever reason, the provider must be contacted and given the choice of the return of the balance of the funds or the opportunity to select an alternative use. Thus, until it is known what the decision of the provider will be, "contingent liability" should be included in the "Notes to the Accounts" expressing the extent of the amount involved.

In addition, there may be "Trust/Agency Funds" which are funds held by the institution on behalf of other entities or agencies for ultimate use on purposes within the scope of the activities of the institution.

Within the component of "FUNDS" appearing on the balance sheet the major component of this grouping will normally result from the acquisition of non-current assets (PPE), either from income specified for this purpose or from the use of money representing the actual use of what had been unrestricted use funds.

7.3.1.3 Endowment and similar funds – restricted or unrestricted

These are funds provided by donors or other agencies to be invested appropriately. The institution is entitled to use either: (i) the income generated by the assets representing the fund, (ii) a portion of the income, reinvesting the balance to maintain the "capital value of the fund", (iii) a combination of both the income generated plus a stipulated portion of the capital.

The utilisation of these funds may thus be either for general institutional purposes or for purposes specified by the donor. The distinction of availability for use between the two must be identified for income state0ment and balance sheet purposes. The Council, as a financial management strategy, may create an endowment fund from generally available reserves. In cases where such a fund is created from donor funds, with the condition that any income not required for re-investment is available for general institutional purposes, or the fund has been created from funds so "designated" by the Council, these funds must be treated as unrestricted.

Endowment funds must be separately identified on the balance sheet or on the statement of changes in funds and specified as unrestricted or restricted as the case may be.

7.3.1.4 Unrestricted use funds – general and designated

These comprise a fund or funds arising from income or surpluses (accumulated funds) that are available to the Council in its unfettered and absolute control for allocation to resource the activities of the institution. This fund or these funds are normally represented by current assets on a balance sheet. Portions of these funds may, however, be "designated" by the Council for identified purposes, e.g. "replacement of motor vehicles" or "provision of student loans". Until such time as such designated amounts are used for the identified purpose, they will be disclosed but separately identified as part of "unrestricted funds" on the statement of changes in funds. Once designated funds are utilised for their created purpose resulting in items to be expensed, the charge will appear in the income statement and the corresponding amount will be transferred from its designated fund to the general unrestricted fund. If the utilisation results in creation of an asset, e.g. student loans granted, the amount so utilised shall be transferred from its designated fund to an appropriately named and separately disclosed fund. Where a Council has designated funds for specific purposes, e.g. Bursaries and Scholarships, these can be separately identified on the "Changes in Funds Statement" as funds within "Sub-Total A" (Chapter 5.5). The balance sheet disclosure of "Unrestricted Funds" must, however, comply with the examples in Chapter 5.4,

The accumulated funds comprise the aggregate of the balances on the various funds in the accounts of the institution and its proportion of the funds of its consolidated and equity accounted entities that have no restrictions on use. These include any funds that the Management/Council may have decided to retain separately for designated purposes, such as general contingencies and other possible future liabilities or costs. The amounts of these funds appear on the balance sheet appropriately aggregated and identified with unrestricted funds. Included should be unspent budget allocations to organisational entities that may be carried forward to following financial periods.

7.3.2 Liabilities

The various components and disclosure of both non-current and current liabilities are comprehensively explained in the extract on the Examples of Notes to the Financial Statements (Chapter 5.8 - Notes 7 & 8). A formal opinion from the technical division of PWC supports the separation between Current Liabilities and Non-Current Liabilities of amounts set aside for employee and post-retirement benefits accrued. To the extent that such amounts can realistically be estimated as being expended/utilised during the following financial period, these must be included as Current Liabilities and the balance, usually the significantly greater portion, must then be included as Non-Current Liabilities.

7.3.3 Assets (including investments held)

Assets are separated into "Non-Current" and "Current". Whenever an enterprise supplies goods and services within a clearly identifiable operating cycle, separate classifications of current and non-current assets and liabilities on the face of the balance sheet provides useful information by distinguishing the assets that are continuously circulating as working capital [current assets] from those used in the enterprise's long-term operations. It also identifies assets that are expected to be realised within the current operating cycle, and liabilities that are due for settlement within the same period. An asset should be classified as a current asset when it:
(a) is expected to be realised in, or is held for sale or consumption in, the normal course of the enterprise's operating cycle, or
(b) is held primarily for trading purposes or for the short term, and expected to be realised within twelve months of the balance sheet date, or
(c) is cash or a cash equivalent asset that is not restricted in use (AC101)

7.3.3.1 Non-Current Assets

7.3.3.1.1 Property, plant and equipment (PPE) treatment of acquisition and disposal of property, plant and equipment and disclosure thereof:

The accounting entries arising from the acquisition and disposal of fixed assets (PPE) must be in accordance with the balance sheet disclosure of this asset category. The binding relationship between the source of funding of this asset group and the carrying value of the related assets on the balance sheet must be apparent. Therefore, the carrying value of PPE must equal the aggregate of the balance of the "Fixed Asset Fund" included in the aggregate funds of an institution, the balance of any debt raised to acquire such assets less the aggregate of depreciation provided.

7.3.3.1.2 Funding the acquisition/replacement of PPE

The previous practice of a university or technikon of relying on specific grants from the state for funds to replenish its complement of fixed assets is no longer applicable. Institutions must, therefore, through their financial management practices, ensure that funding from its normal operations is available to maintain the essential fixed asset base either by accumulation of the required cost or through being in a position to service debts raised to finance the acquisition of the required fixed assets.

7.3.3.1.3 Carrying values of PPE

The acquisition of an individual asset costing in total R5 000 or less need not be recorded in an asset register and should normally be expensed in the year of acquisition. An individual asset acquired at a total cost exceeding R5 000 must be recorded in the asset register and individual assets acquired for a total cost not exceeding R15 000 may be expensed in total in the year of acquisition. Any assets not so expensed must be subject to the standard depreciation at the appropriate rates.

Expenditure on library collections should be expensed in the year the expenditure is incurred. Existing amounts carried in PPE for library collections should be written off over a period not exceeding three years.

7.3.3.1.4 Depreciation

The carrying value must take cognisance of the "going concern" nature of the operation and thus amounts must be provided to reflect the life cycle and the need for replacement of items within a category of PPE The cost of utilisation of assets must be accounted for through the expense item of depreciation. Examples of depreciation rates appear in the illustrative notes above and the accepted SARS rates per annum, using the "straight line method", are:-

Fixed Property:	
- Land	0%
- Buildings	2%
Motor Vehicles	10% - 20%
Furniture and Equipment	10% - 20%
Computer equipment:	
Mainframe and Networks	16.67% - 25%
PCs and Other	20% - 33,3%
Library Books	100%
Collections in Museums and Art galleries	100%

The rates applied in individual cases will depend on circumstances and applied professional judgement. The actual rates utilised by an institution must reflect its assessment of the amount that best expresses the use made of that asset during the financial period.

Library collections currently in the accounts of institutions must be written down to zero over not longer than a three-year period.

7.3.3.1.5 Maintenance

In addition to normal amounts set aside for depreciation, it is essential for institutions to maintain all components of PPE in good useable order. These expenditures will include, in addition to those on buildings, such expenditures required for all campus infrastructure including roads and landscaping. In those circumstances where an institution is unable to maintain its assets in their useable condition, with the resultant consequence that the use of such assets is impaired, the effect of this must be recorded by means of an "additional depreciation" provision created from a charge to income. The amount of such depreciation will have to be calculated by reference to individual assets that have been reduced to the levels of impairment that affect the use thereof.

As the amount so provided reflects an "impairment of the assets" it should be deducted with the normal depreciation provisions from the carrying value of the assets on the balance sheet.

The amounts set aside in a particular year for "additional depreciation" will normally be disclosed in the Income Statement as a non-recurrent amount and referred to in the Notes to the Accounts. (Chapter 5.8 – Note 1)

The aggregate amount expended on maintenance of PPE, including "additional depreciation", must be disclosed in the annual financial statements (Chapter 5.8 - Note 12).

7.4 Statement of Changes in Funds

The balance sheet discloses the aggregates of balances on funds at a respective date. Movements within fund groupings during the financial period resulting from additions, depletions, transfers, etc., must be disclosed in the statement of changes in fund balances.

The separate disclosure of items making up total funds must reflect the legal and/or financial management decisions that distinguish the separate nature of those items and require them to be disclosed individually.

This statement comprises the separately identifiable funds groups and the elements of increases or decreases (including any transfers between them) that have taken place during the financial period. Details of transfers between funds and in or out of funds must, if not clearly indicated in the statement itself or in the income statement, be adequately disclosed in the notes to the financial statements.

Sub-totals are shown in the statement to provide aggregates that can be related to amounts appearing on the balance sheet within the grouping of "Funds". However, there will be circumstances where it will not be practical to denote the characteristic of "(i) Restricted; (ii) Unrestricted/Designated" within the column headings to the Changes in Funds Statement. Particular funds may comprise composite elements of the two, although separately identifiable. In such cases the opening and closing balances of each such composite column in the statement must be separated into the two elements to reconcile to the disclosure in the Balance Sheet where the distinction between Unrestricted (including Council designated funds) Funds and Restricted Funds is clearly disclosed.

7.5 Income Statement

The presentation of the Income Statement accords with the three primary groupings of income and expenditure of higher education institutions, viz., (i) education and general activities funded from unrestricted or Council designated funds that are under the control of the institution's Council, (ii) education and general activities that are funded for restricted, specifically identified purposes, and (iii) activities directly related to providing student and/or staff accommodation.

It is important that for all items of income and expenditure appearing in the Income Statement the clear distinction between "Recurrent" and "Non-recurrent" be rigorously applied.

The income statement is thus a combination of three separate statements in columnar form:

7.5.1 Education and General

7.5.1.1 Unrestricted (Council controlled)

This grouping comprises the operations that are funded directly from appropriations of revenues that fall under the absolute discretion/control of Council, e.g. state subsidies for general purposes; tuition and related fee income; sales of goods and services; non-prescriptive donations and grants; income from investments that are not held as cover for trust; specific purpose endowments or administered funds; etc.

Prior to the commencement of a particular financial period, the Council will decide how best to apportion the estimated annual income within this grouping in order to achieve the institution's strategic objectives. A substantial apportionment of the income will be made to the "annual operating budget" to cover operating expenditure including amounts to finance capital expenditure items to be expensed and other non-recurrent items. Other amounts may be apportioned, *inter alia*, to certain "non-operating-budget" expenditures including the financing of major capital expenditure projects and decisions made to transfer certain of the income to "contingency reserves". Council may also decide to retain in the "Accumulated Funds" amounts not committed for other purposes as a buffer for future eventualities in addition to any "Contingency" or similar fund.

The expenditure in the grouping will usually substantially comprise the actual amounts of the various line items of the annual "Operating Expenditure Budget". However, there will usually be other budgeted or non-budgeted expenditure items including exceptional items of expenditure that did not form part of the institution's normal annual operating expenditure budget all of which will have been approved by Council.

Where Council has "designated" amounts of income for certain specified purposes, Council retains the option to change its decisions and thus such amounts must remain as unrestricted funds subject to comments below.

7.5.1.2 Specifically funded activities

Income received for designated specific purposes will arise from contracts, grants, donations and income on specifically purposed endowments. In all cases any such income should be brought to the income statement in the financial period in which the institution becomes entitled to the use of that income. However, if such income is provided for a project or defined activity that will take a number of years to complete, the donation/grant should be placed in an appropriate fund and included as such in the Changes in Funds Statement in the year of receipt and transfers made from that fund to the Income Statement to match expenditures on the project/defined activity over the period to its completion. Thus funds from donations/grants in the possession of an institution that it cannot use until some specified future period or occurrence must be held in an appropriate fund until the financial period in which the fund is used, at which time the amount will be recognised as income. Until that time the amount will be appropriately grouped in one of the funds comprising "Restricted Funds". In the event of the "Specifically Funded Activities" segment of the income statement disclosing a surplus, it must be transferred to the relevant restricted fund or funds. There are no circumstances in which this segment of the income statement may result in a deficit. If the expenditure exceeds the amounts provided, the institution will have to fund such a deficit from its "Unrestricted Funds" unless there are certain undertakings to cover the deficit from outside sources.

There is a distinction between "contract income" and "donations/gifts for specifically identified purposes". In the case of an institution being party to a "third party contract", the terms of the contract will usually contain a clause that the benefits deriving from the activities undertaken and funded by the third party, will accrue to the third party. In the case of "gifts/donations for specified purposes" the institution may expend the money received only on the specified activities are there is normally no clause requiring the institution to accrue any benefits deriving therefrom to the donor.

Accounting treatment for receipts to be used to pay student debt

Any receipts from third parties, e.g. National Student Financial Aid Scheme (NSFAS), specifically for the payment of student debt whether as a bursary or a loan from the third party, must be credited to accounts in the name of the respective party. In due course amounts will be transferred to the credit of individual students (and the appropriate control account). Unspent amounts are to be treated as determined by the agency that provided them, usually by returning the money or by retaining it for future use for the same purpose. Under no circumstances should these receipts be included as income in an income statement with a "contra" expenditure item as "Bursaries and scholarships". So called "donations for bursaries" to be awarded at the discretion of the institution or on other specified criteria must also be treated as above. Donations received for "scholarships" to be awarded in open competition should be treated as income with a corresponding, suitably described, expenditure item in the income statement. If the financial periods of the receipt of the donation and the related expenditure do not coincide, the donation should be held in a "restricted fund" until it is utilised.

7.5.2 Student and Staff Accommodation

This comprises all income (including any allocation by the Council from its general funds) and expenditure arising from operating staff and student residence accommodation and directly related catering services. Any allocation by the Council, if directly related to any benefit to be received by staff, should be shown as "grant income" in the "residence and catering" income statement. The expenditure against this grant will be included among its expenditure in its income statement and equally included in "personnel remuneration" in the "education and general" income statement.

7.6 Single income statement

The income statement must be a comprehensive and cohesive statement of all income and those expenditures that are to be "expensed". Income of a "capital" nature that is prescribed for use in the acquisition of PPE that has to be "capitalised", must also be included and the appropriate transfers to the relevant restricted funds are to be made through the Statement of Changes in Funds. Where a "reserve fund" exists for unexpended amounts restricted for use in the acquisition of fixed assets, the utilisation of such fund will also be reflected in the Statement of Changes in Funds. Expenditures and transfers to/from provisions, e.g. depreciation, surpluses/deficits on disposal of PPE must likewise appear through the one income statement.

7.7 Comments on the content and format of the financial statements

The above illustrations of the format and content of the financial statements and the notes thereto must not be taken as absolute "templates" for the respective individual statements or notes. However, the general format and style must be followed but, in instances where a particular line item is not applicable to the financial statements of an individual institution, that line item and the concomitant note will not appear. Equally, an item descriptive of an element that, for reasons of fair and complete disclosure, should appear separately on one of the statements or as a note (but is not included on the above illustrative statements), that item should be included as a line item on the relevant financial statement with its concomitant note, or the item disclosed as a note, but only if appropriate.

7.8 Disclosure of remuneration and of any "exceptional amounts" above the stated amount: -

(i) remuneration of **senior management** (as contemplated in S.31(1)(iii) of the HE Act) (sometimes labelled as **executive management**). Those involved are, in most cases, defined in the institution's Statute (e.g. one Statute defines "senior management" as meaning the Vice-Chancellor, deputy vice-chancellors, registrar, deans and executive directors) and where so defined their remuneration must be disclosed. Where the institution's Statute does not define **senior management**, or **executive management**, or a similar term in this way, senior management is deemed to comprise, at a minimum, Vice/Chancellor/Principal/Rector, Deputy Principal(s), Deputy Vice-Chancellor(s), Registrar, Chief Executive Officers of Finance, of Personnel/Human Resource Management and of Estates, and full-time executive Deans

7.8.1 Introduction

Disclosure of relevant financial and non-financial information is a fundamental component of evidence of "good and effective governance". This policy statement for technikons and universities requires standards of governance, management and financial reporting that are in line with South African Standards of Generally Accepted Accounting Practice and the King Report on Corporate Governance.

Public higher education institutions (HEIs) are empowered, in terms of the Higher Education Act 1997 (No. 101 of 1997), *inter alia*, to employ staff and to determine their remuneration. As regards the 'senior management' and other highly paid staff, there are no established or formal norms among institutions with regard to levels of compensation. In this regard, the placing of remuneration packages of all Vice-Chancellors and Senior Management in the public domain is seen as an important part of the process to ensure that the public higher education institutions, while autonomous, become more efficient and accountable for the utilisation of their intellectual, infrastructural and financial resources.

7.8.2 Policy

HEIs must report annualised compensation (gross remuneration) for all members of "Senior Management" as well as "exceptional payments" (as defined) above the specified amount to any such employee.

They must also report payments to non-employee members of Council, distinguishing between re-imbursive allowances, on the one hand, and fees for attendance at or membership of meetings, on the other.

7.8.3 Disclosure of compensation (gross remuneration) and of exceptional payments

The gross remuneration, as defined, must be disclosed, including the name and designated post occupied for each member of the "Senior Management".

The amount of "gross remuneration" for any individual should be expressed as an "annualised" figure.

Two categories of amounts are required:

- Gross remuneration
- Exceptional amounts

Gross Remuneration includes all amounts/facilities from the institution for which the individual is liable for income tax (other than amounts declared as "exceptional payments"). (Where an individual receives remuneration/compensation in a capacity other than his/her primary function, such remuneration/compensation must be included and an explanatory note provided. This must include all remuneration/compensation from affiliated bodies that form part of the consolidated financial statements of the institution). The amount of "gross remuneration" will be computed as the "cost to the employer" and will thus include the employer's contribution to health insurance and to post-employment benefits, e.g. pension.

Gross remuneration will, therefore, include:

(a) salaries;
(b) salary supplementations;
(c) fees, annual or special bonuses,
(d) allowances expressed in monetary terms,
(e) the deemed value (market or income tax value) of benefits of which the "rand" value is not given (low interest loans, free or subsidised use of an institution-owned vehicle, free or subsidised housing, employer contributions to pension and medical aid and other forms of insurance funds, etc.),
(f) overtime or commuted overtime payments
(g) employer's contribution to benefits

If an employee is required to live in specified accommodation in terms of the contract of employment, the income tax value, rather than a "market" value of the benefit must be used.
Where an employee receives any form of remuneration or benefit from an entity that falls within the scope of control of the institution and is thus "consolidated" in its financial statements, such amounts must be included

Taxes and levies, not related to individual employees, but paid by an employer in respect of its employee complement are not to be included.

Exceptional payments will include commutation of leave, special bonuses; amounts paid in respect of "restraint of trade", etc.

For the year ended 31 December 2002 the disclosure of "exceptional payments" of amounts received by an individual will apply where the aggregate amount for the year exceeds: **R249 999**

The example of the format and content of the required disclosure is included in Chapter 5.8 - Note 15 to the annual financial statements on page 47 above.

7.9 Additional information to be submitted to Department of Education

7.9.1 Introduction

The information required by the Department will, in addition to the "hard copy" financial statements, be contained on three Microsoft Excel spreadsheets. A copy of the "Excel workbook" will be supplied annually to institutions via e-mail. The format of the spreadsheets will be inserted in advance before the disks are sent to institutions. These formats must be used for inserting the relevant required financial data. The formulae in the spreadsheet "Indicators" are computed automatically but certain of the cells that are marked "—→" will require insertion of user specific data not contained in the spreadsheet of financial data.

The data on the disk must be inserted and submitted by the institution together with appropriate certification by the institution's auditors together with the institution's "Annual Report" not more than six months after the financial year-end date of a university/technikon. (A suitable audit report appears in Chapter 6 on page 48.)

IT IS ESSENTIAL THAT ALL INSTITUTIONS USE THE EXCEL WORKBOOK SUPPLIED ANNUALLY BY THE DEPARTMENT

7.9.2 Content

The data required on the three spreadsheets is separated into:

(i) basic financial data from the financial statements, and
(ii) performance/status indicators, the detail of which appears above.
(iii) supplementary financial data relating to
  (a) expenditure by activities
  (b) investments data and
  (c) borrowings data.

7.9.3 Purposes for which data are required

The data required on the three spreadsheets serves various essential purposes for the Department of Education. Firstly, it is necessary to have the financial information contained in the audited financial statements of all universities and technikons available in a format that facilitates analysis and interpretation. The Department has a responsibility to be constantly aware of the "financial health" of institutions and to be in a position to give advice on the financial "norms" that are indicative of sound financial management. Furthermore, the Department must, on a regular basis, be able respond to questions about the sector from parliament, from other state departments, from the media and from the general public.

The Department is aware of the necessity to be able to prepare scenario projections for improving its own planning processes as well as providing planning data to other state departments, e.g. Finance, to enable the future of higher education to be addressed on a sound footing. For these reasons it is essential that individual institutions, in preparing their annual submissions, prepare the projection data as accurately as possible. The need for the inclusion of the final annual budget figures for the reporting year will enable the department to assess any significant variations and, if there is seen to be a common trend among institutions, to inquire into possible causes and to address possible solutions.

7.9.4 Explanation of content required

The financial data for the reporting year, the corresponding data for the final approved budget for that year and the projected budgets for the following two years are required in columnar form. As regards the latter, the question arises whether changes in the value of money between the current and the subsequent year should be included in the final projection. It has been decided that these latter figures should assume the value of money at the time the projection is prepared, i.e. no account should be taken of inflation in the following year. Thus, only real increases or decreases are to be disclosed.

The basic financial data will require extraction, for the most part, of figures stated on the various financial statements. The items relating to the Income Statement must reconcile to the relevant aggregate amounts recorded in the appropriate segment, including the final surplus/deficit. Additionally, information is required that will require extraction from the working documents in the preparation of the final statements. The following clarification relates to the required information on personnel cost:

1. Data required on personnel costs include, as in the Income Statement, the cost of employment inclusive of all benefits, plus all statutory levies and taxes for which the employer is responsible. This does not include direct cost of, e.g., training, recruitment and relocation. **It is essential that, as with other items of expenditure, 're-current' be separated from 'extra-ordinary/non-recurrent' amounts.** Costs of retrenchments, prior year adjustments for accumulated leave and post-employment

benefits must be included as non-recurrent in both the Income Statement and in the data supplied on computer disk.

2. Academic staff: This includes all staff who are classified as academic staff by the institution, as well as researchers but not research support staff. Such staff will have teaching and/or research duties.

3. Library professional staff: Will comprise the holders of posts ordinarily requiring a qualification in library and information science.

4. Permanent staff are normally on pension or provident funds, but are distinguished by having open-ended appointments to retirement.

5. These costs must not include "outsource contract costs" associated with staff and student housing.

6. There are data requirements relating to student debt and amounts written off as irrecoverable but the latter does not include increases or decreases in provision made for probable irrecoverable amounts.
7. Information on bursaries and scholarships, on the one hand, and loans granted, on the other, will differentiate between those funded from the institution's own "Council controlled" funding and those specifically funded for these purposes, including amounts credited directly to student fee accounts from agencies, corporations or other such sources.

The data required on the separate spreadsheet for "performance indicators" are to be calculated exactly according to the formula in the relevant cell of the spreadsheet. The majority of the calculations will be computed automatically by means of the imbedded formulae but are dependent on the relevant data being correctly located in the first spreadsheet. Where manual calculations are required the line item is clearly identified.

The percentage changes between the data for the years "n", "n+1" and "n+2" reflected in the financial data provided, are calculated by means of imbedded formulae dependent on the relevant data correctly located in the first spreadsheet.

Formula to arrive at the "Capitalisation Indicator" - Clarification:

Example of the computation of the Capitalisation Measure:

Current Liabilities			
State Guaranteed Loans	X 1,0		0
Extra-ordinary Items*	X 1,0		0
Other	X 1,67	+R	287 836 000
Less Current Assets			
Deposits with public Debt Commissioners	X 1		0
Other	X 1	-R	-221 982 000
Sub-total			**65 854 000**
Add Non-Current Liabilities			
Extra-Ordinary*	X1,05		0
State Guaranteed	X 1,015		0
Other	X ,125	+R	11 022 000
Sub-total			**76 876 000**
Less Realisable value of Non-Current Investments			
Deposits with Public Debt Commissioners	X ,015		0
Other	X .75	-R	598 004 000
Sub-total			**-521 128 000**
Aggregate Depreciation Provisions	X .05	+R	17 786 000
Endowment, Agency, Trust Funds – should be represented by realisable assets	X ,75	+R	270 449 000
Residence funds	X ,5	+R	2 129 000
Other "Restricted funds"**	X ,5	+R	178 962
CAPITALISATION MEASURE		**R**	**-51 802 000**

* "Extra-Ordinary" current or non-current liabilities arise from situations not normally part of an institution's operations, e.g. amounts accumulated over a number of years and only now provided for employee or post employment benefits, e.g. accumulated leave entitlements

** "Other restricted funds" will exclude funds invested in PPE.

The above example illustrates the components and the relative weightings that are to be applied in the computation of the "capitalisation measure". The result is a subjective measure of the "going concern" status of a respective technikon or university.

The other indicators required are self-explanatory. For those indicators that require student or staff data the definitions to determine these must be consistent with the definitions used in the Higher Education Management Information System (HEMIS) to be found in the Glossary of terms used for that system, a print copy of which is available from the Department of Education.

APPENDIX A

FUNDAMENTAL DISTINCTION BETWEEN CORPORATIONS (COMPANIES) OPERATING IN THE PRIVATE SECTOR AND PUBLIC HIGHER EDUCATION INSTITUTIONS

The financing of corporations operating in the private sector is, apart from money borrowed, provided by individuals, corporate entities and others that do so in the expectation of deriving a flow of income (profit) in return for their investment. These individuals and corporations that provide this finance become the effective "owners" (shareholders) of the corporation.

The operation of such corporations is entrusted (mandated) to a group of professional managers (directors) who are responsible for the strategic direction of the corporation and for its day-to-day operations. The directors also decide on the proportion of the profits made by the entity that should be given to the shareholders as "dividends". If, at annual meetings, the shareholders do not approve of the decisions and actions of the directors they can, by resolution, remove the existing board and appoint new directors.

The financial interest of the shareholders is expressed in the annual financial statements of a corporation as the difference between "Total Assets and Total Liabilities" and is referred to as the "Shareholders Equity". Shareholders equity comprises the financing provided (Share Capital) and the earnings/profits retained (Reserves) for the ongoing operations of the corporation.

The amount of the Equity disclosed on a Balance Sheet is not intended to reflect the real value of the ownership of a corporation. In the case of listed/quoted corporations this value is a derivative of the values at which shares change hands on the Stock Exchange and thus from what a willing buyer is prepared to pay to a willing seller.

By contrast, Public Higher Education institutions (HEIs) are creations of the state by a general Higher Education Act and by individual Statutes covering the governance, administration and structures enacted by each HEI. However, these institutions are not organs of the state although the state provides the initial funds to establish the infrastructure, and provides a significant proportion of the funding for annual operating costs. The state is not legally entitled to exercise direct control over individual institutions, each of which is a separate autonomous legal entity.

In terms of the Higher Education Act, each institution must establish a "Council" (akin to a board of directors in private sector corporations) that is mandated by the state to provide strategic direction for the institution "in its best interests" and to appoint senior executive staff responsible for the management and operation of the institution. A Council also monitors the performance of the management of an institution. The Vice-Chancellor/Principal/Rector of a higher education institution is equivalent to a "chief executive officer/director" of a company in the private sector. The Vice-Chancellor/Principal/Rector is accountable to the Council for her/his actions.

Neither the Council nor the state or any other "stakeholders" in HEIs can be seen to be equivalent to the shareholders of a company. The funds received by an HEI and any of its operating surpluses belong to it, but certain of the funds received will be subject to legal obligations or limitations on their use imposed at the time of their receipt.

Funds that are provided or accrue to an HEI are either for its general operational/infrastructural needs or are for specifically identified (by the provider) purposes. In the former case the Council is both responsible for, and controls the use of, such funds. In the latter case the Council is responsible for ensuring that the funds are used according to the mandate under which they were provided. Council may, however, refuse to accept such funding on the grounds that its use would be contrary to the strategic objectives or principles of the institution.

The "Capital" of an HEI at any point, but especially as a measure at the end of a financial reporting period, comprises funding over which Council exercises both control and responsibility, on the one hand, and funds over which the Council has responsibility but not control, on the other. These are separately identified respectively as "Unrestricted Funds" and "Restricted Funds". In addition, there are funds received that were utilised to develop the infrastructure of the institution that are not "expensed" and appear on its Balance Sheet as "Non-Current Assets – Property, Plant and Equipment (PPE)". The "Funds Group" appearing on the Balance Sheet comprise, therefore, (i) Utilised Funds - PPE; (ii) Unrestricted Funds, and (iii) Restricted Funds. The unrestricted funds are those that are under the absolute, unfettered control of the Council. The restricted funds (which will eventually be utilised for the specified purposes) are analogous to "Moneys in Trust" in so far as their disbursement is legally dependent on those purposes for which they were provided and are thus not under the "control" of the Council.

It is thus apparent that the term "Equity" is not applicable to HEIs as the term expresses "an ownership entitlement". The Oxford English Dictionary definition of "equity" would preclude its application to the relationships of an HEI with its stakeholders.

The relationships within individual structures in a private sector corporation and those within a HEI in the public sector, is completely different: the control aspect of the finance available differs; the proprietary interests are different. However, within these differences there is the common essential requirement for accountability within structures for good governance. In the case of private corporations the accountability is to the shareholders/owners and in the case of HEIs it is to the state and other stakeholders. It is the state and the implicit requirements of good governance and the appropriate standards of financial reporting that determine the format and content of this accountability.

The rule of consistency in financial reporting requires that like items must be subject to like treatment. All funds that are restricted in use, whether surpluses on activities funded from "restricted funds" or donations received for specified activities prior to the commencement of all or portion of the designated activity – must be treated alike. The treatment of a "restricted donation" in these circumstances as a "deferred income" liability is inconsistent with the recognised treatment of surpluses arising from donor specified activities that are likewise restricted and are thus added to the respective restricted fund.

Furthermore, the inclusion of restricted funds among Non-Current Liabilities cannot be justified on legal grounds as the institution has title to the funds as long as it is capable of fulfilling the terms under which they were granted. If there are realistic grounds for believing that the institution will not be in a position to utilise these funds as required and, as a result, will have to return the money, then and then only should the respective amount be disclosed with Current or Non-Current Liabilities as the case may be. In fact, the concept of "deferred income" is irrelevant within the funding of specified activities at HEIs. Even in a situation of a "use it or lose it within an identified time period" clause in a funding agreement for a specified activity, any balance of funds remaining at the end of that period ceases to be part of the institution's "funding pool" and becomes a current liability which is due to the provider of the funds.

APPENDIX B

IDENTIFYING CONTROL, JOINT CONTROL AND SIGNIFICANT INFLUENCE RELATIONSHIPS

Bases for consolidation

In view of the creation of increasing numbers of corporate entities (including trusts) within and on the actual corporate "boundaries" of technikons and universities, the treatment of the finances of these entities has assumed significant importance in reporting on the finances of the institutions

[Extracted and adapted from a paper prepared by Prof. A Watson of UCT]

1. INTRODUCTION

Group financial statements are required to include the results of all entities over which a HE institution has at least significant influence (this would include entities controlled, jointly controlled or significantly influenced). There are a number of different ways in which the results are included, depending on the degree of influence that the institution is able to exert. These methods include consolidation, proportionate consolidation or equity accounting.

All the methods result in recognition of the profit/loss when it is earned as opposed to when it is distributed, and a balance sheet impact that is related to the underlying share of net assets of the enterprise as opposed to the cost of the investment. All three methods require goodwill on acquisition to be amortised over its useful life as an expense, and the elimination of unrealised profits on transactions between "group" entities.

If the institution has enterprises that are controlled, jointly controlled or significantly influenced, the "group" financial statements has to include the results of the enterprise unless:

1. The investment is acquired and held exclusively with a view to its subsequent disposal, or
2. It operates under severe long-term restrictions, which significantly impair its ability to transfer funds to the parent. This is usually considered to be exchange control restrictions, but could include any enterprise that is controlled by the institution that institution is not able to benefit from as a result of restrictions.
3. The results of the enterprise are not material.

2. CONTROL

Control is defined as the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities (AC131:09). If an enterprise is controlled, it is required to be consolidated in almost all circumstances.

Control is presumed to be obtained when one enterprise acquires more than half of the voting rights of another enterprise unless, in exceptional circumstances, it can be demonstrated that such ownership does not constitute control. It is possible that one enterprise can acquire control over another enterprise despite not having more than half of the voting rights. AC 131 identifies the following circumstances in which control results from the:

"(a) power over more than one half of the voting rights of the other enterprise by virtue of an agreement with other investors;

(b) power to govern the financial and operating policies of the other enterprise under a statute or an agreement;

(c) power to appoint or remove the majority of the members of the board of directors or equivalent governing body of the other enterprise, or

(d) power to cast the majority of votes at meetings of the board of directors or equivalent governing body of the other enterprise" (AC 131:11; IAS 22:10).

It is worth noting that control over an enterprise requires having the ability to direct or dominate its decision-making, regardless of whether this power is actually exercised. The ability to govern decision-making must be accompanied by the objective of obtaining benefits from the entity's activities.

An interpretation (AC412) on the consolidation of special purpose entities (SPEs) is relevant for an institution as it specifically looks at the definition of control in SPEs. If an SPE is controlled it must be consolidated. Control may arise through the predetermination of activities of the SPE, and may exist even in cases where an enterprise owns little or none of the SPE's equity. AC412 lists the following situations that are likely to indicate a control relationship by the enterprise):

1. in substance, the activities of the SPE are being conducted on behalf of the enterprise according to its specific business needs so that the enterprise obtains benefits from the SPE's operations,
2. in substance, the enterprise has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an "autopilot" mechanism, the enterprise has delegated its decision making powers,
3. in substance, the enterprise has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE, or
4. in substance, the enterprise retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

IFAC Public sector committee has very useful guidance on this issue in ED 6 (paras 31 to 34). These paragraphs have been reproduced as they could be used as a basis for determining control:

Determining whether control exists:

31. "In examining the relationship between two entities, control is presumed to exist when at least one of the following power conditions and one of the following benefit conditions exist. Under these circumstances, the presumption that control exists is only rebutted where there is clear evidence of control being held by another entity.

Power conditions

(a) The entity has, directly or indirectly through controlled entities, ownership of a majority voting interest in the other entity.

(b) The entity has the power, either granted by, or exercised within, existing legislation, to appoint or remove a majority of the members of the governing body of the other entity.

(c) the entity has the power to cast, or regulate the casting of, a majority of the votes that are likely to be cast at a general meeting of the other entity.

(d) The entity has power over more than one half of the voting rights in the other entity (where its ownership interest is in the form of a shareholding or other formal equity structure).

Benefit conditions

(a) The entity has the power to extract distributions of assets/financial assets from the other entity.

(b) The entity has the power to dissolve the other entity and obtain a significant level of the residual economic benefits.

32. When one or more of the circumstances listed in paragraph 31 does not exist, the following factors are likely, either individually or collectively, to be indicative of the existence of control.

Power indicators

(a) The entity has the ability to veto operating and capital budgets of the other entity.

(b) The entity has the ability to veto, overrule, or modify governing body decisions of the other entity.

(c) The entity has the ability to approve the hiring, reassignment, and removal of key personnel of the other entity.

(d) The mandate of the other entity is established, and limited by, legislation.

(e) The entity holds a "golden share" (or equivalent) in the other entity that confers rights to govern the financial and operating policies of that other entity.

Benefit indicators

(f) The entity holds direct or indirect title to the net assets/net financial assets of the other entity with an ongoing right to access these.

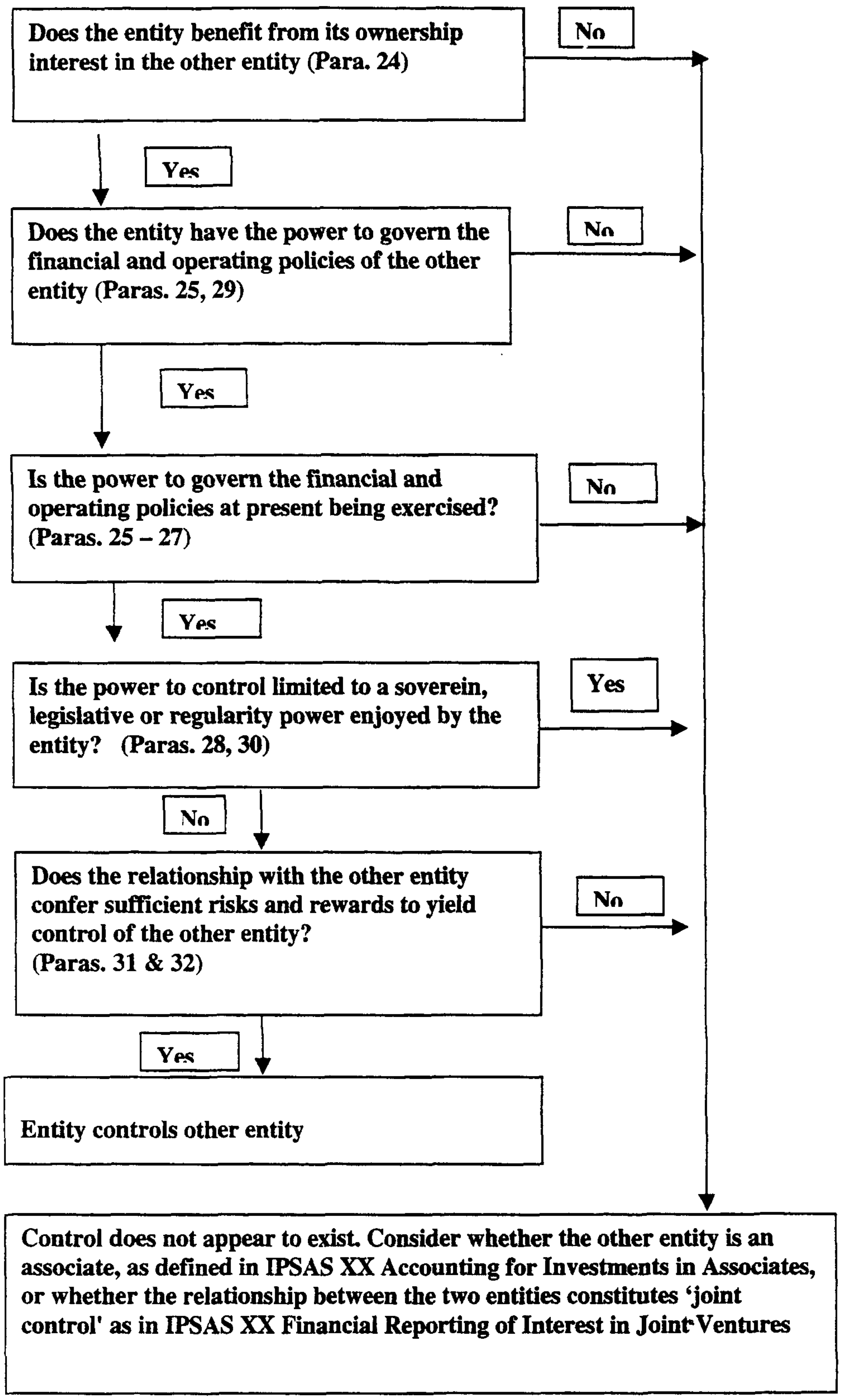
(g) The entity has a right to a significant level of the net assets/net financial assets of the other entity in the event of a liquidation or in a distribution other than a liquidation.

(h) The entity is able to direct the other entity to co-operate with it in achieving its objectives.

(i) The entity is exposed to the residual liabilities of the other entity.

33. The following diagram indicates the basic steps involved in establishing control of another entity. It should be read in conjunction with paragraphs 23 to 32 above."

Establishing Control of another Entity



3. JOINT CONTROL

Joint control is the contractually or otherwise agreed sharing of control over an activity.

Where two or more parties are committed to undertaking an activity which is subject to joint control in terms of a **binding** arrangement, this is known as a joint venture. The word "binding" has been highlighted as that is a significant difference between the usual GAAP requirements, and the definition in terms of the public sector ED.

In terms of AC119 (or internationally, IAS31), the definition of a joint venture is the same, except that the word "contractual" is used instead of binding. This change is intentional in order to broaden the application of the Standard to both contractual and binding arrangements. The definition in AC119 includes the word "economic", which has been deleted from the public service ED definition. This is also deliberate, as it is intended to broaden the definition to include activities that do not generate cash flows.

In terms of the definition, if an institution has a binding arrangement to share control over an enterprise, that enterprise is a joint venture and must be accounted for in terms of the selected policy. The accounting implications depend on the way in which the venture is structured. A joint venture may take the form of jointly controlled operations, jointly controlled assets and jointly controlled enterprises. In the first two cases, the institution's accounts would automatically include the attributable portion of the joint venture. If the joint venture is in the form of a separate enterprise, then adjustments in the group financial statements are required either in the form of equity accounting or proportionate consolidation, depending on the policy selected.

Binding arrangement:-
To be a joint venture, there needs to be a binding arrangement to establish joint control. The arrangement may be as a result of a contract, in terms of legislation, articles or by-laws of the joint venture. Whatever its form, the arrangement is usually in writing and deals with such matters as:

(a) the activity, duration and reporting obligations of the joint venture

(b) the appointment of the board of directors or equivalent governing body of the joint venture and the voting rights of the venturers,

(c) capital contributions by the venturers; and

(d) the sharing by the venturers of the output, revenue, expenses/expenditures, surpluses or deficits, or cash flows of the joint venture.

The arrangement must establish joint control over the joint venture. Such a requirement ensures that no single venturer is in a position to assume unilateral control of the activity (in which case it should be consolidated). The arrangement will identify those decisions in areas essential to the goals of the joint venture which require the consent of all the venturers and those decisions which may require the consent of a specified majority of the venturers.

SIGNIFICANT INFLUENCE

Significant influence is defined as the power to participate in the financial and operating policy decisions of the investee, but is not control over those policies.

Whether an investor has significant influence over the investee is a matter of judgement based on the nature of the relationship between the investor and the investee. In a normal company situation, there is a presumption that a shareholding of between 20% and 50% will give rise to significant influence.

The existence of significant influence by an investor is usually evidenced in one or more of the following ways:

(a) representation on the board of directors or equivalent governing body of the investee
(b) participation in policy making processes
(c) material transactions between the investor and the investee
(d) interchange of managerial personnel, or
(e) provision of essential technical information.

If an institution has significant influence over investees, the investee must be accounted for on the equity method. **[End of Prof. Watson's paper]**

WHERE NEITHER CONTROL NOR SIGIFICANT INFLUENCE EXISTS

There will be situations where funds are provided to a separate legal entity specifically or implicitly intended solely or almost solely for a particular higher education institution (*HEI*) and for which the appropriate "tax deduction certificate" is provided, but the institution has neither control nor significant influence over that entity as defined above. In such cases the entity will be deemed to be holding such funds on behalf of the institution and these must be brought to account in its financial statements as should the corresponding deposit of these funds with the specific entity. Alternatively, the entity's financial statements should be consolidated with those of the *HEI*.