

Report of the Deputy Vice-Chancellor:
Financial and Information Services

The Consolidated Financial Statements of the Durban University of Technology for the 2006 Financial Year End include the results of the following wholly owned subsidiaries of the Durban University of Technology: DUT (Pty) Ltd, Melrose Properties (Pty) Ltd, Maxelect Investments (Pty) Ltd, Business Studies Unit, and Marry Scannell cc.

Impact of the forensic investigation on the Financial Statements

The University appointed KPMG and Amaface to conduct investigations in respect of potential irregularities that may have caused potential losses to the university.

A report titled “Progress Report” (dated 15 November 2006) was issued by the forensic investigators to the university.

The internal auditors of the university were requested to perform data analysis work to provide management with further insight into the financial impact of the findings in the Progress Report.

Based on the review of the Progress Report and the review of detailed work performed by the internal auditors, the external auditors were satisfied that the findings would not have a material impact on the university’s financial statements for the year ended 2006.

Audit opinion

The auditors have issued an unqualified opinion on the financial statements.

Commentary on Financial Results

Subsidy Income on grants.

Subsidy Income and grants received increased by R14,1 m.

Tuition and other fee income

Tuition and other fee income increased from R242,7 m to R251,7m.

Personnel costs

Personnel costs increased from R374,4 m to R412,5 m. The increase in costs is attributed to annual pay increases to staff.

Other Expenditure

Other operating expenditure increased from R146,9 m to R191,9 m, the large increase in these costs is attributable to non-recurring expenditure such as forensic audit costs, DIT name change costs and increase in the provision for doubtful debts.

Net Surplus

The net surplus of R45 m recorded in 2006, is much lower than the surplus recorded in 2005. The main reason for this is that revenues has remained stable whilst personnel and other expenses have increased.

Included in the net surplus for the year is:

- An amount of R31,2m in investment income and profit on disposal of investments.
- A credit adjustment of R5,9 m to the depreciation of moveable non-current assets resulting from the revision of useful lives of these assets. This was done to align the useful life of these assets with IAS 16 and IAS 8.

Cash Flow

The university’s cash flow generated continues to be positive although 2006 cash flow generated from operations of R27,4 m was significantly lower compared to 2005 (R106,3 m). The university’s cash holdings of R149,1 m remained stable in 2006.

Trade and Other Receivables

A cumulative provision of R113,3 m for tuition and residence fees/student debtors has been provided for at 31 December 2006, after taking into consideration receipts from debtors in the post balance sheet period.

Post Retirement Benefits (Pension and Medical)

Pension. The National Technikon Retirement Fund is a defined benefit scheme and is funded by contributions from employees. The university’s share of the N.T.R.F. deficit at 31 December 2006 was R21,6 m. The liability has been provided for in the balance sheet and continues to decrease on the back of strong investment returns.

Medical. The post retirement medical benefit obligations at 31 December 2006 is R68,3 m, and has been provided for in full in the financial statements in terms of Generally Accepted Accounting Practices.

Leave Pay

The leave pay provisions recorded at 31 December 2006 is R82,9 m.

The leave pay liability represents the accumulation of annual leave days owing to the university’s employees at year end.

Investments

Long term investments increased from R134 m to R167,5 m at 31 December 2006. The main reason for the increase is due to the favourable increase in the market values of these investments.

Conclusion

Whilst the university has achieved another set of excellent results, the university needs to pay attention to diversifying its income stream since 90% of its income is derived from the State subsidy, and tuition fees.

Personnel costs accounted for 65% of total expenditure, and we should look to reducing this to 62% in line with national backbenching.

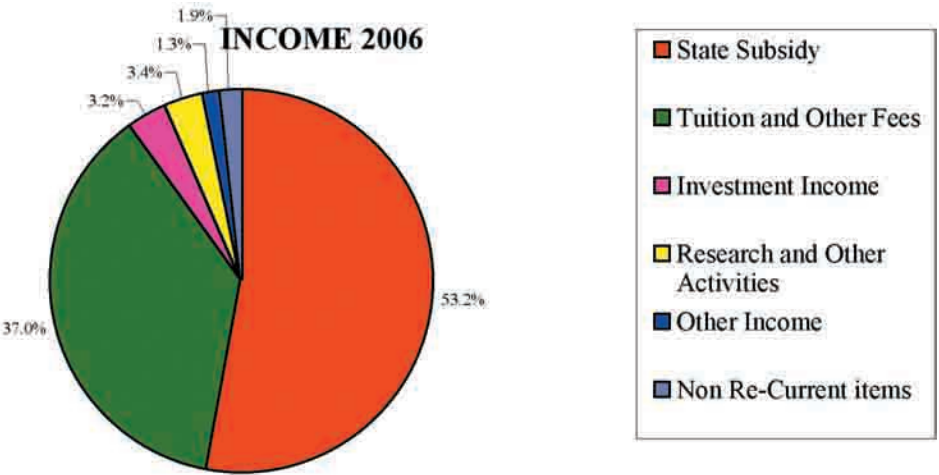
The large accumulated leave liability is currently being addressed by management.



Overview of Financial Results and Performance Indicators

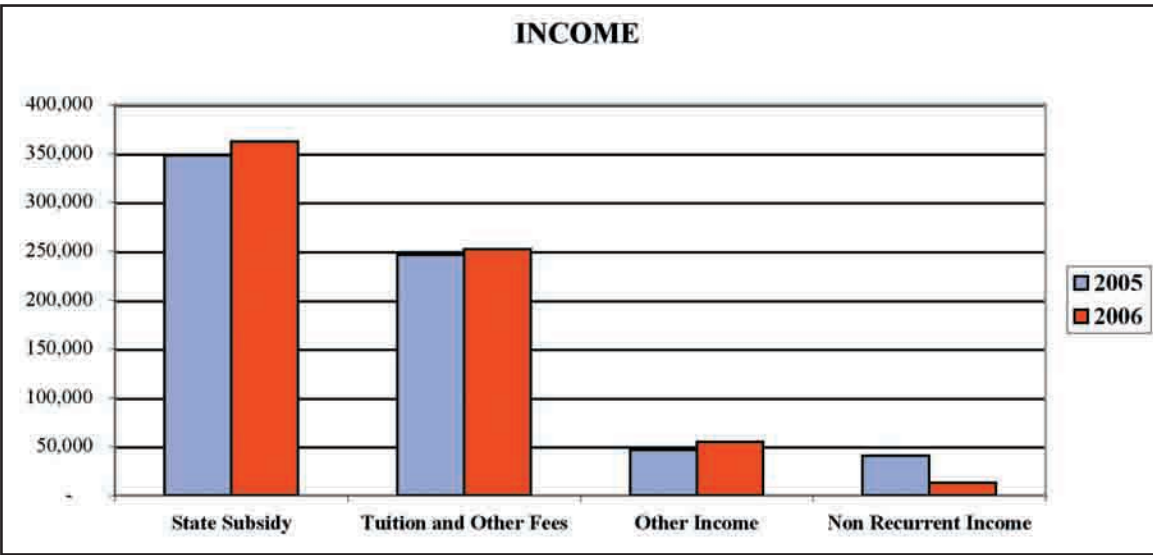
Income

Income	DETAIL	R '000
	State Subsidy	362,069
	Tuition and Other Fees	251,747
	Investment Income	21,937
	Research and Other Activities	23,389
	Other Income	9,191
	Non Re-Current items	12,854
	TOTAL INCOME	681,187



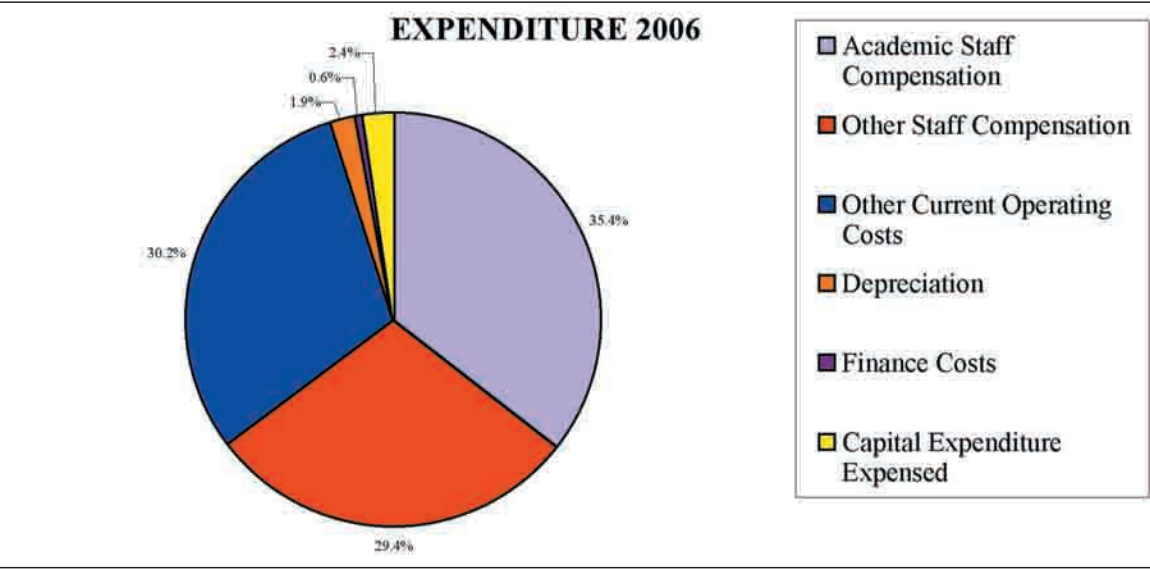
Income

Details	2005 R'000	2006 R'000
State Subsidy	347,981	362,069
Tuition and Other Fees	245,900	251,747
Other Income	46,430	54,517
Non Recurrent Income	40,876	12,854
TOTAL INCOME	681,187	681,187

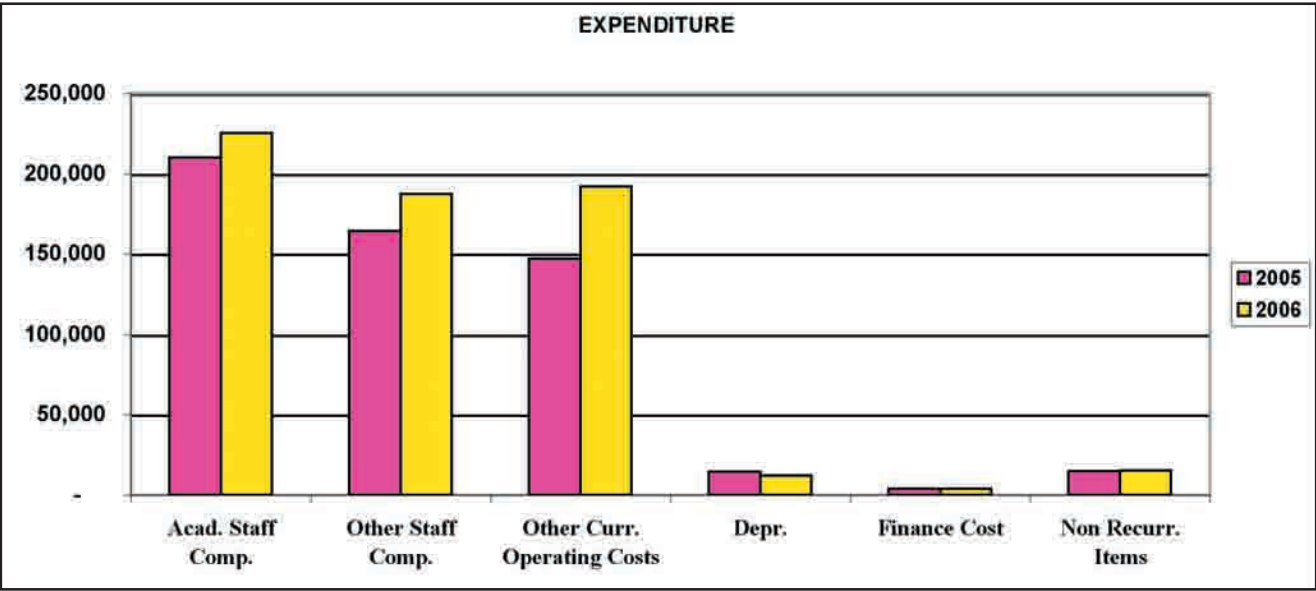


Expenditure

Details	R '000
Academic Staff Compensation	225,340
Other Staff Compensation	187,183
Other Current Operating Costs	191,975
Depreciation	12,300
Finance Costs	3,878
Capital Expenditure Expensed	15,394
TOTAL EXPENDITURE	636,070



Details	2005 R'000	2006 R'000
Academic Staff Compensation	210,044	225,340
Other Staff Compensation	164,367	187,183
Other Current Operating Costs	146,897	191,975
Depreciation	14,383	12,300
Finance Cost	4,104	3,878
Non Recurrent Items	14,857	15,394
TOTAL EXPENDITURE	554,651	636,070



Administrator’s Statement Of Responsibility
For The Financial Statements
31 December 2006

The Administrator is responsible for the preparation, integrity, and fair presentation of the consolidated financial statements of the Durban University of Technology. The financial statements presented on pages 96 to 116 represent an extract of the consolidated financial statements of Durban University of Technology. These financial statements have been approved by the administrator on 12 June 2007.

The Administrator considers that in preparing the consolidated financial statements he has used the most appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all Statements of GAAP that he considers to be applicable have been followed. The Administrator is satisfied that the information contained in the consolidated financial statements fairly presents the results of operations for the year and the financial position of the University at year end.


The Administrator has the responsibility for ensuring that accounting records are kept. The accounting records should disclose with reasonable accuracy the financial position of the University to enable the Administrator to ensure that the full financial statements comply with relevant legislation.

Durban University of Technology operated in a well-established control environment, which is well documented and regularly reviewed. This incorporates risk management and internal control procedures, which are designed to provide reasonable, but not absolute, assurance that the assets are safeguarded and the risks facing the university are being controlled.

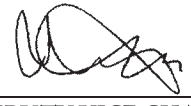
The going-concern basis has been adopted in preparing the consolidated financial statements. The Administrator has no reason to believe that the University will not be a going concern in the foreseeable future, based on the forecasts and available cash resources. The consolidated financial statements support the viability of the University.

The University’s external auditors, Pricewaterhouse Coopers Inc. and Ngubane & Co, audited the consolidated financial statements.


Approval of Summarised Financial Statements



ACTING VICE CHANCELLOR AND PRINCIPAL
PROFESSOR N GAWÉ



DEPUTY VICE CHANCELLOR –
FINANCIAL AND INFORMATION SERVICES
M MADANJIT



ADMINISTRATOR
PROFESSOR J JANSEN

Report Of The Auditors to the Administrator
Of Durban University Of Technology


The accompanying summarised financial statements, set out on pages 96 to 116 have been derived from the consolidated annual financial statements of the Durban University of Technology for the year ended 31 December 2006. These summarised financial statements are the responsibility of the University’s Administrator. Our responsibility is to express an opinion on whether these summarised financial statements are consistent, in all material respects, with the consolidated annual financial statements from which they were derived.

We have audited the consolidated annual financial statements of the Durban University of Technology for the year ended 31 December 2006, from which these summarised financial statements were derived, in accordance with International Standards on Auditing. In our report dated 12 June 2007 we expressed an unqualified opinion on the consolidated annual financial statements from which the summarised financial statements were derived.

In our opinion, the accompanying summarised financial statements are consistent, in all material respects, with the consolidated annual financial statements from which they were derived.

For a better understanding of the University’s financial position and the results of its operations for the period and of the scope of our audit, the summarised financial statements should be read in conjunction with the consolidated annual financial statements from which the summarised financial statements were derived and our audit report thereon.


PRICEWATERHOUSE COOPERS INC.
Director: H Ramsumer
Registered Auditor
12 June 2007


NGUBANE AND CO.
Director: H Mpungose
Registered Auditor
12 June 2007



Summarised Consolidated Balance Sheet As At 31 December 2006

	Notes	2006 R'000	2005 R'000
ASSETS			
NON-CURRENT ASSETS		447 318	390 922
Property, plant and equipment	1	276 185	256 752
Non - current investments	2	167 530	134 066
Non - current receivables	3	3 603	104
CURRENT ASSETS		200 286	177 305
Inventories	4	1 224	1 104
Accounts receivable, Prepaid amounts, etc	5	49 960	26 141
Cash, bank and cash equivalents	6	149 102	150 060
TOTAL ASSETS		647 604	568 227
EQUITY AND LIABILITIES			
EQUITY – FUNDS AVAILABLE		385 898	325 705
Property, plant and equipment funds		332 141	297 584
Restricted funds		8 624	7 032
Council designated funds		45 133	21 089
NON-CURRENT LIABILITIES		187 290	186 025
Borrowings	7	16 871	25 463
Retirement benefit obligations and Accumulated leave	8	170 419	160 562
CURRENT LIABILITIES		74 416	56 497
Accounts payable and accrued liabilities	9	54 710	45 810
Current portion of non - current borrowings	7	8 702	755
Retirement benefit obligations and Accumulated leave	10	11 004	9 932
TOTAL EQUITY AND LIABILITIES		647 604	568 227

Summarised Consolidated Statement of Changes in Funds for the year ended 31 December 2006

DESCRIPTION	Unrestricted Operating Fund R '000	Designated and Restricted Funds - other R '000	Investments in Fixed Assets R '000	Restricted Residence Fund R '000	GRAND- TOTAL R '000
Balance at 31.12.2005	(20 731)	48 852		-	325 705
Additions	214	-	-	-	214
Investments - Fair value adjustments	-	14 868	-	-	14 868
Transfers credit	1 161	3 463	34 557	2 519	41 700
Net surplus for the year	47 630	-	-	2 519	45 111
Transfers out	(41 433)	(267)	-	-	(41 700)
Balance at 31.12.2006	(13 159)	66 916	332 141	-	385 898
Council designated	(13 159)	58 292	332 141	-	377 274
Restricted - other	-	8 624	-	-	8 624



Summarised Consolidated Income Statement For The Year Ended 31 December 2006

	Notes	2006 R'000	2005 R '000
Operating revenue	13	646 396	623 262
Less Operating expenses		616 798	535 690
Staff costs	12	412 523	374 411
Other operating expenses		191 975	146 897
Depreciation	1	12 300	14 382
Net surplus from operations		29 598	87 572
Income from investments		21 937	17 048
Profit from sale of fixed assets		211	-
Other non - recurrent income	14	12 643	40 877
Finance costs		(3 878)	(4 104)
Other non - recurrent expenses		(15 394)	(14 857)
Surplus before tax		45 117	126 536
Less: Tax		(6)	11
Net surplus for the year		45 111	126 547
Less: Income allocated to departments		(10 986)	(19 151)
NET SURPLUS AFTER APPROPRIATION FOR INCOME ALLOCATED TO DEPARTMENTS		34 125	107 396

Summarised Consolidated Cash Flow Statement For The Year Ended 31 December 2006

	Notes	2006 R'000	2005 R '000
CASH FLOW FROM OPERATING ACTIVITIES		40 548	119 866
Cash generated from operations	18	22 489	106 318
Interest received		21 937	17 048
Interest paid		(3 878)	(4 104)
Taxation paid		-	604
CASH FLOW FROM INVESTING ACTIVITIES		(41 075)	(32 842)
Purchase of PPE		(32 145)	(26 985)
Net increase in other non-current investments		(18 862)	(16 813)
Disposal of PPE		623	-
Profit on investments		9 309	10 956
CASH FLOW FROM FINANCING ACTIVITIES		(431)	(963)
Payments on interest-bearing borrowings		(645)	(1 447)
Additions to funds		214	558
Funds utilised		-	(74)
NET INCREASE IN CASH AND CASH EQUIVALENTS		(958)	86 061
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		150 060	63 999
CASH AND CASH EQUIVALENTS AT END OF YEAR		149 102	150 060
COMPRISES:			

Summary Of Accounting Policies For The Year Ended 31 December 2006

Basis of preparation

The financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice (“SA GAAP”). The financial statements have been prepared under the historical cost convention, modified by the revaluation of financial assets and available-for-sale financial assets.

The preparation of financial statements in conformity with SA GAAP requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period based on management's best knowledge of current events and actions. Actual results may ultimately differ from these estimates. During the year under review, there were no areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates were significant to the financial statements.

Amendments to Published Standards effective in 2006

IAS 19 (AC133) Employee Benefits (Amended) is applicable in 2006 and requires additional disclosure with which the University has complied. In addition it provides an option, that allows for the accounting of actuarial gains and losses, either by recognising them through the income statement over the expected remaining lives of participants or directly through equity in the “Statement of Recognised Income and Expense”. The accounting standard covers pension fund accounting, the provisions for post-retirement medical costs and other post employment benefits. The University has elected to continue accounting for actuarial gains and losses through the income statement.

IFRIC 4 (AC 437), Determining whether an arrangement contains a lease is also applicable in 2006. The University has not identified any arrangements which contains leases.

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the University's operations:

IAS 21 (AC112) (Amendment), Net Investment in a Foreign Operation;
IAS 39 (AC133) (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
IAS 39 (AC133) (Amendment), The Fair Value Option;
IAS 39 and IFRS 4 (AC141) (Amendment), Financial Guarantee Contracts;
IFRS 1 (AC138) (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (AC143) (Amendment), Exploration for and Evaluation of Mineral Resources;
IFRS 6 (AC143), Exploration for and Evaluation of Mineral Resources;
IFRIC 5 (AC438), Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds.
IFRIC 6 (AC439), Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment;

Standards, amendments and interpretations that are not yet effective and have not been early adopted by the University

The following new standards and interpretations were also in issue but not effective for 2006. The University is in the process of evaluating the effects of these new standards and interpretations. They are not expected to have a significant impact on the University's results and disclosures other than in respect of IFRS 7 which requires specified minimum disclosures about credit risk, liquidity risk and market risk including sensitivity analysis to market risk.

IFRIC 7 (AC440)-Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies. Effective for financial year commencing on or after 1 January 2007.

Standards, amendments and interpretations that are not yet effective and have not been early adopted by the University (continued)

IFRIC 8 (AC441)-Scope of IFRS 2. Effective for financial year commencing on or after 1 May 2006.

IFRIC 9 (AC442) -Reassessment of Embedded Derivatives. Effective for financial year commencing on or after 1 June 2006.

IFRIC 10 (AC443)-Interim Financial Reporting and Impairment. Effective for financial year commencing on or after 1 November 2006.

IFRIC 11 (AC144)-IFRS 2- Group and Treasury Share Transactions. Effective for financial year commencing on or after 1 March 2007.

IFRIC 12 (AC445) - Service Concession Arrangements. Effective for financial year commencing on or after 1 January 2008.
AC 503-Accounting for Black Empowerment (“BEE”) transactions. Effective for financial year commencing on or after 1 May 2006.

IFRS 7 (AC144) - Financial Instruments: Disclosure and a complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures and consequential amendments to IFRS 4 Implementation guidance. Effective for financial year commencing on or after 1 January 2007.

IFRS 8 - Operating Segments. Effective for financial year commencing on or after 1 January 2009.

Investments

Investments are classified as trading, held-to-maturity or available for sale investments.

Held-to-maturity investments are investments with fixed or determinable payments and fixed maturity. Other than loans and receivables originated by the University, the positive intent and ability of the University is to hold such investments to maturity. These investments are held at amortised cost using the effective interest method.

All investments other than held-to-maturity investments are measured at fair value without any deductions for transaction costs that may be incurred on purchase or sale or other means of disposal. The fair value of marketable securities is market value. Market value is calculated by reference to Stock Exchange quoted selling prices at the close of business on the balance sheet date. If the fair value of an investment cannot be determined, the investment is measured at cost where there is no fixed maturity, or at amortised cost if there is fixed maturity.

Trading investments are investments that are part of a portfolio of similar assets for which there is a pattern of trading for the purposes of generating a profit from short-term fluctuations in price.

Investments are classified as available for sale investments if they are neither trading investments nor held-to-maturity investments. Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in equity. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average cost method.

Summary Of Accounting Policies
For The Year Ended 31 December 2006

Accounting for leases

Leases of property, plant and equipment where the University assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are capitalised at the estimated fair value of the leased assets, or, if lower, the present value of the underlying lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long term payables. The interest element of the finance charge is charged to the income statement over the lease period. The property, plant and equipment acquired under finance leasing contracts are depreciated over the useful life of the asset.

Leases of assets, under which all risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Property, plant and Equipment

Land and buildings, which have been adapted to specialised functions, and all other land and buildings which are used for general purposes, plant and equipment are recorded at cost except for donations, which are valued by external independent valuers.

No depreciation is provided on freehold land as it is deemed to have an indefinite life. In respect of all other tangible fixed assets and buildings depreciation is provided on a straight-line basis at rates calculated to write off cost or revalued amounts over their estimated useful life as follows:

Buildings	50 years
Motor vehicles	8 years
Computer equipment and software	4 years
Furniture and equipment	5 years

New library collections are written off in the year of acquisition.

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

Individual items of property, plant and equipment acquired for R5 000 or less are expensed in the year of acquisition and are recorded in the fixed asset register for control purposes.

Routine maintenance costs are charged to income as incurred. Costs of major maintenance or overhaul of an item of property, plant or equipment are recognised as an expense, except if the cost had been recognised as a separate part of the cost of the asset, and that amount has already been depreciated to reflect the benefits that had been replaced or restored. To the extent that the use of an asset is impaired for reason of deferred maintenance, an additional depreciation provision is created by a charge against income, the accumulated amount of which is included in the depreciation deduction to arrive at the carrying value of the asset. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amounts and are taken into account in determining operating profit.

Summary of Accounting Policies

Impairment of Assets

Property, plant and equipment and other non-current assets, including goodwill and intangible assets, are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, that is, the higher of an assets net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group’s share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates and in tested for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Trade Receivables

Trade receivables are carried at anticipated realisable value. An estimate is made and is provided for any receivables that are likely to be irrecoverable, based on a review of all outstanding amounts at year-end.

Cash and Cash Equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are included within borrowings in current liabilities on the balance sheet.

Revenue Recognition

State appropriations and grants for general purposes are, recognised as income in the financial year to which the subsidy relates. Appropriations for specific purposes, i.e., capital expenditure, are brought into the appropriate fund at the time they are available for expenditure for the purpose provided. However, if the funding is provided in advance of the specified requirement, (i.e. the University does not have immediate entitlement to it) the relevant amount is retained as a current liability.

Income received for designated specific purposes will arise from contracts, grants, donations and income on specifically purposes endowments. In all instances any such income is recognised in the income statement in the financial period when entitled to use of those funds. Thus, funds included as income but which will not be used until some specified future period or occurrence, are transferred from the income statement to an appropriate fund and held in that fund until the financial period in which the funds can be used, at which time the amount is transferred back to income through the income statement. Prior to that time the amount is appropriately grouped in one of the restricted funds comprising aggregate funds (held in trust).

Tuition fees are brought into income in the period to which they relate and at the time these are formally billed. The income must be recognised as realisable and, to the extent that it is not, provision is realistically made for the estimated unrealisable amount. Deposits provided by prospective students are treated as current liabilities until the amount is billed as due.

Interest is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the University.

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

Interest, dividends and other income received or due on assets representing endowment and trust funds are recognised as income in the income statement from which the respective amounts are transferred, if required in terms of the establishment of the respective funds, to the respective funds and the amounts appropriately re-invested.

Consolidation

Subsidiary entities are those entities over which the University has the power, directly or indirectly, to exercise control. All subsidiaries are consolidated, except where control is expected to be temporary or where there are long term restrictions on the transferability of funds. An entity, not a subsidiary as defined above, the income of which, other than investment income, is intended for the ultimate use of the University, is also consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the University and until they are disposed of or control ceases.

All inter-University transactions, balances and unrealised surpluses and deficits are eliminated. Where necessary, accounting policies for subsidiary companies have been changed to ensure consistency with the policies adopted by the University. Separate disclosure is made of the minority interest that is measured at the fair value of the net assets acquired.

The consolidated financial statements incorporate the assets, liabilities and trading operations of the following University controlled entities:

- Maxelect Investments (Proprietary) Limited
- Melrose Properties (Proprietary) Limited
- Durban University of Technology - Business Studies Unit
- Durban University of Technology (Proprietary) Limited
- Murray Scannell Close Corporation

Borrowings

Borrowings are recognised initially at the fair value of proceeds received, net of transaction costs incurred, when they become party to the contractual provisions. Borrowings are subsequently stated at amortised cost using the effective interest rate method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings as interest.

Preference shares, which are redeemable on a specific date or at the option of the shareholder, or which carry non-discretionary dividend obligations, are classified as long term liabilities. The dividends on these preference shares are recognised in the income statement as interest expense.

When convertible bonds are issued, the fair value of the liability portion is determined using a market interest rate for an equivalent non-convertible bond; this amount is recorded as a non-current liability on the amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds are allocated to the conversion option that is recognised and included in shareholders' equity; the value of the conversion option is not changed in subsequent periods.

Financial liabilities are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled, or expires.

Provisions

Provisions are recognised when there is a present obligation, whether legal or constructive, as a result of a past event for which it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The University recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

Financial instruments

Financial instruments carried on the balance sheet include cash and bank balances, investments, receivables, trade creditors, leases and borrowings. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Pension obligations

The University operates a defined contribution and defined benefit pension schemes in accordance with the Pensions Fund Act, 1956. The assets of both schemes are held separately from those of the University and are administered, in the case of the defined benefit plan by trustees of the Fund and in the case of the defined contribution plan by the insurance company selected by the trustees of the Fund.

The pension accounting costs of the defined benefit plan is assessed using the projected unit credit method. Under this method the cost of providing pensions is charged to the income statement to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries.

The pension obligation is measured at the present value of the estimated future cash outflows using interest rates of government securities that have terms to maturity approximating the terms of the related liability. The net difference between the expected return on plan assets and the interest factor arising from discounting the obligation is recognised under other operating expenditure. The obligation is valued annually by independent qualified actuaries. Actuarial gains and losses are recognised immediately.

Contributions to the defined contribution scheme are charged to the income statement as incurred.

Other post-retirement benefits

The University provides post-retirement medical benefits to certain of their retirees. The expected costs of these benefits are accrued over the period of employment, using an accounting methodology similar to that of defined benefit pension plans. These obligations are valued annually by independent qualified actuaries. Actuarial gains and losses are recognised immediately.

Actuarial valuations of post-retirement benefit obligations are based on assumptions which include employee turnover, mortality rates, the discount rate, expected long-term rate of return on retirement plan assets, healthcare costs, inflation rates and salary increments.

Cash flows

For the purposes of the cash flow statement, cash includes cash on hand, deposits held on call with financial institutions, investments in money market instruments and bank overdrafts.

Deferred income tax

Deferred income tax relates to the balance recorded in one of the subsidiary companies. Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.



Notes To The Consolidated Financial Statements 31 December 2006

PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Furniture, equipment and computers	Vehicles	Total
	R '000	R '000	R '000	R '000
Year ended 31 December 2006				
Opening net book amount	232 710	23 343	699	256 752
Transfer of air conditioners	(8 116)	8 116	-	-
Additions	11 689	19 441	1 015	32 145
Disposals	-	(358)	(54)	(412)
Depreciation charge	(4 552)	(7 980)	231	(12 300)
Closing net book amount	<u>231 731</u>	<u>42 562</u>	<u>1 891</u>	<u>276 185</u>

At 31 December 2006

Cost	334 480	86 463	2 423	423 366
Accumulated depreciation	(102 749)	(43 900)	(532)	(147 182)
Net book amount	<u>231 731</u>	<u>42 563</u>	<u>1 891</u>	<u>276 185</u>

Year ended 31 December 2005

Opening net book amount	222 831	20 849	470	244 150
Additions	13 007	13 502	475	26 984
Depreciation charge	(3 128)	(11 008)	(246)	(14 382)
Closing net book amount	<u>232 710</u>	<u>23 343</u>	<u>699</u>	<u>256 752</u>

At 31 December 2005

Cost	250 836	73 400	1 745	325 981
Accumulated depreciation	(18 126)	(50 057)	(1 046)	(69 229)
Net book amount	<u>232 710</u>	<u>23 343</u>	<u>699</u>	<u>256 752</u>

Notes To The Consolidated Financial Statements 31 December 2006

2. NON-CURRENT INVESTMENTS

Cost

Listed shares	65 529	34 625
Bonds, annuities and other	44 890	58 010
Foreign investments	10 129	10 129
	<u>120 548</u>	<u>102 764</u>

Market value

Listed shares	103 790	58 626
Bonds, annuities and other	51 968	65 643
Foreign investments	11 772	9 797
	<u>167 530</u>	<u>134 066</u>

3. NON - CURRENT RECEIVABLES

Goodwill	326	-
Non-current portion of student loans	3 277	-
	<u>3 603</u>	

4. INVENTORIES

Stationery, technical inventories, study materials, cleaning materials, etc.	1 224	1 104
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Notes To The Consolidated Financial Statements 31 December 2006

	2006 R'000	2005 R'000
5. RECEIVABLES AND PREPAYMENTS		
Student debtors	165 236	116 634
Other receivables	6 330	9 542
Less: Provision for bad debts		
- student debtors	(113 318)	(88 531)
- other debtors	(8 288)	(11 504)
	<u>49 960</u>	<u>26 141</u>
6. CASH AND CASH EQUIVALENTS		
Net cash on hand	96	139
Short-term deposits	137 000	138 000
Cash at bank	12 006	11 921
	<u>149 102</u>	<u>150 060</u>
7. INTEREST BEARING BORROWINGS		
Maturity rate:		
Between 1 and 5 years	11 283	19 226
Over 5 years	5 588	6 237
	<u>16 871</u>	<u>25 463</u>

These are State guaranteed loans, the subsidies of which range between 50% and 85% reflect 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 cost of interest and redemption, together with the state subsidy on these payments, are disclosed in the income statement. The state guaranteed loans bear interest which varies between 16.85% and 18.75%.

8. PENSION AND OTHER POST RETIREMENT OBLIGATIONS

Amounts recognised in the balance sheet

Pension scheme	21 569	25 326
Post retirement medical benefits	68 351	64 966
	<u>89 920</u>	<u>90 292</u>

Notes To The Consolidated Financial Statements 31 December 2006

	2006 R'000	2005 R'000
8. PENSION AND OTHER POST RETIREMENT OBLIGATIONS (Continued)		
Pension obligations		
Fair value of plan assets	(530 311)	(448 083)
Fair value of plan obligation	<u>551 880</u>	<u>473 409</u>
	<u>21 569</u>	<u>25 326</u>
The amount recognised in the income statement is as follows:		
Interest cost	2 152	1 927
Net actuarial (gain)/loss recognised in the year	(4 161)	(349)
Total included in staff costs	<u>(2 009)</u>	<u>1 578</u>
Movement in the liability recognised in the balance sheet		
At beginning of year	25 326	25 698
Total expenses as above	(2 009)	1 578
Contributions paid	(1 748)	(1 950)
At end of year	<u>21 569</u>	<u>25 326</u>
At 31 December 2006, 1 168 employees of the Durban University of Technology were members of The National Tertiary Retirement Fund and qualify for post retirement benefits. The National Tertiary Retirement Fund is funded by contributions from the employer.		
The principal actuarial assumptions used for accounting purposes were:		
Pension scheme		
Discount rate	8,5%	7,5%
Expected return on plan assets	8,5%	7,5%
Future salary increases	6,5%	5,5%
Future pension increases	2,5%	1,5%
Post retirement medical benefits	<u>68 351</u>	<u>64 966</u>
The amount recognised in the income statement is as follows:		
Current service cost	1 843	1 737
Interest cost	5 681	5 406
Net actuarial loss/(gain) recognised in the year	(359)	5 160
Total included in staff costs	<u>7 165</u>	<u>12 303</u>

Notes To The Consolidated Financial Statements

31 December 2006

8. PENSION AND OTHER POST RETIREMENT OBLIGATIONS (Continued)

Movement in the liability recognised in the balance sheet

	2006 R'000	2005 R'000
At beginning of year	64 966	55 392
Total expenses as above	7 165	12 303
Contributions paid	(3 780)	(2 729)
At end of year	68 351	64 966

The principal actuarial assumptions used for accounting purposes were:

Discount rate	9,00%	9,00%
Healthcare inflation costs	6,34%	6,34%

9. TRADE AND OTHER PAYABLES

Accounts payable	53 686	45 091
Student deposits	1 024	719
	54 710	45 810

10. PROVISIONS AND ACCRUALS

Non-current portion		
- Leave pay	80 499	70 270
Current portion		
- Leave pay	2 498	2 485
- Bonus	8 506	7 447
	11 004	9 932
	91 503	80 202

Notes To The Consolidated Financial Statements

31 December 2006

11. INVESTMENTS

	2006 R'000	2005 R'000
11.1 Investment income		
- Income from investments	6 315	5 000
- Interest received – call accounts	14 623	10 006
- Interest received – other	999	2 042
	21 937	17 048
11.2 Profit/(loss) on investments (Net)		
- profit on disposal	9 272	11 648
- loss on disposal	-	(973)
	9 272	10 675

12. STAFF COSTS

Academic professional	204 168	187 204
Other personnel	153 977	124 387
Pension and other post retirement costs	37 865	46 790
Outsourced services (security and cleaning)	16 513	16 029
	412 523	374 410

Average number of persons employed during the year:

Academic	622	646
Non academic	751	785
	1373	1 431

13. OPERATING REVENUE

State appropriations - Subsidies and grants	362 069	347 981
Tuition and other fee income	251 747	245 900
Income from contracts		
For research	23 389	14 893
Sale of goods and services	8 841	9 592
Donations and gifts	350	4 896
	646 396	623 262

14. OTHER NON-RECURRENT INCOME

Profit on investments	9 272	10 675
Other income	3 371	2 952
	-	27 250
Merger subsidy	12 643	40 877

Notes To The Consolidated Financial Statements 31 December 2006

	2006 R'000	2005 R'000
15. OTHER OPERATING EXPENSES		
The following items have been charged in arriving at operating deficit:		
Supplies and services	157 605	116 606
Bad debts	15 908	13 269
Repairs and maintenance	18 462	17 022
Depreciation	12 300	14 382
	204 275	161 279
16. CONTINGENT LIABILITIES		
16.1 Guarantees issued to the City Treasurer by the University's bankers.	1118	795
16.2 Guarantees issued to third parties in respect of motor vehicle finance granted to employees.	-	280
16.3 Indumiso College of Education.		
The Department of Education handed over the Indumiso College of Education to the former Natal Technikon. The operation of this college has been incorporated into the Durban University of Technology subsequent to the merger. The land and buildings have been capitalised in the accounting records of the University at a value of R1 and no liability has been raised for the land and buildings.		
The Department of Education has not given an undertaking to indemnify the University against any liability in respect of land and buildings of this college or against any future claims or liabilities that may exist in respect of this college.		
The Department of Education is currently in the process of subdividing the property and transferring this property in the name of Durban University of Technology.		
16.4 Associated Institutions Pension Fund (AIPF)		
One hundred and thirty two members (2005: 132) of the University are members of the Associated Institutions Pension Fund. In the event of the retrenchment of these employees, a deficit in their pension funding will arise. The quantification of any deficit is only possible if a decision to retrench these staff members is taken.		

Notes To The Consolidated Financial Statements 31 December 2006

16. CONTINGENT LIABILITIES (Continued)

16.5 As at 31 December 2006, the University was defending the following claims lodged by third parties:

- The estimated financial exposure to the University for charges disputed by suppliers and service providers, for work done, amounts to R3,7 million.
- The estimated financial exposure to the University for disputes relating to ex ML Sultan and Natal Technikon employees amounts to R1,7 million.

16.6 National Tertiary Retirement Fund

The liability for the National Tertiary Retirement Fund does not include the effect of the changes in minimum benefits that was introduced from 1 January 2005. The minimum benefit requirement basically forces the fund to pay a minimum of the discounted value of the accrued deferred pension, calculated on a prescribed basis, to members who would have become entitled to guaranteed retirement benefits, upon leaving the fund prior to retirement. The trustees are, however, in the process of changing the rules in order to remove this liability. In addition, the employer did not enter into an agreement to fund this additional cost, and can only be forced to do so if the NTRF is liquidated. The amount of this contingent liability, as at 31 December 2006 amounts to R3 105 000.

17. COMMITMENTS

17.1 Capital commitments

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

Property, plant and equipment	9 774	-
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17.2 Operating lease commitments

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

Not later than 1 year	6 286	3 170
Later than 1 year and not later than 5 years	7 606	12 080
	13 892	15 250

Notes To The Consolidated Financial Statements

31 December 2006

18. NOTE TO THE CASH FLOW STATEMENT

Reconciliation of net surplus before taxation to cash generated from operations

Net surplus before taxation for the year	45 117	126 536
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Adjustments for:

Movement in provision for retirement benefits	(371)	9 202
Movement in provisions for leave and bonuses	11 301	10 783
Profit on disposal of investments	(9 272)	(10 675)
Depreciation	12 300	14 382
Profit on disposal of property, plant and equipment	(211)	-
Investment income	(21 937)	(17 048)
Interest expense	3 878	4 104

Operating surplus before working capital changes	40 805	137 284
Changes in working capital	(18 316)	(30 966)

- Receivables and prepayments	(27 096)	(9 283)
- Inventories	(120)	(15)
- Accounts payable and accruals	8 900	(21 668)

Cash generated from operations	22 489	106 318
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19. SENIOR MANAGEMENT COMPENSATION

The following disclosures relates to compensation paid to executive staff and members of Council. Remuneration is based on the cost of employment to the University.

The following are considered to be executive staff:

- The Vice Chancellor, Deputy Vice Chancellor, Executive Deans and Executive Directors.

Remuneration paid

- Members of the Council	91	105
- Executive staff	13 171	9 214

