

REPORT OF THE TREASURER

RESULTS FOR THE YEAR

This year has seen the fruits of the major refocusing of 2004/05 beginning to ripen. We set ourselves the target of being an internationally recognised, leading research-intensive university and finishing in the top 20 of UK Universities by 2010. During the year we have:

- Made significant appointments in key disciplines building on the international excellence already in these areas
- Identified the 15 key metrics against which to measure and improve our performance

- Returned to an operating surplus after the deficits of 2003/04 and 2004/05.

The University's consolidated financial deficit is £1.2m after exceptional items of £2.4m (2004/05 a deficit of £12.7m after exceptional items of £10m). On the historical cost basis, the basis used by the Higher Education Funding Council for England (HEFCE) to judge performance, the consolidated result is a surplus of £3.7m, an improvement of £10.3m over the £6.6m deficit reported in 2004/05. Of this improvement £6.6m relates to the movement in exceptional items reported in 2004/05 and 2005/06. A further £3.7m of this improvement is at the operating level with a surplus of £3.3m compared with a deficit of £0.4m in 2004/05.

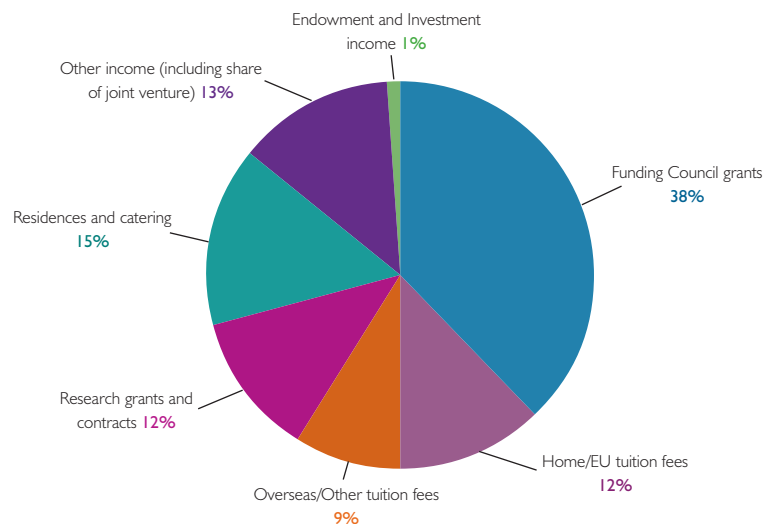
RESULTS FOR THE YEAR – INCOME AND EXPENDITURE ACCOUNT

The summarised consolidated result on an historical cost basis for the year to 31 July 2006 are as follows:

	2005/06 £m	2004/05 £m	2003/04 £m
Income	137.6	128.9	115.6
Expenditure	(134.0)	(129.2)	(115.9)
Share of operating loss in joint venture	(0.3)	(0.1)	—
	<u>3.3</u>	<u>(0.4)</u>	<u>(0.3)</u>
Exceptional item	0.4	(6.2)	(2.7)
Historical cost surplus/(deficit) for the year	<u>3.7</u>	<u>(6.6)</u>	<u>(3.0)</u>

The key factor is the improvement in the University's income generation, an increase of 6.7% in the year.

INCOME



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Core recurrent income from HEFCE and the Training and Development Agency for Schools (TDA) increased by 11.0%. Of this, 1.6% related to the Cornwall campus driven by the final cohort of "phase 1" students. Our Cornwall campus near Falmouth now has 564 students with "phase 2" planned to deliver a further 1,038 by 2009/10.

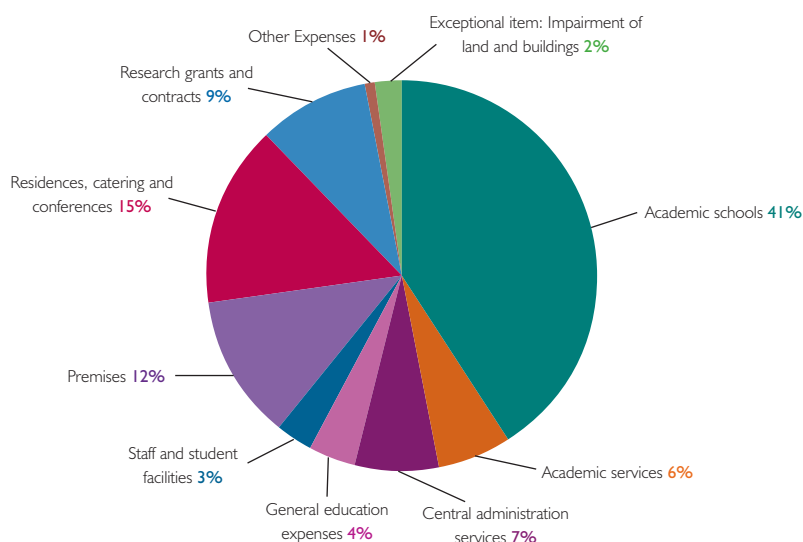
This increase in undergraduate numbers is leading to a similar growth in tuition fees with an increase of 6.9% in the year.

Research grants and contracts experienced a £1.2m growth (7.9%) due to the focus on research activity and excellence in the University ahead of the Research Assessment Exercise

(RAE) in 2008. Much of this growth is in the new School of Biosciences which has grown from strength to strength since 2004/05. Given the current uncertainty of the outcome of the RAE we will retain a key focus on this key area.

Other income streams have shown growth due to the relationship with our many partners. In other areas the University has evaluated and subsequently terminated certain external hospitality contracts no longer felt to be in the University's interest. This has resulted in a decline in income. In tandem with this growth in income, good control has been maintained over the expenditure base which has grown by 3.5%, around half the growth in total income.

EXPENDITURE



The key area of control has been staff costs. Average staff numbers are lower in 2005/06 than 2004/05 with a fall of 65 to 2,545. This reduction is due to the restructuring in 2004/05. Over 2005/06 significant recruitment activity has been undertaken in targeted disciplines. We have been tremendously pleased with the success of this exercise; the University is attracting academics of exceptional international quality. Many of these staff joined us late in 2005/06 and some will arrive in early 2006/07 with the result that few of these salaries were payable for much of 2005/06 making payroll costs lower than would have been had they been paid for the whole year.

Other operating expenses are 4.4% up on 2004/05, again below the growth in income. Key factors in controlling this expenditure include procurement successes in hospitality services. Repairs and general maintenance costs have fallen by £1.0m from 2004/05, albeit £0.6m of this is due to the slippage of work from 2005/06 to 2006/07. One area where we are particularly pleased is with respect to utility costs; whilst these increased 33.7% in the year as world energy prices rose, good management and monitoring have saved some £0.6m of cost that would have otherwise been additional to this increase.

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An area where costs have risen substantially in the year is depreciation, an increase of 9.1%. This increase is due to assets that were previously in the course of construction coming "on-line" during the year and consequently being depreciated. The revaluation at the year end added £156m to the value of our fixed assets and this will impact on depreciation in future years.

Interest payable on bank loans is £1.1m higher, an increase of 32% in the year. This increase is as a result of a further £15m being drawn down on previously agreed loan facilities. These loans are facilitating investments in the University's academic and residential estate.

Overall the University's financial performance is a tremendous improvement from 2004/05. This improvement is driven by the continued increase in research income, growth in student numbers, combined with little changes to staff costs and curtailed increases in other operating expenses. Whilst absolute improvement, in historic cost terms, from 2004/05 is £10.3m, even more pleasing is the £3.7m improvement in the operating performance. Throughout 2005/06 excellent appointments in academic staff have been made utilising this operational surplus and investing it in teaching and research. The full annual cost of these new appointments will need to be met in 2006/07.

CASH FLOW

The University's operating cash inflow is £13.3m, an improvement of £11.1m over 2004/05. The two key drivers are the improvement in the University's results and an increase in trade creditors. Trade creditors have increased by £7.6m due mainly to the increased activities of the University including the Peninsula College of Medicine and Dentistry (£3.1m); the Great Western Research project where we are holding monies that will be due to the partners in the future (£1.7m); the provision for the contribution based reward scheme (£1.1m); and an increase in capital accruals for the increased work that needed to be done over the summer months (£1.4m).

The overall cash inflow for the year is £8.4m, some £4.9m less than the operating cash inflow. This reduction in the cash inflow is largely as a result of interest payments and investments in assets offset by additional loan draw downs and the receipt of Funding Council and European Union money to fund capital investments.

BALANCE SHEET

In the year the University's net assets have increased to £372m from £180m, an increase of 107%. This substantial increase of £192m arises following the revaluation of the University's tangible fixed assets. The University revalues its fixed assets every five years, the last time being in 2001, with an interim revaluation having been performed in 2004. This clearly indicates the underlying financial strength of the University and provides confidence that our revenues and investment plans are based on a solid asset base.

The University's endowment assets increased by 22.8% in the year from £13.6m in 2004/05. Much of this increase is explained by the strong performance of home and international equities in the year. Restricted cash at banks shows an increase of £6.5m. This restricted cash is held by our bankers for investment in capital assets, it represents the early draw down of capital loans in advance of its expenditure. Non-restricted cash balances have grown by £5.0m on 2004/05 adding to the growth in our asset base.

These increases in assets have been partially offset by increases in our creditors and provisions. Creditors are higher with trade creditors rising £7.6m as explained above.

Our long-term creditors are up by £14.2m as we draw down bank loans to fund capital investments. The University's provision for the Exeter Retirement Benefits Scheme pension liability is up by £2.5m following the tri-annual valuation in March 2006. The scheme assets increased by 8.9% in the year, but increasing life expectancy pushed up the Scheme's liabilities by 10.9%.

REPORT OF THE TREASURER

FUTURE DEVELOPMENTS

The financial position of the University is a significant improvement on last year. Projections indicate the University to be in sound financial shape for future challenges. In 2006/07 the University will be funding the implementation of the "Framework Agreement", which will move all staff to a single pay spine and common set of terms and conditions. Also in 2006/07 we will implement the recent three year pay agreement with the staff unions. One advantage of this is that we have certainty on pay costs for a much longer period than usual.

Our plans indicate that we have the financial flexibility to continue to invest in our future. Extensive planning and preparation has been undertaken for the RAE in 2008 and we believe we are well positioned for this although the financial impact is as yet unclear. We have made prudent allowance for the possible effect of the Comprehensive Spending Review in 2007.

We are delighted that our joint venture with the University of Plymouth, the Peninsula Medical School, now the Peninsula College of Medicine and Dentistry (PCMD), has been given the funding and students for the first new dental school in the UK for over 40 years. This is a splendid tribute to all the hard work and dedication shown by the staff of the PCMD over the years. In July 2007 we will see the graduation of the first doctors from PCMD and look forward to the graduation of the first dentists in 2011.

Our Cornwall campus continues to grow and build on its early strength. The University, with its partner, University College Falmouth, is now engaged in the delivery of phase 2 of this campus's growth. This will bring a further 1,038 University of Exeter students to the campus to add to the 564 from phase 1. We are already planning for phase 3.

Overall the financial strength, and confidence, of the University has grown through 2005/06. Our planning activities this year will be key to our long term development. We are planning for long term investment in the delivery of world leading research staff and facilities and in increasing the value we add to our students' life choices and social and economic well being.

G A STURTRIDGE
TREASURER

18 December 2006

CORPORATE GOVERNANCE STATEMENT

INTRODUCTION

The following statement is provided to enable readers of the Financial Statements of the University to obtain a better understanding of the governance and legal structure of the University.

PRINCIPLES OF OPERATION

The University conducts its business in accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership) and with the guidance to universities which has been provided by the Committee of University Chairmen in its *Guide for Members of Higher Education Governing Bodies in the UK*.

LEGAL STATUS OF THE UNIVERSITY

The University is an independent corporation, whose legal status derives from a Royal Charter granted in 1955. Its objects, powers and framework of governance are set out in the Charter and its supporting Statutes, and approved by the Privy Council.

MANAGEMENT

The Charter and Statutes require the University to have three separate bodies, each with clearly defined functions and responsibilities, to oversee and manage its activities, as follows:

- **The Council** is the supreme governing body, responsible for the finance, property, investments and general business of the University, and for setting the general strategic direction of the institution. The approval by Council of any changes to the Charter and Statutes is required before they can be submitted to the Privy Council.

It has a majority of members from outside the University (described as lay members), from whom its Chair must be drawn. Also included in its members are representatives of the staff of the University and the

student body. None of the lay members receives payment, apart from the reimbursement of expenses, for the work that the member does for the University.

- **The Senate** is the academic authority of the University and draws its membership from the academic staff and the students of the institution. Its role is to direct and regulate the teaching and research work of the University.
- **The Court** is a large, mainly formal body which offers a means whereby the wider interests served by the University can be associated with the institution, and provides a public forum where members of Court can raise any matters about the University. The Court normally meets once a year to receive the Annual Report and Accounts of the University and has the right to advise Senate and Council.

A majority of the members of the Court will be from outside the University, representing the local community and other designated bodies with an interest in the work of the University. The membership also includes representatives of the staff of the University (both academic and non-academic), the student body, former students and benefactors.

In addition to the above three bodies, Council has an Audit Committee which the University is required to maintain in accordance with its Financial Memorandum with the Higher Education Funding Council for England (HEFCE) in order to ensure that it is fulfilling its responsibilities for proper financial management, effective internal control, risk management and value for money.

- **The Audit Committee** is a Committee of Council which considers detailed reports from the University's Auditors that include recommendations for the improvement of the institution's systems of internal control, together with management responses and implementation plans. The Committee also receives and considers reports from the HEFCE as they affect the University's business and monitors adherence to regulatory requirements.

CORPORATE GOVERNANCE STATEMENT

The Audit Committee meets four times a year (five in 2004/05) with the University's senior officers and the External and Internal Auditors in attendance. At least once a year the Committee meets the Auditors without the University officers present. The Committee consists of members with no executive responsibility for the management of the University.

VICE-CHANCELLOR

The principal academic and administrative officer of the University is the Vice-Chancellor who has a general responsibility to the Council for maintaining and promoting the efficiency and good order of the University. Under the terms of the formal Financial Memorandum between the University and the Higher Education Funding Council for England, the Vice-Chancellor is the designated officer of the University and in that capacity can be summoned to appear before the Public Accounts Committee of the House of Commons.

As Chief Executive of the University, the Vice-Chancellor exercises considerable influence on the development of institutional strategy, the identification and planning of new developments and the shaping of the institutional ethos. The Deputy Vice-Chancellors and the senior administrative officers all contribute in various ways to this aspect of the work, but the ultimate responsibility for what is done rests with the Vice-Chancellor.

UNIVERSITY COMMITTEES

Although the Council meets at least four times each academic year, much of its detailed work is initially handled by committees, in particular the Strategy, Performance and Resources Committee and the Audit Committee. The decisions of these Committees are formally reported to the Council.

These Committees, and in some cases others, are formally constituted as committees of the Council with written terms of reference and specified membership, including a significant proportion of lay members from whom the Chair will be selected (with the exception of the Strategy, Performance

and Resources Committee that is chaired by the Vice-Chancellor).

In respect of its strategic and development responsibilities Council receives recommendations and advice from the Strategy, Performance and Resources Committee, which recommends to Council the University's annual revenue budget and monitors performance in relation to the approved budget.

STATEMENT OF INTERNAL CONTROL

As the governing body of the University of Exeter, Council has responsibility for maintaining a sound system of internal control that supports the achievement of policies, aims and objectives, while safeguarding the public and other funds and assets for which it is responsible, in accordance with the responsibilities assigned to Council in the Charter and Statutes and the Financial Memorandum with the HEFCE.

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively, and economically. This process has been in place for the year ended 31 July 2006 and up to the date of approval of the financial statements.

Council has responsibility for reviewing the effectiveness of the system of internal control. It meets at regular intervals (four times a year) to consider the plans and strategic direction of the institution and receives periodic reports from the Chairman of Audit Committee concerning internal control. The Audit Committee receives regular reports from the internal audit, which includes an independent opinion on the adequacy and effectiveness of the University's system of internal control, together with recommendations for improvement.

CORPORATE GOVERNANCE STATEMENT

The University has established the Performance and Risk Steering Group to manage the development of risk management at Exeter and the Audit Committee oversees the work undertaken through the consideration of regular reports and an annual meeting with representatives of the Group. A regular programme of facilitated workshops is held to identify and keep up to date the record of risks facing the organisation (the programme was initially targeted at the University's Senior Management Group but has now been made available to others across the University). The Performance and Risk Steering Group also regularly reports to Council, via managers, on the steps they are taking to manage risks in their areas of responsibility, including progress reports on key projects.

The University continues to undertake a programme of risk awareness training and a robust risk prioritisation methodology based on risk ranking has been developed, together with the on-going maintenance of an organisation-wide risk register.

A system of key performance and risk indicators has been developed and these are continually updated. This, together with reports received from budget holders, department heads and project managers on internal control activities, ensures compliance is maintained.

The review of the effectiveness of the system of internal control is informed by the internal audit team contracted to Exeter, which operates to standards defined in the HEFCE Audit Code of Practice and which was last reviewed for effectiveness by the HEFCE Audit Services in September 2005. The internal auditors submit regular reports, which include the head of internal audit's independent opinion on the adequacy and effectiveness of the University's system of internal control, with recommendations for improvement.

The review of the effectiveness of the system of internal control is also informed by the work of the executive managers within the University, who have responsibility for the development and maintenance of the internal control framework, and by comments made by the external auditors in their management letter and other reports.

REGISTER OF INTERESTS

The University maintains a Register of Interests of members of the Council and senior officers, which may be consulted by arrangement with the Registrar and Secretary.

FURTHER INFORMATION

The Statutes of the University specify that the Registrar and Secretary should act as Secretary of the Council to whom any enquiries about the constitution and governance of the University should be addressed.

MEMBERSHIP OF COUNCIL

1. Mr David Allen: Registrar and Secretary (in attendance)
2. Professor William Richardson: Head of School of Education and Lifelong Learning (appointed by Senate)
3. Mr Seán Goddard: School of Geography, Archaeology and Earth Resources (member of non-Academic staff)*
4. Professor Robert Van de Noort: Head of School of Geography, Archaeology and Earth Resources (appointed by Senate)*
5. Ms Jemma Percy: President of the Students' Guild*
6. Lady Lucy Studholme: Privy Council representative on the University's Court *
7. Mr Simon Fishwick: Permanent Secretary of the Students' Guild (in attendance)
8. Dr Catherine Brace: Non *ex-officio* member of Academic Staff Association (appointed by Senate)*
9. Mr Peter Lacey: Architect – Lacey, Hickie & Caley
10. Professor Mark Overton: Deputy Vice-Chancellor (Resources)*
11. Mr Richard Hughes: Finance and Regulatory Director, South West Water Limited
12. Sir Robin Nicholson FRS FREng: Former Professor of Metallurgy, Chief Scientific Adviser to Cabinet Office
13. Professor Roger Kain CBE FBA: Deputy Vice-Chancellor (Research)
14. Mr Jeremy Lindley: Director of Finance (in attendance)
15. Mr Hugh Stubbs: Solicitor (retired)
16. Councillor Mrs Christine Channon: Devon County Council
17. Mr John Allwood: Executive Director of the Telegraph group*
18. Mr Bert Biscoe: Cornwall County Council
19. Professor Janice Kay: Deputy Vice-Chancellor (Education)
20. Mr Nick Caiger: Member Audit Committee (in attendance)
21. Professor Neil Armstrong: Deputy Vice-Chancellor (External Affairs)
22. Mr Gerald Sturtridge: Treasurer
23. Professor Ruth Hawker OBE: Pro-Chancellor
24. Mr Russell Seal: Chair and Pro-Chancellor
25. Professor Steve Smith: Vice-Chancellor

MEMBERS OF COUNCIL 2006-07

NOT PICTURED:

The Right Revd the Lord Bishop of Exeter:

The Right Rev Michael Langrish

Mr Wilfred Emmanuel-Jones: The Black Farmer®*

Dame Suzi Leather DBE: Chair of the Charity Commission

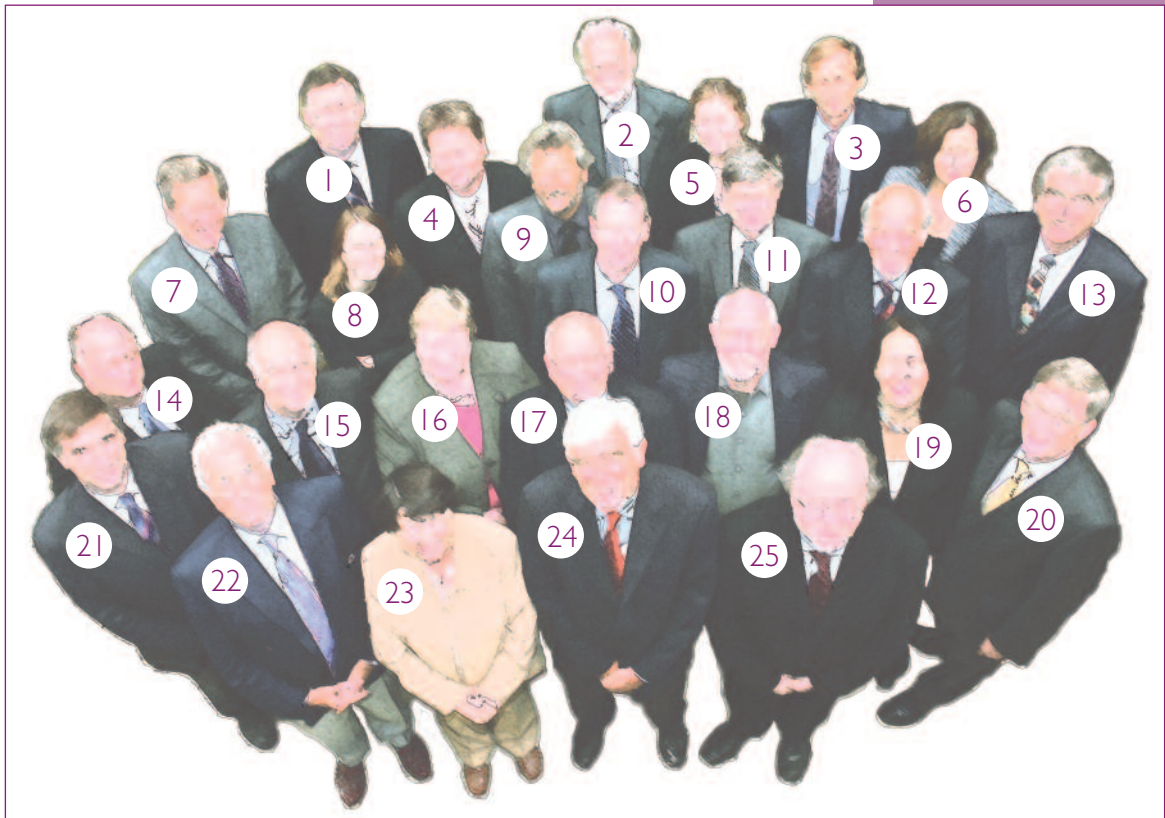
Councillor Roy Slack: Leader Exeter City Council

** Appointed as Member of Council 1 August 2006*

MEMBERS OF COUNCIL WHOSE

APPOINTMENT ENDED 31 JULY 2006:

Professor Paul Webley, Mr Stuart R Bosworth, Mrs Julia Davey, Mr Alain Desmier, Professor Paul Draper, Ms Rebecca King, Professor Hilary Lappin-Scott, Professor Mark Macnair, Mr Luke Pollard, Dr Peter Smith, Dr R (Bob) F Symes, Professor Nick Talbot, Mr Tom D D Hoffman (*resigned June 2006*)



RESPONSIBILITIES OF THE COUNCIL OF THE UNIVERSITY

In accordance with the Royal Charter of Incorporation and Statutes of the University of Exeter, and subject to the advice of the University Court, the Council of the University is responsible for the administration and management of the affairs of the University and is required to present audited financial statements for each financial year.

Working through its Strategy, Performance and Resources and Audit Committees Council is responsible for the proper maintenance of accounting records which disclose with reasonable accuracy at any time the financial position of the University and related parties and which enable it to ensure that the financial statements are prepared in accordance with the University's Charter of Incorporation and Statutes, the Statement of Recommended Practice on Accounting in Higher Education Institutions (SORP) and other relevant accounting and financial reporting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between the Higher Education Funding Council for England and the Council of the University, the Council, through its designated office holder (the Vice-Chancellor), is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the University and of the surplus or deficit and cash flows for that year.

In causing the financial statements to be prepared, the Council has ensured through its senior officers and the Strategy, Performance and Resources and Audit Committees that:

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable accounting and financial reporting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- financial statements are prepared on the going concern basis unless it is inappropriate to presume that the University will continue in operation; and

- the University has adequate resources to continue in operation for the foreseeable future: for this reason the going concern basis continues to be adopted in the preparation of the financial statements.

The Council has taken reasonable steps through its senior officers and Audit Committee to:

- ensure that funds from the Higher Education Funding Council for England and the Training and Development Agency for Schools are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Funding Council and the funding agreement with the Agency and any other conditions which the Funding Council and the Agency may from time to time prescribe;
- ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- safeguard the assets of the University and of the Group and to prevent and detect fraud and other irregularities;
- secure the economical, efficient and effective management of the University's resources and expenditure; and
- ensure that the key principles of effective risk management have been applied in line with the requirements of HEFCE's Accounts Direction.

INTERNAL FINANCIAL CONTROL

The key elements of the University's system of internal financial control, which is designed to discharge the responsibilities set out above, include the following:

- clear definitions of the responsibilities of, and the authority delegated to, heads of academic schools and administrative departments;
- experienced and suitably qualified staff who take responsibility for the finance and control functions within the University and its subsidiary companies;

RESPONSIBILITIES OF THE COUNCIL OF THE UNIVERSITY

- a comprehensive medium and short term planning process supplemented by detailed annual income, expenditure and capital budgets and cash flow forecasts;
- regular reviews of academic performance and monthly reviews of financial results involving variance reporting and updates of forecast outturns;
- clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to detailed appraisal;
- Financial Regulations supplemented by a comprehensive Financial Handbook, detailing financial controls and procedures, which is updated on an annual basis;
- a professional Internal Audit team whose annual programme is approved by the Audit Committee and endorsed by Council and whose head provides Council with a report on internal audit activity within the University and an opinion on the adequacy and effectiveness of the University's system of internal control, including internal financial control; and
- a formalised treasury management policy.

Council's review of the effectiveness of the system of internal financial control is informed by the work of the internal auditors, the Audit Committee (which oversees the work of the internal audit service), the individual members of staff within the University who have responsibility for the development and maintenance of the financial control framework and comments made by the External Auditors in the management letter and in other reports. The University currently contracts out the internal audit function to Mazars LLP. Deloitte and Touche LLP were the service provider during the year to 31 July 2006.

Any system of internal financial control can, however, only provide reasonable, but not absolute, assurance against material misstatement or loss.

INDEPENDENT AUDITORS REPORT TO THE COUNCIL OF THE UNIVERSITY OF EXETER

We have audited the University's financial statements for the year ended 31 July 2006 which comprise the Statement of Principal Accounting Policies, Consolidated Income and Expenditure Account, Note of Historical Cost Results, Statement of Consolidated Total Recognised Gains and Losses, Consolidated Balance Sheet, Balance Sheet, Consolidated Cash Flow Statement and related notes 1 to 37. The financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the Council of the University of Exeter, as a body, in accordance with United Kingdom law and with the University's Charter of Incorporation. Our audit work has been undertaken so that we might state to the Council of the University of Exeter those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council of the University of Exeter as a body for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF THE COUNCIL AND AUDITORS

As described in the statement Responsibilities of the Council of the University, the University's Council is responsible for ensuring that financial statements are prepared in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, are properly prepared in accordance with United Kingdom law and with the University's Charter of Incorporation and whether the

information given in the Treasurers Report and the statement of Responsibilities of the Council of the University is consistent with the financial statements.

We also report to you if, in our opinion, the University has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding members' remuneration and other transactions is not disclosed.

We read other information contained in the Treasurers Report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (United Kingdom and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

INDEPENDENT AUDITORS REPORT TO THE COUNCIL OF THE UNIVERSITY OF EXETER

OPINION

In our opinion:

- i) the financial statements give a true and fair view of the state of affairs of the University and the group at 31 July 2006, and of the University's and group income and expenditure, and group cash flows for the year then ended, and have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, the 'Statement of Recommended Practice on Accounting in Further and Higher Education Institutions', and with the University's Charter of Incorporation;
- ii) income from the Higher Education Funding Council for England and the Training and Development Agency for Schools, grants and income for specific purposes and from other restricted funds administered by the University have been applied for the purposes for which they were received;
- iii) income has been applied in accordance with the University's Statutes, and where appropriate, with the Financial Memorandum dated 1 October 2003 of the Higher Education Funding Council for England.
- iv) the information given in the Treasurer's Report is consistent with the financial statements.

ERNST AND YOUNG LLP
REGISTERED AUDITOR

Broadwalk House
Southernhay West
Exeter EX1 1LF

19 December 2006

UNIVERSITY OF EXETER

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

1. GENERAL

In accordance with FRS 18 'Accounting policies' these accounting policies have been reviewed by the University's Council and are considered appropriate to the University's activities.

The financial statements have been prepared under the historical cost convention modified by the revaluation of certain fixed assets and investments, and in accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education (2003) and applicable accounting standards. They conform to guidance published by the Higher Education Funding Council for England. The financial statements have been prepared on a going concern basis.

2. BASIS OF CONSOLIDATION

The results of the University's subsidiary undertakings have been consolidated in the financial statements and details of interests in these subsidiary undertakings are provided in note 12.

The University's share of the results in its joint ventures has been consolidated in the financial statements and details of these are provided in note 13.

The activities of the University of Exeter Student's Guild and the accounts of The Exeter University Foundation, a registered charity, have not been consolidated on the grounds that the University does not operate dominant influence over those activities. Details of these are provided in note 32.

3. RECOGNITION OF INCOME

The recurrent grants from the funding bodies represent the funding allocations, which are attributable to the current financial year and are credited direct to the income and expenditure account.

Tuition fees represent all fees chargeable to students or their sponsors received and receivable attributable to the current

accounting period. The costs of any fees waived by the University are included as expenditure and reported in note 7.

Income from research grants, contracts and other services rendered is included to the extent of the completion of the contract or service concerned. This is generally equivalent to the sum of the relevant expenditure incurred during the year and any related contribution towards overhead costs. All income from short-term deposits is credited to the income and expenditure account in the period in which it is earned.

Income from specific endowments and donations is included to the extent of the relevant expenditure incurred during the year, together with any related contributions towards overhead costs. Any excess of income over expenditure in any one year is carried forward. The University holds no general endowment asset investments.

Non-recurrent grants from the funding bodies or other bodies received in respect of the acquisition or construction of fixed assets are treated as deferred capital grants and amortised in line with depreciation over the life of the assets.

The University acts as an agent in the collection and payment of hardship funds and training bursaries from the funding bodies. Related receipts from the HEFCE and Training and Development Agency for Schools (TDA) and subsequent disbursement to students are excluded from the income and expenditure account and are shown separately in notes 33 to 36.

4. FOREIGN CURRENCIES

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at year-end rates. Resulting exchange differences are dealt with in the determination of income and expenditure for the financial year.

UNIVERSITY OF EXETER

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

5. PENSION SCHEMES AND OTHER POST-RETIREMENT BENEFITS

Retirement benefits for employees of the University are provided by defined benefit schemes, which are funded by contributions from the university and employees.

The two principal pension schemes for University staff are the Universities Superannuation Scheme (USS) and the University of Exeter Retirement Benefits Scheme (ERBS). The schemes are defined benefit schemes, which are externally funded and contracted out of the State Second Pension.

Both funds are valued every three years by professionally qualified independent actuaries. Pension costs are assessed in accordance with the advice of the actuaries, based on the latest actuarial valuations of the schemes.

The assets of the USS scheme are held in a separate trustee-administered fund. The University is unable to separately identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 'Retirement benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

Following FRS 17 the ERBS current service cost of providing retirement benefits to employees during the year is charged to the operating surplus or deficit in the year. The full cost of providing amendments to benefits in respect of past service is also charged to the operating surplus or deficit in the year. The expected return on the assets during the year based on the market value of scheme assets at the start of the financial year is included within other finance (charges)/income. This also includes a charge representing the expected increase in the liabilities of the scheme during the year, arising from the liabilities of the scheme being one year closer to payment. Differences between actual and expected returns on assets during the year are recognised in the statement

of recognised gains and losses in the year, together with differences from changes in assumptions. The net deficit on the ERBS is reported on the balance sheet within the pension liability.

Further information on both the USS and ERBS pension schemes and post-retirement benefits is disclosed in note 30.

6. REPAIRS AND MAINTENANCE

The University has a five-year rolling long-term maintenance plan, which forms the basis of the on-going maintenance of the estate. Expenditure on long-term maintenance which does not either enhance an asset beyond its original condition or increase its expected economic life; and expenditure on all routine corrective maintenance, is charged to the income and expenditure account as incurred.

7. TAXATION

No provision for taxation, deferred or otherwise, has been made in the University's accounts as it is an exempt charity within the meaning of schedule 2 of the Charities Act 1993 and as such is a charity within the meaning of section 506(1) of Income and Corporation Taxes Act (ICTA) 1988. Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by section 505 of the ICTA 1988 or section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes.

Except for its trading activities and certain consultancy, research activities and aspects of administration and central services, the University cannot recover Value Added Tax (VAT) suffered on its expenditure and this cost is included under the various related expenditure heads.

The University's subsidiary companies are subject to Corporation Tax and VAT in the same way as any other commercial organisation.

UNIVERSITY OF EXETER

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

8. LAND AND BUILDINGS

Land and buildings are stated at valuation or, in the case of buildings in the course of construction or constructed since the last valuation, at cost. The basis of valuation is depreciated replacement cost or, if appropriate and in certain circumstances, open market value. Messrs. King Sturge, Chartered Surveyors, performed the valuation as at 31 July 2006.

The University has adopted a policy to fully revalue land and buildings every five years with an interim valuation in the third year.

Freehold land is not depreciated as it is considered to have an indefinite useful life. Freehold buildings are depreciated over their expected remaining useful lives, subject to a maximum of 40 years, on a straight-line basis. Buildings in the course of construction are not depreciated.

Leasehold buildings are depreciated over their expected useful lives, subject to a maximum of 40 years, on a straight-line basis.

Improvements, adaptations and remodelling of buildings are capitalised at cost and are depreciated over their expected useful life, subject to a maximum of 40 years, on a straight-line basis. Finance costs directly attributable to the construction of land and buildings are capitalised as part of the cost of those assets.

Where expenditure incurred on the development of new premises includes the cost of equipping the premises with furniture and equipment, etc., irrespective of the cost of individual items, this expenditure is capitalised together with the construction cost.

Where buildings are acquired or improved with the aid of specific grants, they are capitalised and depreciated in accordance with the policy above. The related grants are treated as deferred capital grants and released to the income and expenditure account over the expected useful life of the buildings.

All buildings are regularly reviewed for indications of impairment. Where there is impairment the difference between the assessed recoverable value of the building and its written down value is charged to the income and expenditure account.

9. MAJOR REFURBISHMENTS

Major replacement and refurbishment work is capitalised if the work creates or enhances an existing asset, or improves or substantially overhauls an asset. The costs are depreciated over the appropriate period as described elsewhere within the statement of principal accounting policies.

10. EQUIPMENT

Equipment, including computers and software, that individually have a cost equal to or greater than £25,000 is capitalised.

Equipment, including computers and software, that collectively have a cost equal to or greater than £25,000 where the assets are functionally interdependent or are purchased together but are intended to be used for a common purpose and are under common management control are capitalised.

Capitalised equipment is stated at cost and depreciated over its expected useful life, as follows:

Computer equipment	4 years
Equipment acquired for specific research projects	project life (generally 3 years)
Other equipment	8 years

Where equipment is acquired with the aid of specific grants it is capitalised and depreciated in accordance with the above policy, with the related grant being credited to a deferred capital grant account and released to the income and expenditure account over the expected useful economic life of the related equipment (the period of the grant in respect of specific research projects).

UNIVERSITY OF EXETER

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

11. LEASED ASSETS

Where assets are financed by leasing arrangements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright and the corresponding liability to the leasing company is included as an obligation under finance leases. Depreciation on leased assets is charged to the income and expenditure on the same basis as above. Leasing payments are treated as consisting of capital and interest elements and the interest is charged to the income and expenditure account over the period of the lease.

All other leases are operating leases and the annual rentals payable are charged to the Income and Expenditure Account.

12. DONATED ASSETS

Assets donated on or after 1 August 1994 are capitalised in accordance with the criteria set out in accounting policy notes 8 and 10 above and note 13 below. They are brought into the balance sheet at open market value for existing use or depreciated replacement cost on the date of receipt. Land and buildings donated prior to 1 August 1994 were capitalised at 31 July 1996 at valuation. It is not considered practical to identify and attribute a value to other items.

13. INVESTMENTS

Fixed asset investments are included in the balance sheet at market value. Increases/decreases in value arising on the revaluation of fixed asset investments are carried to the revaluation reserve. Where permanent diminution in value of an asset occurs, the excess will be charged to the income and expenditure account to the extent it is not covered by a revaluation surplus.

Endowment asset investments are carried at market value. Such investments held at the previous year-end, and carried at market value at that date, may be sold during the year.

This crystallises the value and any difference between the opening market value and the sale proceeds represents a revaluation movement. Consequently the financial statements do not distinguish between the valuation adjustment relating to sales and those relating to continuing holdings as they are together treated as changes in the value of the investment portfolio.

Current asset investments are included at the lower of cost and net realisable value.

14. STOCK

Stock is shown at the lower of cost and net realisable value for building maintenance, bars, residences and catering stores, and the University Shop. Where necessary, provision is made for obsolete, slow-moving and defective stocks.

Stocks of consumables held for administration purposes and in academic schools are not valued.

15. CASH FLOWS AND LIQUID RESOURCES

Cash flows comprise increases and decreases in cash. Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are in practice available within 24 hours without penalty.

Liquid resources comprise assets held as a readily disposable store of value. They include term deposits, government securities and certificates of deposit held as part of the University's treasury management activities. They exclude any such assets held as endowment asset investments.

16. PROVISIONS

Provisions are recognised when the University has a present legal or constructive obligation as a result of a past event, when it is probable that a transfer of economic benefit will occur, and this can be reliably estimated.

UNIVERSITY OF EXETER
CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT
— for the year ended 31 July 2006

	Note	Year Ended 31 July 2006 £'000	Year Ended 31 July 2005 £'000
INCOME			
Funding council grants	1	52,673	48,848
Tuition fees and education contracts	2	29,712	27,795
Research grants and contracts	3	16,494	15,293
Other income (including share of joint venture)	4	39,554	38,318
Endowment and investment income	5	1,899	1,044
Total income		<u>140,332</u>	<u>131,298</u>
Less: Share of income from joint venture	13	(2,730)	(2,331)
Net Income		<u>137,602</u>	<u>128,967</u>
EXPENDITURE			
Staff costs (including exceptional item)	6	79,066	77,711
Other operating expenses	7	45,034	43,153
Depreciation	7	7,535	6,904
Interest payable	8	4,399	3,333
Other financial expenditure	30	100	400
Total expenditure		<u>136,134</u>	<u>131,501</u>
Operating surplus/(deficit)		1,468	(2,534)
Share of operating loss in joint venture	13	(318)	(150)
Total operating surplus/(deficit)		<u>1,150</u>	<u>(2,684)</u>
Exceptional items			
Surplus/(deficit) on disposal of land and buildings	9	313	(3,219)
Impairment of land and buildings	9	(2,664)	—
Fundamental restructuring costs	9	—	(6,775)
Deficit for the year	10	<u>(1,201)</u>	<u>(12,678)</u>
The income and expenditure account is in respect of continuing activities.			
NOTE OF HISTORICAL COST RESULTS			
Deficit for the year		(1,201)	(12,678)
Difference between historical cost depreciation and the actual charge for the year calculated on the re-valued amount	22	2,146	2,307
Release of previous years property revaluation surpluses on current year disposals and impairments	22	2,767	3,818
Historical cost surplus/(deficit) for the year		<u>3,712</u>	<u>(6,553)</u>

UNIVERSITY OF EXETER
STATEMENT OF CONSOLIDATED TOTAL RECOGNISED GAINS
AND LOSSES — for the year ended 31 July 2006

	Note	Year Ended 31 July 2006 £'000	Year Ended 31 July 2005 £'000
Deficit on continuing operations		(1,201)	(12,678)
Appreciation of endowment asset investments	21	3,091	2,961
New endowments	21	6	18
Endowment income retained/(dispersed) for the year	21	16	(13)
Endowment capital (dispersed) in the year	21	(19)	—
Transfer of reserves to endowments		(4)	—
Revaluation surplus on tangible fixed assets	22	184,142	—
Revaluation surplus on tangible fixed assets held in joint venture	22	2,683	225
Revaluation surplus on fixed asset investments	22	206	328
Actuarial loss on pension scheme	30	(3,200)	(100)
Actuarial profit on pension scheme held in joint venture		1	—
Prior year adjustment (FRS17) in joint venture		(37)	—
		<hr/>	<hr/>
Total recognised gains/(losses) in the year		185,684	(9,259)
		<hr/>	<hr/>

Reconciliation

	Year Ended 31 July 2006 £'000	Year Ended 31 July 2005 £'000
Opening reserves and endowments	122,412	131,671
Total recognised gains/(losses) for the year	185,684	(9,259)
	<hr/>	<hr/>
Closing reserves and endowments	308,096	122,412
	<hr/>	<hr/>

UNIVERSITY OF EXETER
BALANCE SHEETS AS AT 31 JULY 2006

	Note	Group		University	
		2006 £'000	2005 £'000	2006 £'000	2005 £'000
Fixed assets					
Tangible assets	11	424,327	230,374	424,387	230,338
Investments	12	5,535	5,299	7,595	7,359
Investment assets – Joint ventures	13				
Share of gross assets		15,151	11,936	—	—
Share of gross liabilities		(12,746)	(11,861)	—	—
		<u>432,267</u>	<u>235,748</u>	<u>431,982</u>	<u>237,697</u>
Endowment asset investments	14	<u>16,645</u>	<u>13,551</u>	<u>16,645</u>	<u>13,551</u>
Current assets					
Stock		634	669	633	668
Debtors	15	17,828	13,609	17,826	15,777
Restricted cash at bank	16	10,237	3,700	10,237	3,700
Cash at bank and in hand		22,741	17,706	22,458	17,355
		<u>51,440</u>	<u>35,684</u>	<u>51,154</u>	<u>37,500</u>
Creditors: amounts falling due within one year	17	<u>(35,501)</u>	<u>(29,019)</u>	<u>(35,283)</u>	<u>(29,536)</u>
Net current assets		<u>15,939</u>	<u>6,665</u>	<u>15,871</u>	<u>7,964</u>
Total assets less current liabilities		<u>464,851</u>	<u>255,964</u>	<u>464,498</u>	<u>259,212</u>
Creditors: amounts falling due after more than one year	18	<u>(76,796)</u>	<u>(62,626)</u>	<u>(78,750)</u>	<u>(65,932)</u>
Net assets excluding pension liability		<u>388,055</u>	<u>193,338</u>	<u>385,748</u>	<u>193,280</u>
Pension liability	30	<u>(15,640)</u>	<u>(13,100)</u>	<u>(15,640)</u>	<u>(13,100)</u>
		<u>372,415</u>	<u>180,238</u>	<u>370,108</u>	<u>180,180</u>
Deferred capital grants	20	64,319	57,826	64,319	57,826
Specific endowments	21	16,645	13,551	16,645	13,551
Reserves					
Revaluation reserve	22	275,389	93,271	272,505	93,058
Income and expenditure reserve	23	16,062	15,590	16,639	15,745
Total reserves		<u>291,451</u>	<u>108,861</u>	<u>289,144</u>	<u>108,803</u>
TOTAL		<u>372,415</u>	<u>180,238</u>	<u>370,108</u>	<u>180,180</u>

The financial statements on pages 14 to 56 were approved by Council on 18 December 2006 and signed on its behalf by:

G A Sturtridge – Treasurer

Professor S Smith – Vice-Chancellor

D J Allen – Registrar and Secretary

18 December 2006

UNIVERSITY OF EXETER
CONSOLIDATED CASH FLOW STATEMENT
— for the year ended 31 July 2006

	Note	Year Ended 31 July 2006 £'000	Year Ended 31 July 2005 £'000
Cash inflow from operating activities	24	13,349	2,164
Returns on investments and servicing of finance	25	(2,312)	(1,011)
Taxation		—	—
Capital expenditure and financial investment	26	(16,620)	(10,731)
Management of liquid resources	27	—	2,000
Financing	28	14,032	13,179
Increase in cash in the year	29	<u>8,449</u>	<u>5,601</u>

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

		2006 £'000	2005 £'000
Increase in cash in the year	29	8,449	5,601
Cash (inflow) from new secured loans	28	(15,511)	(14,905)
Cash outflow from repayment of loans	28	1,479	1,726
Other movements from creditors due in more than one year	29	(62)	(1,274)
Cash (inflow) from liquid resources	27	—	(2,000)
Movement in net debt in the year		<u>(5,645)</u>	<u>(10,852)</u>
Net Debt at 1 August		<u>(49,646)</u>	<u>(38,794)</u>
Net Debt at 31 July	29	<u>(55,291)</u>	<u>(49,646)</u>

NOTES TO THE ACCOUNTS

NOTE 1 FUNDING COUNCIL GRANTS

	Year Ended 31 July 2006			Year Ended
	HEFCE	TTA	TOTAL	31 July
	£'000	£'000	£'000	2005
Recurrent grant	43,702	3,109	46,811	42,179
Specific grants	3,124	1,497	4,621	5,455
Deferred capital grants released in year (note 20)	1,241	—	1,241	1,214
	<u>48,067</u>	<u>4,606</u>	<u>52,673</u>	<u>48,848</u>

NOTE 2 TUITION FEES AND EDUCATION CONTRACTS

	Year Ended	Year Ended
	31 July 2006	31 July 2005
	£'000	£'000
Home/EU undergraduates: full-time	9,813	9,065
Home/EU undergraduates: part-time	329	356
Home/EU postgraduates: full-time	4,578	4,744
Home/EU postgraduates: part-time	2,158	1,587
International students	10,894	10,271
Non-credit bearing courses and other tuition fees	1,767	1,662
Research Training Support Grants	173	110
	<u>29,712</u>	<u>27,795</u>

NOTE 3 RESEARCH GRANTS AND CONTRACTS

	Year Ended	Year Ended
	31 July 2006	31 July 2005
	£'000	£'000
Research councils	6,561	6,290
UK based charities	2,734	2,738
UK central government, local authorities, health & hospital authorities	3,759	3,780
UK industry, commerce and public corporations	767	975
European Union government and other bodies	1,950	1,235
Other grants and contracts	723	275
	<u>16,494</u>	<u>15,293</u>

Included above are deferred capital grants released in the year of £222,000 (2005: £147,000).

NOTES TO THE ACCOUNTS

NOTE 4 OTHER INCOME

	Year Ended 31 July 2006 £'000	Year Ended 31 July 2005 £'000
Residences, catering and conferences	20,947	20,420
Other services rendered		
Validation fees	128	131
Teaching companies	432	375
UK central government, local authorities, health and hospital authorities	1,044	1,397
Others	2,246	1,730
Income from health and hospital authorities	2,382	2,552
Other operating income		
Other external grants	748	921
Conferences, summer schools, fair and degree day income	582	656
Donations and other fundraising	637	403
Erasmus	530	423
Sports and swimming pools	664	567
Externally recharged staff time	498	504
Supplies and services to external customers	415	672
Rental income and room hire	267	280
Peninsula College of Medicine and Dentistry	627	767
Tremough Campus Services	2,730	2,331
Release of deferred capital grants	1,073	916
Other income	3,604	3,273
	39,554	38,318

NOTE 5 ENDOWMENT AND INVESTMENT INCOME

	Year Ended 31 July 2006 £'000	Year Ended 31 July 2005 £'000
Income from specific endowments	370	378
Income from short term investments	1,486	626
Income from fixed asset investments	43	40
	1,899	1,044

NOTES TO THE ACCOUNTS

NOTE 6 STAFF COSTS

The average number of persons (including senior post-holders) employed by the University during the year, expressed as full-time equivalents, was:

	Year Ended 31 July 2006	Year Ended 31 July 2005
	Number	Number
Academic staff	620	635
Research staff	266	269
Teaching fellows (formerly tutors)	113	137
Occasional lecturers	28	32
Support staff	1,370	1,389
Casuals	148	148
Total	2,545	2,610

Staff costs for the above persons:

	Year Ended 31 July 2006	Year Ended 31 July 2005
	£'000	£'000
Salaries and wages	66,576	64,752
Social security costs	5,010	4,956
Pension costs (note 30)	7,480	8,003
	79,066	77,711

Salaries and wages include an exceptional charge of £nil (2005: £46,000) in respect of financial restructuring at the Camborne School of Mines prior to its relocation to the Tremough campus.

NOTES TO THE ACCOUNTS

NOTE 6 STAFF COSTS Contd.

	Year Ended	Year Ended
	31 July 2006	31 July 2005
	£'000	£'000
Emoluments of the Vice-Chancellor:		
Remuneration (including benefits in kind)	170	163
Pension contributions to USS	26	23
	196	186

The emoluments have been independently determined by the lay officers of the Council and reviewed according to performance.

Remuneration of other higher paid staff, excluding employer's pension contributions but inclusive of payments made on behalf of the NHS and partner institutions in respect of its contractual obligations to University staff under separate NHS contracts of employment and which are excluded in the University's income and expenditure account:

	Year Ended	Year Ended
	31 July 2006	31 July 2005
£70,000 - £79,999	30	24
£80,000 - £89,999	8	3
£90,000 - £99,999	2	1
£120,000 - £129,999	2	1
£130,000 - £139,999	—	1
£160,000 - £169,999	—	1
£170,000 - £179,999	1	—
£190,000 - £199,999	1	1

Included in the above are members of staff whose annual salary falls into one of the above bands but who joined the University part way through the year.

NOTES TO THE ACCOUNTS

NOTE 7 OTHER OPERATING EXPENSES

	Year Ended 31 July 2006	Year Ended 31 July 2005
	£'000	£'000
Residences, catering and conferences	8,637	9,027
Rents and rates	463	374
Heat, light, water and power	1,640	1,227
Repairs and general maintenance	3,163	4,139
Laboratory equipment and consumables	2,520	2,340
IT hardware, software and licences	2,115	2,041
Other equipment	855	1,091
Books and periodicals	1,947	1,711
Non-contract staff and external examiners	3,793	3,365
Administrative costs including postage and telephones	2,025	1,852
Insurances	411	382
Publicity, publications and student recruitment	1,261	1,127
Travel, accommodation, subsistence and hospitality	4,220	3,836
Fellowships, scholarships and prizes	3,154	3,210
Field courses and other student support	4,717	3,796
Legal, professional and consultancy fees	1,793	1,218
Auditor's remuneration	45	56
Auditor's remuneration in respect of non-audit services	20	16
Cornwall Combined Services	1,203	1,229
Other expenses	1,052	1,116
	<hr/>	<hr/>
	45,034	43,153
	<hr/>	<hr/>

NOTES TO THE ACCOUNTS

NOTE 7 OTHER OPERATING EXPENSES Contd.

ANALYSIS OF 2005/06 EXPENDITURE BY ACTIVITY

	Staff Costs £'000	Other Operating Expenses £'000	Depre- ciation £'000	Interest Payable £'000	Total 2005/06 £'000	Total 2004/05 £'000
Academic schools	42,862	12,978	367	—	56,207	55,961
Academic services	5,290	3,624	90	—	9,004	7,239
Administration						
Central administration	6,067	3,488	21	244	9,820	7,411
General education expenses	1,654	4,362	26	—	6,042	5,926
Staff and student facilities	2,281	1,446	4	—	3,731	2,801
	<u>10,002</u>	<u>9,296</u>	<u>51</u>	<u>244</u>	<u>19,593</u>	<u>16,138</u>
Premises						
Rent and rates	—	461	—	—	461	382
Light, heat, power and water	—	1,640	—	—	1,640	1,242
Repairs and maintenance	2,640	3,196	3	—	5,839	6,529
Portering and security	2,334	469	—	—	2,803	2,473
Other	—	506	3,751	957	5,214	4,457
	<u>4,974</u>	<u>6,272</u>	<u>3,754</u>	<u>957</u>	<u>15,957</u>	<u>15,083</u>
Other Expenditure						
Residences, catering and conferences	5,918	8,449	3,033	3,198	20,598	20,921
Research grants and contracts	8,625	4,180	240	—	13,045	12,696
Other expenses	1,395	235	—	—	1,630	2,477
FRS 17 pension costs	—	—	—	—	—	540
Exceptional items (see note 6)	—	—	—	—	—	46
	<u>15,938</u>	<u>12,864</u>	<u>3,273</u>	<u>3,198</u>	<u>35,273</u>	<u>36,680</u>
Total	<u>79,066</u>	<u>45,034</u>	<u>7,535</u>	<u>4,399</u>	<u>136,034</u>	<u>131,101</u>
Total 2004/05	<u>77,711</u>	<u>43,153</u>	<u>6,904</u>	<u>3,333</u>	<u>131,101</u>	

In addition, there was a £100,000 (2005: £400,000) pension cost that was charged to the Income and Expenditure Account (note 30).

NOTES TO THE ACCOUNTS

NOTE 7 OTHER OPERATING EXPENSES Contd.

The depreciation charge has been funded by:

	Year Ended 31 July 2006	Year Ended 31 July 2005
	£'000	£'000
Deferred capital grants released – buildings (note 20)	2,066	2,198
Deferred capital grants released – equipment (note 20)	470	404
Revaluation reserve released (note 22)	4,695	2,307
General income	2,853	3,043
	<hr/>	<hr/>
	10,084	7,952
Impairment included within exceptional items (note 9B)	(2,549)	(1,048)
	<hr/>	<hr/>
	7,535	6,904
	<hr/>	<hr/>

NOTE 8 INTEREST PAYABLE

	Year Ended 31 July 2006	Year Ended 31 July 2005
	£'000	£'000
On bank loans, overdrafts and other loans:		
Repayable within 5 years, by instalments	201	11
Repayable wholly or partly in more than 5 years	4,198	3,322
	<hr/>	<hr/>
	4,399	3,333
	<hr/>	<hr/>

In addition, interest payable in the year amounting to £230,000 (2005: £98,000) was capitalised. This interest relates to borrowings in respect of the development of new student residences whilst under construction.

NOTE 9 EXCEPTIONAL ITEMS

	Year Ended 31 July 2006	Year Ended 31 July 2005
	£'000	£'000
(Surplus)/deficit on disposal of land and buildings (note 9A)	(313)	3,219
Impairment of land and buildings (note 9B)	2,664	—
Fundamental restructuring costs (note 9C)	—	6,775
	<hr/>	<hr/>
	2,351	9,994
	<hr/>	<hr/>

NOTES TO THE ACCOUNTS

NOTE 9A EXCEPTIONAL ITEM – SURPLUS/DEFICITS ON DISPOSALS OF LAND AND BUILDINGS

During the year two small off-campus residences were sold (Mallison House and End Cottage). The proceeds from these sales were reinvested into the University's strategic aims.

During the previous year the Institute of Cornish Studies moved to the new Combined Universities in Cornwall campus at Tremough, just outside Penryn. The Institutes' previous bases, at Hayne Corfe in Truro and the Camborne School of Mines at Camborne, have been disposed of or the leases surrendered and the proceeds were reinvested in the new campus at Tremough.

Also during the previous year two small off-campus residences were sold (Trenance House and Hope Cottage). The majority of the proceeds from these sales were reinvested in on-campus residences developments.

Finally in the previous year, as part of the Birks/Duryard student residences capital project, the original halls at the Birks site (Haldon, Raddon and Brendon) were demolished to make way for the construction of Birks Grange.

NOTE 9B EXCEPTIONAL ITEM – IMPAIRMENT OF LAND AND BUILDINGS

During the year the construction of Birks Grange, the new student residences, was completed. As a result certain buildings at Duryard, which were also used as student residences, have now become obsolete. These buildings have been impaired to a nil value as it is anticipated that they will be demolished in the near future.

NOTE 9C EXCEPTIONAL ITEM – FUNDAMENTAL RESTRUCTURING COSTS

During the previous year the University implemented its strategic plan to refocus as a research-led institution. This included the early retirement of staff across various sectors of the University, notably in the Schools of Biological and Chemical Sciences; and Education and Lifelong Learning.

As part of the restructuring arrangements staff taking early retirement were given enhanced pension benefits including added years of service and lump sum entitlements.

Compensation payments were also made to students affected by the restructuring.

NOTE 10 DEFICIT ON CONTINUING OPERATIONS FOR THE YEAR

The deficit on continuing operations for the year is made up as follows:

	Year Ended 31 July 2006 £'000	Year Ended 31 July 2005 £'000
University's deficit for the year	(802)	(12,527)
Deficit generated by subsidiary undertakings and joint ventures	(399)	(151)
	<hr/>	<hr/>
	(1,201)	(12,678)
	<hr/>	<hr/>

NOTES TO THE ACCOUNTS

NOTE 11 TANGIBLE FIXED ASSETS

Group	Land and Buildings		Equipment	Total
	Freehold £'000	Long Leasehold £'000		
Cost or Valuation				
At 1 August 2005	222,786	25,834	8,412	257,032
Additions	16,808	2,589	907	20,304
Disposals (note 9A)	(323)	—	(447)	(770)
On revaluation	154,339	1,484	—	155,823
At 31 July 2006	393,610	29,907	8,872	432,389
Depreciation				
At 1 August 2005	19,136	977	6,545	26,658
Charge for the year (note 7)	5,580	1,139	816	7,535
Impairment (note 9B)	2,664	—	—	2,664
Disposals (note 9A)	(31)	—	(445)	(476)
On revaluation	(27,066)	(1,253)	—	(28,319)
At 31 July 2006	283	863	6,916	8,062
Net Book Value				
At 31 July 2006	393,327	29,044	1,956	424,327
At 31 July 2005	203,650	24,857	1,867	230,374
Financed by capital grant	36,784	26,411	1,124	64,319
Other	356,543	2,633	832	360,008
At 31 July 2006	393,327	29,044	1,956	424,327

- a) The total cost of land and buildings is mainly attributable to the development or purchase of property for teaching, research or accommodation purposes.
- b) Freehold and leasehold land and buildings with a net book value of £270m (2005: £142m) have been financed, in whole or in part, by exchequer funds. Should these buildings be sold, the University would either have to surrender the proceeds to the Treasury or use them in accordance with the conditions given in its Financial Memorandum with the Higher Education Funding Council for England.

NOTES TO THE ACCOUNTS

NOTE 11 TANGIBLE FIXED ASSETS Contd.

- c) At 31 July 2006 freehold and leasehold land and buildings included £16.6m (2005: £7.2m) in respect of buildings under construction.
- d) Included in the cost of freehold land and buildings is £1m bank loan interest payable that has been capitalised. These finance costs are directly attributable to the construction of student residences and were capitalised as part of the cost of those assets whilst they were in the course of construction.

University	Land and Buildings		Equipment	Total
	Freehold	Long Leasehold		
Cost or Valuation	£'000	£'000	£'000	£'000
At 1 August 2005	222,799	25,786	8,413	256,998
Additions	16,900	2,589	906	20,395
Disposals (note 9A)	(323)	—	(442)	(765)
On revaluation	154,339	1,484	—	155,823
At 31 July 2006	393,715	29,859	8,877	432,451
Depreciation				
At 1 August 2005	19,136	975	6,549	26,660
Charge for the year	5,580	1,137	815	7,532
Impairment (note 9B)	2,664	—	—	2,664
Disposals (note 9A)	(31)	—	(442)	(473)
On revaluation	(27,066)	(1,253)	—	(28,319)
At 31 July 2006	283	859	6,922	8,064
Net Book Value				
At 31 July 2006	393,432	29,000	1,955	424,387
At 1 August 2005	203,663	24,811	1,864	230,338

As mentioned in the Statement of Principle Accounting Policies land and buildings are re-valued. If this revaluation had not taken place the historical cost net book values are as follows: -

	Group	University
	£'000	£'000
Freehold land and buildings	127,945	128,051
Long leasehold land and buildings	26,307	26,262

NOTES TO THE ACCOUNTS

NOTE 12 INVESTMENTS

	Group		University	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Fine art collection	1,263	1,613	1,263	1,613
Library special collection	2,354	2,101	2,354	2,101
Quoted stock	1,870	1,536	1,870	1,536
Subsidiary undertakings	—	—	2,060	2,060
Other investments	48	49	48	49
	<u>5,535</u>	<u>5,299</u>	<u>7,595</u>	<u>7,359</u>

The University's fine art collection of paintings, drawings, sculptures, furniture, silverware and ceramics were professionally valued during the year ended 31 July 2006 by Messrs. Bearn's, Fine Art Auctioneers and Valuers, on an open market value basis.

The University's library special collections were also professionally valued during the year ended 31 July 2006 by Messrs. Bearn's, Fine Art Auctioneers and Valuers, on an open market value basis.

The investment in subsidiary undertakings comprises the following:

Name	Shareholding	Principal business activity
Dartvale Limited	2,000,002 Ordinary £1	Property development
Exeter Enterprises Limited	60,110 Ordinary £1	Consultancy activities
Innovation Exeter Limited	1 Ordinary £1	Dormant company

The University wholly owns the above holdings. All companies are registered in England and Wales.

On 13 December 2005 Exeter Development Capital Limited (EDC), a previously wholly owned subsidiary, was dissolved.

Other investments comprise the following:

Name	Holding
CVCP Properties Plc	37,355 Ordinary £1 shares
Adsfab Limited	1,000 Ordinary "C" £1 shares
Auxetix Limited	100 Ordinary "B" £0.10 shares
BioElf Limited	60 Ordinary £0.10 shares
Evanesco Limited	284 Ordinary £0.10 shares
Exeter Antioxidant Therapeutics Limited	200 Ordinary £0.10 shares
Exeter Nanobacteria Limited	200 Ordinary £0.10 shares
Medilarv Limited	200 Ordinary £0.10 shares
Optomo Plc	249,564 Ordinary £0.01 shares
Simpleware Limited	100 Ordinary £1 shares
Skipworth Engelhardt Asset Management Strategists Limited	71 Ordinary "A" £1 and 405 Deferred £1 shares
EMC Network (SW) Limited	7,000 Ordinary £1 shares

NOTE 13 INVESTMENT IN JOINT VENTURES

Peninsula College of Medicine and Dentistry

On 1 September 2006 the Peninsula Medical School (PMS) changed its name to the Peninsula College of Medicine and Dentistry (PCMD) to encompass its revised activities. PCMD is not a legal entity in its own right – it is a joint arrangement entered into by the University of Exeter and the University of Plymouth. A 50% share of the income, expenditure and balance sheet items of the “HE Community Chest” of PCMD is included within the income and expenditure account and balance sheet of each of the Universities.

See note 37 for a detailed analysis of PCMD.

Tremough Campus Services

The University holds a 50% share of Tremough Campus Services (TCS), a company limited by guarantee, having no share capital and for which exempt charitable status has been obtained. TCS is a joint venture company owned equally by the University and University College Falmouth (UCF).

TCS has been established to operate student and commercial services for the Combined Universities in Cornwall campus at Tremough in Penryn under a combined services agreement and commenced trading in August 2004.

The arrangement is treated as a joint venture and is accounted for using the gross equity method, such that 50% of the company's gross assets and liabilities are incorporated into the consolidated balance sheet of the University and 50% of its net income is reported in the University's consolidated income and expenditure account. TCS has entered into a gift aid arrangement to distribute surpluses arising on its activities equally to the University and UCF. The University has made an adjustment to the TCS financial statements in order to include the revaluation of the student residences so it is consistent with the University's policy of revaluation.

Tremough Development Vehicle Limited (TDV) is a wholly owned subsidiary of TCS. It has been established to provide the construction of the main campus for the Combined Universities in Cornwall project based at Tremough in Penryn.

Both TCS and TDV have financial years that end on 31 July.

	2006		2005	
	£'000	£'000	£'000	£'000
University of Exeter's share of TCS				
Income		2,730		2,331
Deficit before and after tax		(318)		(150)
Fixed assets	13,614		10,196	
Current assets	1,537		1,740	
		15,151		11,936
Liabilities: due within one year	(1,587)		(1,479)	
Liabilities: due after more than one year or more	(11,159)		(10,382)	
		(12,746)		(11,861)
Share of net assets		2,405		75

NOTES TO THE ACCOUNTS

NOTE 14 ENDOWMENT ASSET INVESTMENTS – Group and University

	2006	2005
	£'000	£'000
Balance brought forward	13,551	10,585
Additions – new funds received	6	18
Additions – interest and dividends re-invested	386	366
Disposals – capital withdrawn	(31)	(57)
Disposals – income withdrawn	(358)	(322)
Appreciation on disposals/revaluation	3,091	2,961
	<u>16,645</u>	<u>13,551</u>
The investments comprise:		
Fixed interest stocks	896	1,440
Equities	14,063	12,111
Bank balances	1,686	—
	<u>16,645</u>	<u>13,551</u>

NOTE 15 DEBTORS

	Group		University	
	2006	2005	2006	2005
	£'000	£'000	£'000	£'000
Amounts falling due within one year:				
Debtors	11,457	10,059	11,392	9,461
Amounts owed by group undertakings:				
Subsidiary companies	—	—	68	2,790
Prepayments and accrued income	6,371	3,550	6,366	3,526
	<u>17,828</u>	<u>13,609</u>	<u>17,826</u>	<u>15,777</u>

NOTE 16 RESTRICTED CASH AT BANK

In the year ended 31 July 2004 a £20m loan facility was arranged with The Royal Bank of Scotland (RBS) as funding for the 2003-06 capital programme. During the year ended 31 July 2005 the composition of this capital programme fundamentally changed.

The original loan agreement stated that a predetermined amount must be drawn each quarter based on the programme's original profile of capital expenditure. The change in composition meant that the funds due to be drawn each quarter were in excess of the expenditure incurred. RBS set up a deposit account to hold the excess funds until they are required for the capital purpose for which they were originally intended.

This deposit account is in the name of the University of Exeter but is controlled by RBS. The balance can only be utilised on receipt by RBS of proof of capital expenditure by the University. The deposit account is not considered to be liquid funds in the University's books. The interest rate payable on the loan facility is 5.82% per annum. The interest rate receivable on the deposit account is 0.05% above the Bank of England base rate.

NOTES TO THE ACCOUNTS

NOTE 17 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		University	
	2006	2005	2006	2005
	£'000	£'000	£'000	£'000
Bank loans and overdrafts (note 19)	744	3,784	744	3,784
Payments received in advance	1,054	1,145	901	1,145
Trade creditors	19,494	11,862	19,451	11,666
Amounts owed to group undertakings:				
Subsidiary companies	—	—	—	614
Taxation and social security	2,169	2,046	2,159	2,036
Accruals and deferred income	12,040	10,182	12,028	10,291
	<u>35,501</u>	<u>29,019</u>	<u>35,283</u>	<u>29,536</u>

Trade creditors include an amount of £485,000 (2005: £586,000) due in respect of pension liabilities following early retirements.

NOTE 18 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		University	
	2006	2005	2006	2005
	£'000	£'000	£'000	£'000
Bank loans (note 19)	75,762	60,750	75,762	60,750
Inherited Liability – Cornwall County Council	58	65	58	65
Amounts owed to group undertakings:				
Subsidiary companies	—	—	1,954	3,306
Other long term creditors	976	1,811	976	1,811
	<u>76,796</u>	<u>62,626</u>	<u>78,750</u>	<u>65,932</u>

Included within bank loans is interest of £2,699,000 (2005: £1,917,000) that has been added to the loan balances whilst the University benefits from a repayment holiday.

Other long-term creditors include an amount of £976,000 (2005: £1,092,000) due in respect of pension liabilities following early retirements.

NOTES TO THE ACCOUNTS

NOTE 19 BORROWINGS – Group and University

a) Bank loans and overdrafts

	2006 £'000	2005 £'000
Bank loans and overdrafts are repayable as follows:		
Bank overdrafts	252	3,317
Bank loans:		
In one year or less	492	467
In one to two years	1,097	495
In two to five years	3,983	3,645
In five years or more	70,682	56,610
	76,506	64,534

i) Included within the total balance above is the following: -

	Facility £'000	Interest Rate %	Repayment	Term	2006 £'000	2005 £'000
Barclays Bank Plc	29,657	5.88	Quarterly	27 years (to 2032)	29,030	24,117
Royal Bank of Scotland Plc	22,000	7.66	Quarterly	25 years (to 2029)	21,067	21,396
Royal Bank of Scotland Plc	22,305	5.82	Quarterly	28 years (to 2032)	20,067	9,286
Royal Bank of Scotland Plc	5,705	LIBOR plus mark up	Annually	25 years (to 2016)	3,305	3,496
Royal Bank of Scotland Plc	1,300	LIBOR plus mark up	Quarterly	25 years (to 2023)	871	923
Royal Bank of Scotland Plc	1,291	LIBOR plus mark up	Annually	25 years (to 2022)	826	878
Barclays Bank Plc	1,250	LIBOR plus mark up	Quarterly	25 years (to 2025)	1,088	1,121
					76,254	61,217
Repayable within one year					(492)	(467)
					75,762	60,750

All bank loans and overdrafts are secured over University freehold land and buildings.

The Barclays Bank Plc facility of £29,657,000 includes a loan of £28,000,000 plus interest that was capitalised whilst the University benefited from an initial two-year repayment holiday.

The Royal Bank of Scotland Plc facility of £22,305,000 includes a loan of £20,000,000 plus interest that was capitalised whilst the University benefited from an initial three-year repayment holiday.

b) Finance Leases

The University is not committed to any finance lease obligations.

NOTES TO THE ACCOUNTS

NOTE 20 DEFERRED CAPITAL GRANTS – Group and University

	Funding Council £'000	Other Grants £'000	Total £'000
At 1 August 2005			
Land and buildings	30,844	25,780	56,624
Equipment	1,012	190	1,202
	<u>31,856</u>	<u>25,970</u>	<u>57,826</u>
Grants receivable			
Land and buildings	4,758	3,879	8,637
Equipment	—	392	392
	<u>4,758</u>	<u>4,271</u>	<u>9,029</u>
Released to Income and Expenditure Account			
Land and buildings	993	1,073	2,066
Equipment	248	222	470
	<u>1,241</u>	<u>1,295</u>	<u>2,536</u>
At 31 July 2006			
Land and buildings	34,609	28,586	63,195
Equipment	764	360	1,124
	<u>35,373</u>	<u>28,946</u>	<u>64,319</u>

NOTE 21 ENDOWMENTS – Group and University

Specific Endowments

	2006 £'000	2005 £'000
At 1 August	13,551	10,585
Additions	6	18
Disposals	(19)	—
Appreciation of endowment asset investments	3,091	2,961
Income for the year	386	366
Transferred to income and expenditure account	(370)	(379)
	<u>16,645</u>	<u>13,551</u>
At 31 July	16,645	13,551
Representing:		
Trustee Securities Pool	3,247	2,650
Institute for Arab and Islamic Studies	12,106	9,847
Other	1,292	1,054
	<u>16,645</u>	<u>13,551</u>

Additions are new endowments received and income for the year includes investment interest and dividends received on the portfolios.

NOTES TO THE ACCOUNTS

NOTE 22 REVALUATION RESERVE

Group

	Freehold Land & Buildings £'000	Fixed Asset Investments £'000	Total £'000
At 1 August 2005	88,921	4,350	93,271
Revaluation in the year			
Land and buildings	184,142	—	184,142
Land and buildings in joint venture	2,683	—	2,683
Fixed assets investments - Fine Art collection	—	(381)	(381)
Fixed assets investments - Special Library collection	—	253	253
Fixed assets investments - Quoted shares	—	334	334
	<u>186,825</u>	<u>206</u>	<u>187,031</u>
Transfer from revaluation to general reserve:			
Depreciation on re-valued assets	(2,146)	—	(2,146)
Impairment on re-valued assets	(2,549)	—	(2,549)
	<u>(4,695)</u>	<u>—</u>	<u>(4,695)</u>
Release of previous years property revaluation surpluses on current year disposals	(218)	—	(218)
	<u>(4,913)</u>	<u>—</u>	<u>(4,913)</u>
At 31 July 2006	<u>270,833</u>	<u>4,556</u>	<u>275,389</u>

University

	Freehold Land & Buildings £'000	Fixed Asset Investments £'000	Total £'000
At 1 August 2005	88,708	4,350	93,058
Revaluation in the year			
Land and buildings	184,142	—	184,142
Fixed assets investments - Fine Art collection	—	(381)	(381)
Fixed assets investments - Special Library collection	—	253	253
Fixed assets investments - Quoted shares	—	334	334
	<u>184,142</u>	<u>206</u>	<u>184,348</u>
Transfer from revaluation to general reserve:			
Depreciation on re-valued assets	(2,134)	—	(2,134)
Impairment on re-valued assets	(2,549)	—	(2,549)
	<u>(4,683)</u>	<u>—</u>	<u>(4,683)</u>
Release of previous years property revaluation surpluses on current year disposals	(218)	—	(218)
	<u>(4,901)</u>	<u>—</u>	<u>(4,901)</u>
At 31 July 2006	<u>267,949</u>	<u>4,556</u>	<u>272,505</u>

NOTES TO THE ACCOUNTS

NOTE 23 INCOME AND EXPENDITURE RESERVE

	Group		University	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Balance at 1 August	15,590	22,244	15,745	22,260
Deficit for the year	(1,201)	(12,678)	(802)	(12,527)
Transfers from revaluation reserve	4,913	6,125	4,901	6,113
Other movements	(3,240)	(101)	(3,205)	(101)
Balance at 31 July	16,062	15,590	16,639	15,745

Represented by:

Consolidated

	Balance at 1 August 2005 £'000	Result for the year £'000	Revaluation Reserve £'000	Other Movements £'000	Balance at 31 July 2006 £'000
Available Reserves					
Schools	1,364	3,356	—	(1,141)	3,579
Professional Services	5,439	(376)	—	(3,219)	1,844
Hospitality Services	1,186	105	—	9	1,300
Strategic Development Fund	443	223	—	98	764
Infrastructure Fund	1,620	403	—	2,581	4,604
Other reserves	1,348	(309)	—	(80)	959
General reserve	(958)	(4,503)	4,913	2,051	1,503
	<u>10,442</u>	<u>(1,101)</u>	<u>4,913</u>	<u>299</u>	<u>14,553</u>
Committed Reserves					
Capital reserve	21,460	—	—	1,102	22,562
Residences equalisation	(3,212)	—	—	(2,166)	(5,378)
Pension liability	(13,100)	(100)	—	(2,475)	(15,675)
	<u>5,148</u>	<u>(100)</u>	<u>—</u>	<u>(3,539)</u>	<u>1,509</u>
Total consolidated reserves	15,590	(1,201)	4,913	(3,240)	16,062

NOTES TO THE ACCOUNTS

NOTE 23 INCOME AND EXPENDITURE RESERVE Contd.

University

	Balance at 1 August 2005 £'000	Deficit for the year £'000	Revaluation Reserve £'000	Other Movements £'000	Balance at 31 July 2006 £'000
Available reserves					
Schools	1,364	3,356	—	(1,141)	3,579
Professional Services	5,439	(376)	—	(3,219)	1,844
Hospitality Services	1,186	105	—	9	1,300
Strategic Development Fund	443	223	—	98	764
Infrastructure Fund	1,620	403	—	2,581	4,604
Other reserves	1,348	(309)	—	(80)	959
General reserve	(803)	(4,104)	4,901	2,051	2,045
	<u>10,597</u>	<u>(702)</u>	<u>4,901</u>	<u>299</u>	<u>15,095</u>
Committed Reserves					
Capital reserve	21,460	—	—	1,102	22,562
Residences equalisation	(3,212)	—	—	(2,166)	(5,378)
Pension liability	(13,100)	(100)	—	(2,440)	(15,640)
	<u>5,148</u>	<u>(100)</u>	<u>—</u>	<u>(3,504)</u>	<u>1,544</u>
Total University reserves	<u>15,745</u>	<u>(802)</u>	<u>4,901</u>	<u>(3,205)</u>	<u>16,639</u>

NOTE 24 RECONCILIATION OF CONSOLIDATED OPERATING DEFICIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2006 £'000	2005 £'000
Deficit on continuing operations	(1,201)	(12,678)
FRS 17 – Pension adjustment	(660)	1,700
Depreciation (note 7)	7,535	6,904
Impairment of land and buildings (note 9B)	2,664	1,048
Deficit on disposal of tangible fixed assets (note 9)	(313)	3,219
Deferred capital grants released (note 20)	(2,536)	(2,277)
Deferred capital grants released on impairment (note 20)	-	(325)
Endowment and investment income (note 5)	(1,899)	(1,044)
Interest payable (note 8)	4,399	3,333
Decrease in stock	35	198
(Increase) in debtors	(2,008)	(734)
Increase in creditors	7,333	2,820
Net cash inflow from operating activities	<u>13,349</u>	<u>2,164</u>

NOTES TO THE ACCOUNTS

NOTE 25 RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

	2006	2005
	£'000	£'000
Income from endowments	386	365
Income from short term investments	1,102	646
Other interest received	43	40
Interest paid	(3,843)	(2,062)
	<hr/>	<hr/>
Net cash outflow from returns on investments and servicing of finance	(2,312)	(1,011)
	<hr/>	<hr/>

NOTE 26 CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

	2006	2005
	£'000	£'000
Purchase of tangible assets	(18,526)	(24,264)
Payments to acquire long term investments	318	140
Payments to acquire endowment asset investments	(43)	(307)
	<hr/>	<hr/>
Total fixed and endowment assets acquired	(18,251)	(24,431)
Receipts from the sale of tangible assets	608	1,334
Receipts from the sale of long term investments	—	—
Receipts from the sale of endowment assets	370	379
Cash placed in restricted deposit account	(6,236)	(3,676)
Deferred capital grants received	6,899	15,645
Endowments received	(10)	18
	<hr/>	<hr/>
Net cash outflow from capital expenditure and financial investment	(16,620)	(10,731)
	<hr/>	<hr/>

NOTE 27 MANAGEMENT OF LIQUID RESOURCES

	2006	2005
	£'000	£'000
Cash withdrawn from/(placed in) short term deposits	—	2,000
	<hr/>	<hr/>
Net cash inflow/(outflow) from management of liquid resources	—	2,000
	<hr/>	<hr/>

NOTES TO THE ACCOUNTS

NOTE 28 FINANCING

	2006	2005
	£'000	£'000
Debt due beyond one year:		
New loans repayable by 2012	501	1,288
New secured loan repayable by 2016	—	3,000
New secured loan repayable by 2029	—	—
New secured loan repayable by 2032	5,010	4,317
New secured loan repayable by 2032	10,000	6,300
	<u>15,511</u>	<u>14,905</u>
Repayment of amounts borrowed	(1,479)	(1,726)
	<u>14,032</u>	<u>13,179</u>
Net cash inflow from financing	<u>14,032</u>	<u>13,179</u>

NOTE 29 ANALYSIS OF CHANGES IN NET DEBT

	At 1 August	Cash	Other	At 31 July
	2005	Flows	Changes	2006
	£'000	£'000	£'000	£'000
Cash in hand and at bank	17,706	5,035	—	22,741
Endowment asset investments	(349)	349	—	—
Overdrafts	(3,317)	3,065	—	(252)
	<u>14,040</u>	<u>8,449</u>	<u>—</u>	<u>22,489</u>
Debt due within 1 year	(1,060)	76	—	(984)
Debt due after 1 year	(62,626)	(14,108)	(62)	(76,796)
	<u>(49,646)</u>	<u>(5,583)</u>	<u>(62)</u>	<u>(55,291)</u>

NOTE 30 PENSION SCHEMES

The two principal schemes for the University's staff are the national Universities Superannuation Scheme (USS) and the University of Exeter Retirement Benefits Scheme (ERBS), which are externally invested defined benefit (final salary) schemes, contracted out of the State Second Pension. The assets of the schemes are held in separate trustee-administered funds.

The University also makes contributions to the National Health Superannuation Scheme (NHSS) in respect of a small number of staff at its School of Sport & Health Sciences and the Peninsula College of Medicine and Dentistry.

NOTES TO THE ACCOUNTS

NOTE 30 PENSION SCHEMES Contd.

The latest actuarial valuation for USS was at 31 March 2005 and for ERBS was 6 April 2006. The pension costs for both schemes are assessed using the projected unit method. The assumptions that have the most significant effect on the result of the valuations are those relating to the rate of return on investments (i.e. the valuation rate of interest) and the rates of increase in salary and pensions. In relation to the past service liabilities the financial assumptions were derived from market yields prevailing at the valuation date. The assumptions and other data, which have the most significant effect on the determination of contribution levels, are as follows:

	USS	ERBS
Latest actuarial valuations	31 March 2005	6 April 2006
Investment return – past service per annum	4.5%	5.6%
Investment return – future service per annum	6.2%	5.6%
Pensionable salary increases per annum	3.9%	4.5%
Pension increases per annum	2.9%	3.0%
Price inflation per annum	2.9%	3.0%
Actuarial value of assets at date of last valuation	£21,740m	£63.4m
Value of past service liabilities	£28,308m	£84.0m
Proportion of members' accrued benefits covered by the actuarial value of the assets	77%	76%

(i) USS

The University participates in the Universities Superannuation Scheme, a defined benefit scheme which is externally funded and contracted out of the State Second Pension. The assets of the scheme are held in a separate trustee-administered fund. The University is unable to separately identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 'Retirement benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

The latest actuarial valuation of the scheme was at 31 March 2005. The assumptions that have the most significant effect on the result of the valuation are those relating to the rate of return on investments (i.e. the valuation rate of interest) and the rates of increase in salary and pensions. In relation to the past service liabilities the financial assumptions were derived from market yields prevailing at the valuation date. It was assumed that the valuation rate of interest would be 4.5% per annum, salary increases would be 3.9% per annum (plus an additional allowance for increases in salaries due to age and promotion in line with recent experience) and pensions would increase by 2.9% per annum. In relation to the future service liabilities it was assumed that the valuation rate of interest would be 6.2% per annum, including an additional investment return assumption of 1.7% per annum, salary increases would be 3.9% per annum (also plus an allowance for increases in salaries due to age and promotion) and pensions would increase by 2.9% per annum. The valuation was carried out using the projected unit method.

NOTES TO THE ACCOUNTS

NOTE 30 PENSION SCHEMES Contd.

At the valuation date, the value of the assets of the scheme was £21,740 million and the value of the past service liabilities was £28,308 million indicating a deficit of £6,568 million. The assets therefore were sufficient to cover 77% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The actuary also valued the scheme on a number of other bases as at the valuation date. Using the Minimum Funding Requirement prescribed assumptions introduced by the Pensions Act 1995, the scheme was 126% funded at that date; under the Pension Protection Fund regulations introduced by the Pensions Act 2004 it was 110% funded; on a buy-out basis (i.e. assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 74% of the amount necessary to secure all the USS benefits with an insurance company; and using the FRS 17 formula as if USS was a single employer scheme, the actuary estimated that the funding level would have been approximately 90%.

The institution contribution rate required for future service benefits alone at the date of the valuation was 14.3% of pensionable salaries but the trustee company decided to maintain the institution contribution rate at 14% of pensionable salaries.

Surpluses or deficits which arise at future valuations may impact on the institution's future contribution commitment. An additional factor which could impact the funding level of the scheme is that with effect from 16 March 2006, USS positioned itself as a "last man standing" scheme so that in the event of the insolvency of any of the participating employers in USS, the amount of any pension funding shortfall (which cannot otherwise be recovered) in respect of that employer will be spread across the remaining participant employers and reflected in the next actuarial valuation of the scheme.

The next formal triennial actuarial valuation is due as at 31 March 2008. The contribution rate will be reviewed as part of each valuation.

The total pension cost for the institution was £5,656,000 (2005: £5,613,000). This includes £741,000 (2005: £713,000) outstanding contributions at the balance sheet date. The contribution rate payable by the institution was 14% of pensionable salaries.

(ii) ERBS

The latest actuarial valuation dated 5 April 2006 continued to show that the funds held by the Scheme were insufficient to meet anticipated future commitments. The University has set a target of 20 years to eliminate this deficit and has agreed to increase employer's contributions in order to fund the projected shortfall.

The principal assumptions used were in accordance with those used by independent qualified actuaries in updating the most recent reviews of the UK schemes for Financial Reporting Standard (FRS 17) purposes as follows:

	2006	2005
	%	%
Rate of increase in salaries	4.6	4.2
Rate of increase in pension payments	3.1	2.7
Discount rate for scheme liabilities	5.1	5.0
Inflation assumption	3.1	2.7

NOTES TO THE ACCOUNTS

NOTE 30 PENSION SCHEMES Contd.

The assets in the scheme and the expected rates of return were:

	Long-term rate of return expected at 31 July 2006	31 July 2006	Long-term rate of return expected at 31 July 2005	31 July 2005
	%	£m	%	£m
Equities	7.5	43.4	6.5	38.8
Bonds	4.5	16.3	4.5	15.5
Cash/Other	4.5	0.2	4.5	0.7
	<hr/>	<hr/>	<hr/>	<hr/>
	6.7	59.9	5.9	55.0
		<hr/>		<hr/>
Present value of scheme liabilities		(75.5)		(68.1)
		<hr/>		<hr/>
Pension liability		(15.6)		(13.1)
		<hr/>		<hr/>

Income and Expenditure Account

Analysis of the amount charged to the income and expenditure account:

	2006	2005
	£m	£m
Current service cost	1.8	1.5
Past service cost	—	1.6
	<hr/>	<hr/>
Total operating charge	1.8	3.1
	<hr/>	<hr/>

Analysis of the amount charged to the income and expenditure account:

	2006	2005
	£m	£m
Within pension costs (note 6) – monthly contributions	1.8	1.8
Within pension costs (note 6) – FRS 17	—	0.5
Within restructuring costs (note 9) – FRS 17	—	0.8
	<hr/>	<hr/>
Total operating charge	1.8	3.1
	<hr/>	<hr/>

Analysis of amount credited to other finance expenditure:

	2006	2005
	£m	£m
Expected return on pension scheme assets	3.3	2.9
Interest on pension scheme liabilities	(3.4)	(3.3)
	<hr/>	<hr/>
Net (charge)/credit in accounts	(0.1)	(0.4)
	<hr/>	<hr/>

NOTES TO THE ACCOUNTS

NOTE 30 PENSION SCHEMES Contd.

Statement of Recognised Gains and Losses (STRGL)

Analysis of the amount recognised in the statement of recognised gains and losses:

	2006	2005
	£m	£m
Actual return less expected return on scheme assets	2.0	6.5
Experience losses on the scheme liabilities	(1.6)	(0.7)
Changes in financial and demographic assumptions underlying the present value of scheme liabilities	(3.6)	(5.9)
	<hr/>	<hr/>
Actuarial loss recognised in STRGL	(3.2)	(0.1)
	<hr/>	<hr/>

The movement in the schemes deficit during the year is made up as follows:

	2006	2005
	£m	£m
Deficit on scheme at 1 August	(13.1)	(11.3)
Movements in the year:		
Current service cost	(1.8)	(1.5)
Contributions paid	2.6	1.8
Past services costs	—	(1.6)
Other finance expenditure	(0.1)	(0.4)
Actuarial losses	(3.2)	(0.1)
	<hr/>	<hr/>
Deficit on scheme at 31 July	(15.6)	(13.1)
	<hr/>	<hr/>

History of experience gains and losses:

	2006	2005
Difference between expected and actual return on scheme assets:		
- Amount (£m)	2.0	6.5
- Percentage of scheme assets	3.3%	11.8%
Experience losses on scheme liabilities:		
- Amount (£m)	(1.6)	(0.7)
- Percentage of the present value of the scheme assets	(2.1%)	(1.0%)
Total amount recognised in the statement of total recognised gains and losses:		
- Amount (£m)	(3.2)	(0.1)
- Percentage of the present value of the scheme assets	(4.2%)	(0.1%)

NOTES TO THE ACCOUNTS

NOTE 30 PENSION SCHEMES Contd.

(iii) Total Pension Cost

The total pension cost for the University was:

	2006	2005
	£'000	£'000
Contributions to USS – regular cost	5,656	5,613
Contributions to ERBS – current and past service cost	1,743	2,334
Contributions to other pension schemes	81	56
	7,480	8,003
Supplementary pension costs	26	36
Early retirement pension enhancement costs	68	278
	7,574	8,317
Total pension cost	7,574	8,317

In addition to the contributions to ERBS above, £nil (2005: £760,000) is included within exceptional restructuring costs (note 9C).

NOTE 31 CAPITAL COMMITMENTS – Group and University

	2006	2005
	£'000	£'000
Commitments contracted at 31 July	8,749	8,350
Authorised but not contracted at 31 July	34,704	38,200
	43,453	46,550

During the year expenditure was incurred on academic buildings, student accommodation, conference facilities and student amenity buildings.

NOTE 32 RELATED PARTY TRANSACTIONS

Due to the nature of the University's operations and the composition of the University Council (with members being drawn from local, public and private sector organisations) it is inevitable that transactions will take place with organisations in which a member of Council may have an interest. All transactions involving organisations in which a member of Council may have an interest are conducted at arm's length and in accordance with the University's financial regulations and normal procurement procedures, which require individuals to declare any interest.

The University has taken advantage of the exemption under FRS 8 'Related party disclosures' not to disclose transactions with subsidiaries that are at least 90% owned.

NOTES TO THE ACCOUNTS

NOTE 32 RELATED PARTY TRANSACTIONS Contd.

Tremough Campus Services

The University holds a 50% share of Tremough Campus Services (TCS), a company limited by guarantee, having no share capital and for which exempt charitable status has been obtained. TCS is a joint venture company owned equally by the University and University College Falmouth (UCF).

TCS has been established to operate student and commercial services for the Combined Universities in Cornwall campus at Tremough in Penryn under a combined services agreement and commenced trading in August 2004.

The University and UCF have continued to guarantee a sum of £9.3m each to Lloyds TSB Bank Plc, in respect of the borrowings of £18.6m to TCS. Also during the year TCS took out a further bank loan facility of £12.5m with Lloyds TSB Bank Plc. The University and UCF have guaranteed a sum of £6.25m each on this facility.

Tremough Development Vehicle Limited (TDV) is a wholly owned subsidiary of TCS. It has been established to provide the construction of the main campus for the Combined Universities in Cornwall project based at Tremough. TDV will continue to undertake academic related building works on behalf of the University and UCF. The University and UCF receive capital grants that are released to TDV to fund the academic development at the Tremough campus.

During the year TCS continued to contract for the design and construction of Phase 2 of the hub development for the Combined Universities in Cornwall initiative. TCS will contract the works with third parties and will recover funds from the University and UCF on the basis of an agreed split of costs and usage of space. This split has been set at 52.44% (Phase 1) and 45.48% (Phase 2) for the University and 47.56% (Phase 1) and 54.52% (Phase 2) for UCF. TCS has capital commitments as follows: -

	2006	2005
	£'000	£'000
Commitments contracted at 31 July	30,049	46,961
Authorised but not contracted at 31 July	6,304	23,571
	<hr/>	<hr/>
	36,353	70,532
	<hr/>	<hr/>

Amounts authorised are in respect of the building works for Phase 2 of the hub less commitments to date. Commitments then relate to the design, construction and fit-out for this work that had been awarded to contractors at the year end date.

NOTES TO THE ACCOUNTS

NOTE 32 RELATED PARTY TRANSACTIONS Contd.

Transactions between the University and TCS were as follows: -

	2006	2005
	£'000	£'000
Income derived from TCS	105	75
Expenditure incurred from TCS	851	965
Payments by TCS on behalf of the University	1,954	4,236

'Payments by TCS on behalf of the University' represents amounts paid to contractors for the University's share of the design and construction of Phases 1 and 2 at the Tremough campus.

The balances owing between the University and TCS at the year end were as follows: -

	2006	2005
	£'000	£'000
Amount owing from University of Exeter to TCS	1,054	974
Amount due to University of Exeter from TCS	50	50

University of Exeter Students' Guild

In accordance with FRS 2, the activities of the University of Exeter Student's Guild have not been consolidated on the grounds that the University does not operate dominant influence over its activities. During the year ended 31 July 2006 the surplus on the Guild's activities was £2,000 (2005: £12,000 deficit) and its capital and reserves totalled £228,000 at this date (2005: £226,000).

The Exeter University Foundation

In accordance with FRS 2, the activities of the accounts of The Exeter University Foundation, a registered charity, have not been consolidated on the grounds that the University does not operate dominant influence over its activities.

The Foundation is a development trust established to raise funds for the benefit of the University with its own charity registration. During the year ended 31 July 2006 it made charitable disbursements to the University of £0.7m (2005: £1.1m) and had funds totalling £5.5m at that date (2005: £4.7m).

NOTES TO THE ACCOUNTS

NOTE 32 RELATED PARTY TRANSACTIONS Contd.

Thomas Hall Estates Limited

During the year the University entered into an arrangement with a local construction company to renovate and refurbish Thomas Hall. The nature of the arrangement was that a company, Thomas Hall Estates Limited, was established to carry out the required work and that each party would subscribe £1m each; the construction company in cash and the University by way of property insertion.

Two of the University's staff and the Treasurer (Chair) are directors of Thomas Hall Estates Limited.

At the balance sheet date planning permission had not yet been granted and, as stated in the agreement, if the project was aborted each party would be liable to 50% of the costs incurred to date by the company. As such the University has accrued costs of £133,000.

NOTE 33 ACCESS FUNDS

Summary of transactions for the year ended 31 July 2006

	2006	2005
	£'000	£'000
Balance unspent at 1 August	46	39
Funding Council grants	479	413
Interest earned	3	4
	<hr/>	<hr/>
	528	456
Disbursed to students	(480)	(406)
Administration costs	(3)	(4)
	<hr/>	<hr/>
Balance unspent at 31 July	45	46

Funding Council grants are available solely for students; the University acts only as paying agent. The grants and related disbursements are therefore excluded from the Income and Expenditure Account.

NOTE 34 ITT TRAINING BURSARIES

Summary of transactions for the year ended 31 July 2006

	2006	2005
	£'000	£'000
Balance brought forward at 1 August	230	91
TDA grants received	3,604	3,479
	<hr/>	<hr/>
Total TDA training bursary funding available for the year	3,834	3,570
Disbursements to students	(3,688)	(3,340)
	<hr/>	<hr/>
Funds to be recovered at 31 July	146	230

TDA training bursaries are available solely for students; the University acts only as paying agent. The training bursaries are therefore excluded from the Income and Expenditure Account.

NOTES TO THE ACCOUNTS

NOTE 35 ITT MINORITY ETHNIC RECRUITMENT (MER)

Summary of transactions for the year ended 31 July 2006

	2006	2005
	£'000	£'000
Balance at 1 August	—	—
Basic and Challenge funds received	15	8
Recruitment funds received	2	2
	<hr/>	<hr/>
Total Minority Ethnic Recruitment funding available for the year	17	10
Disbursements to students	(15)	(10)
	<hr/>	<hr/>
Balance at 31 July	2	—
	<hr/>	<hr/>

NOTE 36 ITT STUDENT ASSOCIATES SCHEME (SAS)

Summary of transactions for the year ended 31 July 2006

	2006	2005
	£'000	£'000
Balance at 1 August	497	324
Funds received	1,412	1,134
Disbursements to students	(1,254)	(961)
	<hr/>	<hr/>
Balance at 31 July	655	497
	<hr/>	<hr/>

NOTES TO THE ACCOUNTS

NOTE 37 PENINSULA COLLEGE OF MEDICINE AND DENTISTRY

INCOME AND EXPENDITURE ACCOUNT of the HE Community Chest for the year ended 31 July 2006

		University of Exeter	University of Plymouth	Total	Total
		2005/06	2005/06	2005/06	2004/05
INCOME	Note	£'000	£'000	£'000	£'000
Funding Council grants	iii	3,504	3,504	7,008	6,514
Tuition fees and education contracts		579	579	1,158	777
University research support		62	61	123	189
NHS funding	iv	2,382	2,382	4,764	5,104
Research grants and contracts		2,357	2,357	4,714	4,461
Other income	v	1,419	1,419	2,838	2,991
Endowment and investment income		164	164	328	251
		<hr/>	<hr/>	<hr/>	<hr/>
Total income		10,467	10,466	20,933	20,287
		<hr/>	<hr/>	<hr/>	<hr/>
EXPENDITURE					
Staff costs		6,118	6,119	12,237	11,002
Other operating expenses		3,931	3,931	7,862	7,504
Depreciation	vi	123	122	245	212
		<hr/>	<hr/>	<hr/>	<hr/>
Total expenditure		10,172	10,172	20,344	18,718
		<hr/>	<hr/>	<hr/>	<hr/>
Surplus on continuing operations		295	294	589	1,569
		<hr/>	<hr/>	<hr/>	<hr/>

NOTES TO THE ACCOUNTS

NOTE 37 PENINSULA COLLEGE OF MEDICINE AND DENTISTRY Contd.

BALANCE SHEET of the HE Community Chest as at 31 July 2006

	Note	2006 £'000	2005 £'000
Fixed assets			
Tangible assets	vi	632	768
Current assets			
Debtors	vii	5,862	3,694
Cash at bank and in hand	viii	6,730	5,305
		12,592	8,999
Creditors: amounts falling due within one year	ix	(9,579)	(6,581)
Net current assets		3,013	2,418
Total assets less current liabilities		3,645	3,186
NET ASSETS		3,645	3,186
Deferred capital grants		627	757
Reserves	x	3,018	2,429
TOTAL		3,645	3,186

Explanatory Notes

i. *Background*

The Peninsula College of Medicine and Dentistry (PCMD) is not a legal entity in its own right. It is a joint arrangement entered into in partnership by the University of Exeter and the University of Plymouth. PCMD, in turn, has partnership arrangements with three NHS Trusts (The Royal Devon and Exeter NHS Foundation Trust, Plymouth Hospitals NHS Trust and Royal Cornwall Hospitals Trust) and further arrangements with healthcare providers throughout the South West peninsula.

ii. *Audit arrangements*

A 50% share of the Income, Expenditure and Balance Sheet items of the Peninsula College of Medicine and Dentistry is included within the Income and Expenditure Account and Balance Sheet of each of the Universities. These transactions are part of the audited financial statements of each University for the year ended 31 July 2006.

NOTES TO THE ACCOUNTS

NOTE 37 PENINSULA COLLEGE OF MEDICINE AND DENTISTRY Contd.

iii. Funding Council grants

	2006	2005
	£'000	£'000
Recurrent grant	6,418	5,110
Specific grants		
HEFCE equipment capital grant	—	1,080
Widening participation	—	10
Other	401	133
Deferred capital grants released in the year		
Equipment	189	181
	<u>7,008</u>	<u>6,514</u>

iv. NHS Funding

	2006	2005
	£'000	£'000
Service Increment for Teaching (SIFT) funding	4,764	4,508
Capital funding	—	596
	<u>4,764</u>	<u>5,104</u>

This funding was receivable to cover HE expenditure attributable to the NHS aspects of the Peninsula College of Medicine and Dentistry.

v. Other Income

	2006	2005
	£'000	£'000
Other grant income	1,050	103
Other income	1,788	2,888
	<u>2,838</u>	<u>2,991</u>

vi. Fixed Assets

Equipment costing less than £25,000 per individual item or group of related items is written off in the year of acquisition. All other equipment is capitalised. Capitalised equipment is stated at cost and depreciated over its useful life as follows:

Computer equipment	4 years
Equipment acquired for specific research projects	project life (generally 3 years)
Other equipment	8 years

Where equipment is acquired with the aid of specific grants it is capitalised and depreciated as above. The related grant is treated as a deferred capital grant and released to income over the expected life of the equipment. The equipment capitalised in this statement is solely acquired with funding made available from the HE Community Chest and the equipment is jointly owned by the two Universities. The principal items are for telematics.

NOTES TO THE ACCOUNTS

NOTE 37 PENINSULA COLLEGE OF MEDICINE AND DENTISTRY Contd.

vii. *Debtors*

	2006	2005
	£'000	£'000
Debtors	1,185	1,285
Prepayments and accrued income	1,936	1,634
Due from NHS partners	2,741	775
	5,862	3,694

viii. *Cash at Bank and in Hand*

	2006	2005
	£'000	£'000
Held by:		
University of Exeter	5,403	4,177
University of Plymouth	1,256	976
University of Plymouth Peninsula College of Medicine and Dentistry	71	152
	6,730	5,305

These balances are held under the agreed management arrangements. The University of Plymouth Peninsula College of Medicine and Dentistry account facilitates payments to suppliers whilst the balances held by the University of Exeter and the University of Plymouth are held in short-term deposits.

ix. *Creditors: Amounts falling due within one year*

	2006	2005
	£'000	£'000
Trade creditors	72	347
Other creditors	21	10
Due to partner universities	1,314	552
Deferred income:		
HEFCE recurrent teaching grant	3,354	2,558
NHS capital funding received in advance	265	265
NHS Dental School set-up funding received in advance	146	—
Accruals and other deferred income	4,407	2,849
	9,579	6,581

NOTES TO THE ACCOUNTS

NOTE 37 PENINSULA COLLEGE OF MEDICINE AND DENTISTRY Contd.

x. Reserves

	2006	2005
	£'000	£'000
Opening balance	2,429	860
Surplus for the year	589	1,569
Closing balance	<u>3,018</u>	<u>2,429</u>

xi. Expenditure within the NHS

During the year ended 31 July 2006 the following expenditure relating to PCMD took place within the NHS:

	2006	2005
	£'000	£'000
	<u>14,168</u>	<u>6,718</u>