

**FINANCIAL STATEMENTS**  
**2003/2004**

## CONTENTS

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Report of the Treasurer	1	Printed copies of the Annual Review and the Financial Statements are available from: Design and Publications Office University of Exeter Northcote House The Queen's Drive Exeter EX4 4QJ  Tel: (01392) 263140 Fax: (01392) 264074 E-mail: M.Williams@exeter.ac.uk  The Financial Statements are also on the World Wide Web at <a href="http://www.exeter.ac.uk/admin/finance/accounts.pdf">www.exeter.ac.uk/admin/finance/accounts.pdf</a>  Designed and typeset by the Design and Publications Office Printed by Brightsea Press, Exeter
Corporate Governance Statement	5	
Responsibilities of the Council of the University	8	
Report of the Auditors	10	
Consolidated Income and Expenditure Account	11	
Consolidated Statement of Historical Cost Surpluses	12	
Statement of Consolidated Total Recognised Gains and Losses	12	
Balance Sheets	13	
Consolidated Cash Flow Statement	14	
Statement of Principal Accounting Policies	15-18	
Notes to the Financial Statements	19-47	



## REPORT OF THE TREASURER

### SCOPE OF THE FINANCIAL STATEMENTS

The Financial Statements for the financial year to 31 July 2004 have been prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education 2003 (SORP).

The accounts of the University's wholly owned subsidiary companies, Dartvale Limited and Exeter Development Capital Limited, have been consolidated with those of the University. Dartvale Limited is operated to effect property transactions. Exeter Development Capital Limited was formed in 1996/97 to facilitate a loan arrangement with National Westminster Bank Plc. Dartvale Limited and Exeter Development Capital Limited covenant the whole of any taxable profits to the University. The University holds a 50% shareholding in Tremough Development Vehicle Limited (TDV). It was incorporated in February 2002 as a joint venture company limited by shares, between the University and Falmouth College of Arts (FCA) to develop the first phase of buildings (under the Combined Universities in Cornwall initiative) at the Tremough campus.

The Financial Statements also include the University's 50% share of income and expenditure arising from the activities of the Peninsula Medical School, which is constituted as a partnership arrangement between the University of Exeter and the University of Plymouth. This higher education partnership has arrangements with the

three principal NHS Trusts in the South-West Peninsula who deliver clinical training. All of the income received by the Universities is remitted to a Community Chest from which expenditure (processed by either University on behalf of the School) is reimbursed. The Income and Expenditure Account and Balance Sheet of the Community Chest are reported as Note 37 to the Financial Statements on pages 43 to 47. The Higher Education Funding Council has separately funded each University to build academic facilities in order to accommodate the School's teaching and research activities.

The Financial Statements of the University's only other subsidiary company, Exeter Enterprises Limited and those of the University of Exeter Guild of Students have not been consolidated on the grounds of materiality. The financial statements of the Exeter University Foundation, a registered charity, have not been consolidated on the grounds that the University does not exert a dominant influence over its activities.

Of the increase in total income of £9.6m (9.1%) compared with the previous year, £2.2m was accounted for by additional grants from the Funding Councils. Of this figure £3.2m was represented by additional grants for teaching and these were partially offset by a reduction in specific grants primarily as a result of start-up funding for the Peninsula Medical School coming to an end.

### RESULTS FOR THE YEAR - INCOME AND EXPENDITURE ACCOUNT

The University's consolidated income and expenditure account reveals results for the year to 31 July 2004 as follows:

	<b>2003/04</b>	<b>Restated 2002/03</b>
	<b>£'000</b>	<b>£'000</b>
Income	115,570	105,927
Expenditure	(118,019)	(104,530)
Exceptional item	(2,654)	—
(Deficit/surplus after depreciation of assets at valuation and exceptional item)	<u>(5,103)</u>	<u>1,397</u>
Historical cost (deficit)/surplus	<u>(2,928)</u>	<u>4,070</u>



## REPORT OF THE TREASURER

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Student numbers for 2003/04 amounted to 11,278 full time equivalents (2002/03: 10,712) giving rise to year-on-year increases in income from full-time home students of 3.3% and from international students of 24.2%. Income from research grants and contracts increased by 10.7% to £13.8m; this is an encouraging performance in an area of activity that the University is looking to develop further. Revenue from residences, catering and conferences increased by 8.1% a sound performance in the management of occupancies in the student residences, the provision of retail services and the management of conferences and retail functions. Other income, excluding that from residence activities increased by 34.1% to £11.6m primarily as a result of the receipt of increased external grants, NHS funding in connection with the Peninsula Medical School and other services rendered to UK central government, local authorities, health and hospital authorities.

Expenditure, excluding depreciation, increased by £13.5m, some 13.8% over 2002/03. The two significant contributors to that increase were:

1. Payroll costs which increased by £10.9m, almost 18.0%, reflecting the development of the Peninsula Medical School and the Combined Universities in Cornwall as well as investment in academic and other staff, the cost of annual pay awards which continued to exceed the Government's allowance in the grant settlements from the funding bodies and increased contributions to the University of Exeter Retirement Benefits Scheme; and
2. The staff restructuring at the Camborne School of Mines, prior to its relocation to the new campus at Tremough in Cornwall, which cost £0.6m.

### EXCEPTIONAL ITEM

During the year the NatWest Bank (following discussions initiated by the Inland Revenue) exercised its option to terminate a loan arrangement entered into with the University in 1997. The Accreting Preference Share (APS) arrangement had been intended to run for twenty-five years and the early termination resulted in additional costs of £2.6m representing the further sums required to repurchase the shares from the bank earlier than originally planned. However, the University had put

in place additional conventional borrowing facilities with the Bank on entering into the arrangement and these were taken up in March 2004 when the shares, originally issued to the Bank by the University's wholly owned subsidiary company Exeter Development Capital Limited, were purchased by the University. The facilities incorporated the additional loan funding in 2003/04 necessary to finance the purchase of the shares and whilst the additional costs are recorded in the Income and Expenditure Account as an exceptional item the additional borrowings ensured that cash balances would not be detrimentally affected by this unplanned expenditure. At the same time the University renegotiated a fixed rate loan agreement originally taken out in 1995 for £10m. The new loan arrangements introduced to replace the two former borrowing schemes resulted in a reduction in debt charges of around £38k per annum from the level of the former charges for the next eighteen years.

### GROUP RESULT

The resulting deficit for the year was £5.1m and the historical deficit (after adjusting for the difference between an historical cost depreciation charge and the actual depreciation charge for the year calculated on the re-valued amount) was £2.9m (2002/03: a surplus of £4.1m).

### PENSION SCHEMES AND THE ADOPTION OF FRS 17

The two principal pensions schemes for the University's staff are the national Universities Superannuation Scheme (USS) and the University of Exeter Retirement Benefits Scheme (ERBS). Both are defined benefit schemes but it is not possible to identify Exeter's share of the underlying assets and liabilities within USS and it is therefore accounted for as if it were a defined contribution scheme; the cost recognised within the income and expenditure account being the contributions paid for the year. However, following a commitment to adopt FRS 17 - Retirement Benefits as early as possible, the University has complied with the standard within these accounts one year earlier than the date for compulsory compliance in respect of the ERBS. Comparative figures for 2002/03 have been restated and an opening adjustment at 1 August 2003 reduced



## REPORT OF THE TREASURER

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net assets and reserves by £9.8m at that date. In the current year's financial statements a net additional charge of £0.3m has been made to the income and expenditure account in excess of the amount of pension contribution payments made during the year and a further actuarial loss of £1.2m has been reported through the Statement of Consolidated Total Recognised Gains and Losses.

Following a full actuarial valuation of ERBS in April 2003, employer's contributions were increased to 10.0% with effect from 1 August 2003. The rate of employer's contributions was increased further to 16% with effect from 1 August 2004. The Actuary, the Trustees to the Scheme and the University agreed these increases, which gave rise to a total employer's contribution payment of £1.1m in 2003/04 and a figure of £1.7m is anticipated in 2004/05. Full details of the pension schemes operated by the University are given in Note 28 to the Financial Statements.

### **RESULTS FOR THE YEAR - BALANCE SHEET**

#### PROPERTY

The Balance Sheet at 31 July 2004 includes expenditure in the year on land and buildings of, £38.7m, the highest level recorded for many years. It includes further expenditure of £11.0m (2002/03 £7.2m) by the University in respect of the Combined Universities in Cornwall initiative to develop a new campus in Cornwall at Tremough, in partnership with Falmouth College of Arts; £2.8m in respect of a building for the Centre for Finance and Investment; £3.3m for laboratory and lecture theatre improvements and a further £1.2m for the Peninsula Medical School. Some £16.1m (2002/03 £7.1m) was spent on a scheme whose final cost will exceed £38m to redevelop and extend student residences on and around the Exeter campus enabling the opening of two new halls of residence at the start of the 2004/05 academic year. Expenditure of £2.3m continued the improvement of sports facilities and a new indoor tennis facility and an artificial sports pitch were also opened at the start of 2004/05. Of the total capital expenditure in the year 92% was externally funded by grants and loans. The cost of servicing all capital expenditure in respect of student residences is ring-

fenced within the residences accounts.

Authorised and contracted capital commitments at the year-end amounted to £15.4m whilst those authorised but not contracted amounted to £42.6m. Major schemes in these commitments are continuing expenditure on the new campus in Cornwall and completion of the student residences refurbishment scheme in Exeter.

#### INVESTMENTS

Investments performed satisfactorily during the year in relation to the targets that were set for the University's investment managers. The University's total endowment asset investments have, after the inclusion of capital gains, retention of income received and a withdrawal of £0.5m to fund related expenditure in the year, increased from £9.8m to £10.6m. A full breakdown of the changes is given in notes 13 and 19.

#### RESERVES

At 31 July 2004 the University had a consolidated income and expenditure account reserve of £22.2m (2003 restated: £26.4m), which reflects the adoption of FRS 17 for the liabilities associated with ERBS and the historical cost deficit for the year.

#### CASHFLOW

The University's consolidated holding of cash at bank and in hand reduced during the year by £0.3m to £8.9m. In addition, it had £2m deposited on the short-term money market for maturity during August 2004 and un-drawn loan facilities of £3.9m. An operating cash inflow of £3.9m (2002/03: £2.1m), deferred capital grant receipts of £14.4m and new loan capital of £17.4m (net of repayments) funded the purchase of tangible assets of £35.4m and the costs associated with the refinancing of the APS loan arrangements of £2.6m. Net indebtedness increased by £17.8m to £50.1m.

### **REFOCUSING THE UNIVERSITY**

For some years it has been the strategy of the University to focus increasingly on its strengths and to offer excellence in teaching and research in those subjects where it has believed it has had, or could secure, an

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## REPORT OF THE TREASURER

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advantage over its competitors. This strategy was inherited by the present Vice Chancellor and welcomed enthusiastically by him. The senior management team shares his analysis of the challenges facing the University and supports the actions he believes to be vital to satisfying an increasingly discerning and courted student population in an environment in which all income will be hard earned. The key to success is identified as the development of an entrepreneurial university with the following characteristics:

- investment and research led
- developing an environment of the quality necessary to attract the best research graduate and undergraduate students
- international in outlook with strong research and teaching collaborations with appropriate partners abroad
- autonomy conferred through sound governance strong management and diverse income streams permitting less reliance on the State
- embedded in the local community
- socially inclusive, and
- tolerant, humane and liberal minded.

An intensive examination of the performance of all University activities over a period of many months reveals a number of schools and subjects which have relied, and are relying, on subsidies from other schools and subjects to survive. Where corrective action is seen by the University's management to be possible, it is being taken; where it is not, plans for closure have been submitted to both Council and Senate which have approved them. The University's bankers have been approached and have pledged their support.

### **SUMMARY AND CONCLUSIONS**

The Financial Statements for 2003/04 reflect significant real terms growth in ongoing activities at the University and an unprecedented performance in the execution of new capital development and investment.

The Peninsula Medical School continued to grow successfully in its second year of operation and since 31 July major capital developments in Cornwall, including the provision of the main academic and other buildings on the new campus site at Tremough and the

development of 500 student residences, have been completed on budget and on time; a major achievement.

On the other hand, the University has identified as necessary, and received approval and support for, the closure of a number of schools and subjects in pursuit of its strategy of reshaping itself to meet the increasingly demanding environment in which it must attract students and the income to satisfy their needs.

To succeed, this agenda for change requires financial control of the highest order. Access to cash, whether from trading, reserves or judicious borrowing will be key to the University's ability to meet its obligations to staff, suppliers and bankers whilst investing in the structure and facilities appropriate to the market in which it will be competing.

G A STURTRIDGE  
TREASURER

December 2004



# CORPORATE GOVERNANCE STATEMENT

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## 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 Governing Bodies of Universities and Colleges in England, Wales and Northern Ireland*.

## 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, 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. Its activities are as follows:

- **The Audit Committee** - is a Committee of Council which considers detailed reports from the University's Auditors which 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

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The Audit Committee meets four times a year (five in 2003/04) 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 three times each academic year, much of its detailed work is initially handled by committees, in particular the Strategy, Performance and Resources Committee (which from August 2004 replaced the former Planning and Resources Committee and Finance 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 2004 and up to the date of approval of the financial statements.

Council has responsibility for reviewing the effectiveness of the system of internal control. The following processes have been established:

- a) Council meets at regular intervals (three times a year) to consider the plans and strategic direction of the institution.
- b) Council receives periodic reports from the Chairman of Audit Committee concerning internal control, and requires (through the Risk Steering Group) regular reports from managers on the steps they are taking to manage risks in their areas of responsibility, including progress reports on key projects.



## CORPORATE GOVERNANCE STATEMENT

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- c) The University has established the 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.
- d) The Audit Committee receives regular reports from the internal audit partner, which includes an independent opinion on the adequacy and effectiveness of the University's system of internal control, together with recommendations for improvement.
- e) 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 is now being made available to others across the University).
- f) A programme of risk awareness training is under way.
- g) A system of key performance and risk indicators has been developed.
- h) A robust risk prioritisation methodology based on risk ranking has been developed.
- i) An organisation-wide risk register is now maintained.
- j) Reports are received from budget holders, department heads and project managers on internal control activities.

During 2003/04 a new budgeting process was introduced following the development of a new approach to resource allocation which identifies the profitability of individual budget units within the University. The budgeting process emanates from outputs of the new resource allocation model and culminates in a proposed budget which is reported to (a new) Strategy, Performance and Resources Committee for approval. New management accounting arrangements have been developed to complement the revised approach to financial control; the outputs are reported to Strategy, Performance and Resources Committee and to the Vice-Chancellor's Executive Group and will include detailed cash flow information as well as traditional budgetary control reports.

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 May 2000. 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, 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.



## RESPONSIBILITIES OF THE COUNCIL OF THE UNIVERSITY

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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 the Group 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 for Further and Higher Education (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 (see General Policies (a) page 15).

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 Teacher Training Agency 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.

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;
- 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



## RESPONSIBILITIES OF THE COUNCIL OF THE UNIVERSITY

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- 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: Deloitte & Touche LLP was the service provider during the year to 31 July 2004 and is providing the service during 2004/05 also.

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



## REPORT OF THE AUDITORS

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### REPORT OF THE AUDITORS TO THE COUNCIL OF THE UNIVERSITY OF EXETER

We have audited the University's financial statements, which comprise the Consolidated Income and Expenditure Account, Consolidated Statement of Historical Cost (Deficits)/Surpluses, Statement of Consolidated Total Recognised Gains and Losses, Consolidated Balance Sheet, Balance Sheet, Consolidated Cash Flow Statement, Statement of Principal Accounting Policies 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 United Kingdom law and accounting standards. It is our responsibility to form an independent opinion based on our audit, on the financial statements and to report our opinion to you. Our responsibilities as independent auditors are established in the United Kingdom by statute, the Auditing Practices Board and by our professions ethical guidance.

### BASIS OF AUDIT OPINION

We conducted our audit in accordance with United Kingdom Auditing Standards 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.

### 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 2004, 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 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 Teacher Training Agency, 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 Memorandums dated 1 August 2000 and 1 October 2003 of the Higher Education Funding Council for England.

ERNST AND YOUNG LLP  
REGISTERED AUDITOR

20 December 2004

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Southernhay West  
Exeter  
EX1 1LF



**CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT**  
– for the Year ended 31 July 2004

<b>INCOME</b>	<b>Note</b>	<b>2003/04 £'000</b>	<b>Restated 2002/03 £'000</b>
Funding council grants	1	44,242	42,069
Tuition fees and education contracts	2	25,147	22,856
Research grants and contracts	3	13,808	12,472
Other income (including share of joint venture)	4	31,532	27,084
Endowment and investment income	5	907	1,167
Other financial income	28	—	300
<b>Total income</b>		<u>115,636</u>	<u>105,948</u>
Less: Share of income from joint venture		(66)	(21)
<b>Net Income</b>		<u>115,570</u>	<u>105,927</u>
<b>EXPENDITURE</b>			
Staff costs, including exceptional item	6	71,583	60,689
Other operating expenses	7	39,207	36,221
Depreciation	7	5,640	5,763
Interest payable	8	1,589	1,857
<b>Total expenditure</b>		<u>118,019</u>	<u>104,530</u>
Group operating (deficit)/surplus on continuing operations		(2,449)	1,397
Share of operating profit in joint venture		—	—
(Deficit)/surplus on continuing operations after depreciation of fixed assets at valuation		<u>(2,449)</u>	<u>1,397</u>
Exceptional item (Charge) arising on re-financing	9	(2,654)	—
<b>(Deficit)/surplus on continuing operations after depreciation of tangible fixed assets at valuation and exceptional item</b>	10	<u>(5,103)</u>	<u>1,397</u>

The income and expenditure account is in respect of continuing activities.

CONOLIDATED STATEMENT OF HISTORICAL COST  
(DEFICITS)/SURPLUSES – for the Year ended 31 July 2004

	Note	2003/04 £'000	Restated 2002/03 £'000
(Deficit)/surplus on continuing operations before taxation		(5,103)	1,397
Difference between historical cost depreciation and the actual charge for the year calculated on the re-valued amount	20	2,175	2,673
Realisation of property revaluation gains of previous years		—	—
<b>Historical cost (deficit)/surplus for the year before taxation</b>		<u>(2,928)</u>	<u>4,070</u>
<b>Historical cost (deficit)/surplus for the year after taxation</b>		<u>(2,928)</u>	<u>4,070</u>

STATEMENT OF CONSOLIDATED TOTAL RECOGNISED  
GAINS AND LOSSES – for the Year ended 31 July 2004

	Note	2003/04 £'000	Restated 2002/03 £'000
(Deficit)/surplus on continuing operations after depreciation of assets at valuation, disposal of assets and tax		(5,103)	1,397
Appreciation of endowment asset Investments	19	892	962
New endowments	19	10	2
Endowment income (dispersed) for the year	19	(38)	(173)
Endowment capital (dispersed) in the year	19	(51)	—
Revaluation surplus on fixed asset investments	20	1,396	87
Actuarial loss on pension scheme	28	(1,200)	(9,200)
Total recognised losses in the year		<u>(4,094)</u>	<u>(6,925)</u>
Prior year adjustment – FRS 17	28	(9,800)	—
<b>Total recognised losses since last financial Statement</b>		<u>(13,894)</u>	—
<b>Reconciliation</b>			
		<b>£'000</b>	<b>£'000</b>
Opening reserves and endowments (restated)		135,765	142,690
Total recognised losses for the year (restated)		<u>(4,094)</u>	<u>(6,925)</u>
Closing reserves and endowments (restated)		<u>131,671</u>	<u>135,765</u>



## BALANCE SHEETS AS AT 31 JULY 2004

	Note	Group		University	
		2004 £'000	Restated 2003 £'000	2004 £'000	Restated 2003 £'000
<b>Fixed assets</b>					
Tangible assets	11	222,450	189,048	222,464	189,061
Investments	12	4,961	4,693	18,421	6,693
Investment Assets – Joint Ventures	12				
Share of gross assets		11,304	2,398	—	—
Share of gross liabilities		(11,304)	(2,398)	—	—
		<u>227,411</u>	<u>193,741</u>	<u>240,885</u>	<u>195,754</u>
<b>Endowment assets</b>	13	<u>10,585</u>	<u>9,772</u>	<u>10,585</u>	<u>9,772</u>
<b>Current assets</b>					
Stock		867	906	867	906
Debtors	14	16,158	16,951	18,255	19,115
Investments		2,000	—	2,000	—
Cash at bank and in hand		8,865	9,140	8,792	9,122
		<u>27,890</u>	<u>26,997</u>	<u>29,914</u>	<u>29,143</u>
<b>Creditors: amounts falling due within one year</b>	15	<u>(27,354)</u>	<u>(20,195)</u>	<u>(27,850)</u>	<u>(20,628)</u>
<b>Net current assets</b>		<u>536</u>	<u>6,802</u>	<u>2,064</u>	<u>8,515</u>
<b>Total assets less current liabilities</b>		<u>238,532</u>	<u>210,315</u>	<u>253,534</u>	<u>214,041</u>
<b>Creditors: amounts falling due after more than one year</b>	16	<u>(47,482)</u>	<u>(29,941)</u>	<u>(62,468)</u>	<u>(33,650)</u>
<b>NET ASSETS excluding pension liability</b>		<u>191,050</u>	<u>180,374</u>	<u>191,066</u>	<u>180,391</u>
<b>Pension liability</b>	28	<u>(11,300)</u>	<u>(9,800)</u>	<u>(11,300)</u>	<u>(9,800)</u>
		<u>179,750</u>	<u>170,574</u>	<u>179,766</u>	<u>170,591</u>
<b>Deferred capital grants</b>	18	48,078	34,809	48,078	34,809
<b>Specific endowments</b>	19	10,585	9,772	10,585	9,772
<b>Reserves</b>					
Revaluation reserve	20	98,843	99,622	98,843	99,622
Income and expenditure reserve	21	22,244	26,371	22,260	26,388
Total reserves		<u>121,087</u>	<u>125,993</u>	<u>121,103</u>	<u>126,010</u>
<b>TOTAL</b>		<u>179,750</u>	<u>170,574</u>	<u>179,766</u>	<u>170,591</u>

The financial statements on pages 11 to 47 were approved by the Council on 20 December 2004 and signed on its behalf by:

G A Sturtridge - Treasurer

Professor S Smith - Vice-Chancellor

D J Allen - Registrar & Secretary


**CONSOLIDATED CASH FLOW STATEMENT**  
 - for the Year ended 31 July 2004

	<b>Note</b>	<b>2003/04 £'000</b>	<b>2002/03 £'000</b>
<b>CASH INFLOW FROM OPERATING ACTIVITIES</b>	22	3,919	2,105
Returns on investments and servicing of finance	23	(33)	(862)
Taxation		—	—
Capital expenditure and financial investment	24	(19,503)	(6,483)
Management of liquid resources	25	(2,000)	—
Financing	26	17,409	3,597
(Decrease) in cash in the year	27	<u>(208)</u>	<u>(1,643)</u>

**RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT**

		<b>2003/04 £'000</b>	<b>Restated 2002/03 £'000</b>
(Decrease) in cash in the year	27	(208)	(1,643)
Cash (inflow) from new secured loans	26	(38,535)	(4,533)
Cash outflow from repayment of loans	26	21,126	834
Other movements from creditors due in more than one year	27	(721)	33
FRS 17 – Pension Liability	27	(1,500)	(9,000)
Cash outflow from liquid resources	25	2,000	—
Movement in net debt in the year		<u>(17,838)</u>	<u>(14,309)</u>
Net Debt at 1 August		<u>(32,256)</u>	<u>(17,947)</u>
Net Debt at 31 July	27	<u>(50,094)</u>	<u>(32,256)</u>



## STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

### GENERAL POLICIES

*a) Basis of preparation*

These financial statements have been prepared in accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education (2003) and in accordance with applicable accounting standards. They conform to guidance published by the Higher Education Funding Council for England. At 31 July 2004 the University was meeting the financial covenants incorporated in loan agreements made with two major lenders (banks). However, in the early months of 2004/05 action has been necessary to ensure that future compliance can be maintained and loan obligations fulfilled. The University Council has approved these actions and the associated revised forecasts and cash flows. The accounts for 2003/04 have therefore been prepared on a going concern basis.

*b) Basis of accounting*

The financial statements are prepared under the historical cost convention modified by the revaluation of certain fixed assets and investments. The accounting policies applied are consistent with the previous year with the exception that Financial Reporting Standard for Retirement Benefits (FRS 17) has been adopted in full, and comparatives have been restated accordingly.

*c) Basis of consolidation*

The consolidated financial statements include the University of Exeter and its wholly owned subsidiary companies, Dartvale Limited and Exeter Development Capital Limited. Intra-group sales and profits are eliminated fully on consolidation. The financial statements of Exeter Enterprises Limited have not been consolidated on the grounds of materiality. In accordance with FRS 2, the activities of the University of Exeter Guild of Students 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. The aggregate amount of the respective share of capital and reserves of Exeter Enterprises Limited and The University of Exeter Guild of Students as at 31 July 2004, and their profit or loss for the year ended on that date, are as follows:

	The University of Exeter Guild of Students £'000	Exeter Enterprises Limited £'000
Share capital and reserves	237	60
(Loss)/Profit	(32)	3

The University of Exeter 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 2004 it made charitable disbursements to the University of £3.3m (2003: £1.1m) and had funds totalling £4.4m at that date (2003: £6.8m).

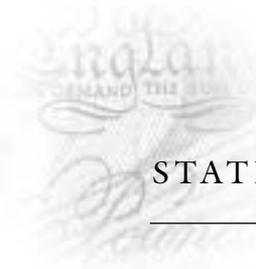
The 50% holding in the Tremough Development Vehicle Limited represents an interest on a long-term basis, which is jointly controlled with another party. As such the arrangement is treated as a joint venture and is accounted for using the gross equity method, such that 50% of the company's gross assets 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. TDV has entered into a gift aid arrangement to distribute surpluses arising on its activities equally to the University and Falmouth College of Arts.

The Peninsula Medical School (PMS) 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 the Peninsula Medical School is included within the income and expenditure account and balance sheet of each of the Universities.

*d) Recognition of Income*

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



## STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

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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. The University holds no general endowment asset investments.

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.

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 Teacher Training Agency and subsequent disbursement to students are excluded from the income and expenditure account and are shown separately in notes 33-36.

### *e) Taxation*

No provision for taxation, deferred or otherwise, has been made in these accounts as the University 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 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.

### *f) 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.

### *g) 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 be incurred, and this can be reliably estimated.

## INCOME AND EXPENDITURE ACCOUNT

### *Pension Schemes and other post-retirement benefits*

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 invested and contracted out of the State Second Pension (S2P). Both funds are valued every three years by professionally qualified independent actuaries using the projected unit method, the rates of contribution payable being determined by the respective trustees on the advice of the actuaries. In the intervening years, the respective actuaries review the progress of the schemes. Pension costs are assessed in accordance with the advice of the actuaries, based on the latest actuarial valuations of the schemes.

The 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 of the ERBS during the year based on the market value of



## STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

scheme assets at the start of the financial year is included within other finance (charges)/income – FRS 17. 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.

The University is unable to separately identify its share of the underlying assets and liabilities of the USS in which it participates on a consistent and reasonable basis and therefore accounts for the scheme as a defined benefit contribution scheme, in accordance with FRS 17. For defined contribution schemes the amount charged to the income and expenditure account in respect of pension costs is the contribution payable in the year. Differences between contributions payable in the year and contributions actually paid are shown either as accruals or prepayments in the balance sheet.

For further information on pensions and post-retirement benefits is disclosed in note 28.

### BALANCE SHEET

#### *a) Land and Buildings*

Land and Buildings are stated at valuation or, in the case of buildings in the course of construction, at cost. The basis of valuation is open market value or, where this cannot readily be established, depreciated replacement cost. Messrs. King Sturge, Chartered Surveyors, performed the valuation as at 31 July 2001.

Land, with the exception of that at the Camborne School of Mines, is held freehold and 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. Buildings in the course of construction are not depreciated. Leasehold land and buildings are depreciated over the life of the lease.

On adoption of FRS 15, the University adopted a policy to fully revalue land and buildings every five years and an interim valuation every 3 years.

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 etc., the expenditure is capitalised together with the works costs.

Where buildings are acquired with the aid of specific grants they are capitalised and depreciated as 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 an impairment the difference between the assessed recoverable value of the building and its written down value is charged to the income and expenditure account.

#### *b) Equipment*

Equipment, including computers and software, 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 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).



## STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

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### *c) Donated Assets*

Assets donated on or after 1 August 1994 are capitalised in accordance with the criteria set out in notes a) and b) above. 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.

### *d) 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 crystallizes 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.

### *e) 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 reflected in the balance sheet and are therefore met from recurrent funds in the year of purchase; it is not considered that such stocks have any material effect on the income and expenditure account.

### *f) 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.

## NOTES TO THE FINANCIAL STATEMENTS



### NOTE 1 FUNDING COUNCIL GRANTS

	<b>2003/2004</b>			<b>2002/2003</b>
	<b>HEFCE £'000</b>	<b>TTA £'000</b>	<b>TOTAL £'000</b>	<b>£'000</b>
Recurrent grant	36,349	2,936	39,285	36,486
Specific grants				
<u>HEFCE</u>				
Medical capital and equipment	416	—	416	1,751
Rewarding and developing staff in HE	1,465	—	1,465	975
Reach-out to business and the community	217	—	217	346
HE Innovations Fund	517	—	517	291
Excellence challenge	219	—	219	219
Combined Universities in Cornwall	264	—	264	177
Institutional learning and teaching strategies	205	—	205	160
Others	226	—	226	198
<u>TIA</u>				
Inset	—	(399)	(399)	668
Secondary subject shortage scheme	—	91	91	85
Rewarding and developing staff in HE	—	109	109	82
Partnership arrangements	—	40	40	31
Student Association Scheme	—	578	578	—
Others	—	47	47	30
Deferred capital grants released in the year				
Buildings (note 18)	706	—	706	406
Equipment (note 18)	256	—	256	164
	<u>40,840</u>	<u>3,402</u>	<u>44,242</u>	<u>42,069</u>

### NOTE 2 TUITION FEES AND EDUCATION CONTRACTS

	<b>2003/04 £'000</b>	<b>2002/2003 £'000</b>
Home/EU undergraduates: full-time	8,076	7,665
Home/EU undergraduates: part-time	422	369
Home/EU postgraduates: full-time	4,413	4,422
Home/EU postgraduates: part-time	1,272	937
International students	9,246	7,446
Non-credit bearing courses and other tuition fees	1,609	1,898
Research Training Support Grants	109	119
	<u>25,147</u>	<u>22,856</u>

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 3 RESEARCH GRANTS AND CONTRACTS

	<b>2003/04</b>	<b>2002/2003</b>
	<b>£'000</b>	<b>£'000</b>
Research councils	6,206	5,442
UK based charities	2,288	2,153
UK central government, local authorities, health & hospital authorities	3,406	3,060
UK industry, commerce and public corporations	718	774
European Union government and other bodies	939	842
Other grants and contracts	251	201
	<u>13,808</u>	<u>12,472</u>

Included above are deferred capital grants released in the year of £439k (2003: £424k)

### NOTE 4 OTHER INCOME

	<b>2003/04</b>	<b>2002/2003</b>
	<b>£'000</b>	<b>£'000</b>
Residences, catering and conferences	19,941	18,450
Other Services Rendered		
Validation fees	153	163
Teaching companies	194	227
UK central government, local authorities, health and hospital authorities	1,586	1,278
Others	820	438
Income from health and hospital authorities	1,591	1,020
Other Operating Income		
Other external grants	839	135
Conferences, summer schools, fair and degree days income	736	505
Donations and other fundraising	594	654
Erasmus	450	189
Sports and swimming pools	424	354
Externally recharged staff time	314	329
Supplies and services to Exeter Enterprises Limited	238	119
Rental income and room hire	211	209
Peninsula Medical School	654	510
Release of deferred capital grants	241	85
Other income	2,546	2,419
	<u>31,532</u>	<u>27,084</u>



## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 5 ENDOWMENT AND INVESTMENT INCOME

	<b>2003/04</b>	<b>2002/2003</b>
	<b>£'000</b>	<b>£'000</b>
Income from specific endowments	416	562
Income from short term investments	446	481
Income from fixed asset investments	2	53
Other interest receivable	43	71
	<u>907</u>	<u>1,167</u>

### NOTE 6 STAFF COSTS

	<b>2003/04</b>	<b>2002/2003</b>
	<b>£'000</b>	<b>£'000</b>
The average number of persons (including senior post-holders) employed by the University during the year, expressed as full-time equivalents, was:		
	Number	Number
Academic staff	622	607
Research staff	270	234
Teaching fellows (formerly Tutors)	106	15
Occasional lecturers	31	45
Support staff	1,570	1,510
Casuals	129	102
	<u>2,728</u>	<u>2,513</u>

#### Staff costs for the above persons:

	<b>2003/04</b>	<b>2002/2003</b>
	<b>£'000</b>	<b>£'000</b>
Salaries and wages*	60,534	51,426
Social security costs	4,586	3,685
Pension costs (note 28)	6,463	5,578
	<u>71,583</u>	<u>60,689</u>

\*Salaries and wages include an exceptional charge of £638k in respect of financial restructuring at the Camborne School of Mines prior to its relocation to the Tremough campus.

#### Emoluments of the Vice-Chancellor:

	£'000	£'000
Remuneration (including benefits in kind)	137	108
Pension contributions to USS	19	15
	<u>156</u>	<u>123</u>

The emoluments have been independently determined by the lay officers of the Council and reviewed according to performance. The figures for 2002/03 relate to the ten months period to 31 July 2003 following the appointment of

## NOTES TO THE FINANCIAL STATEMENTS

a new Vice-Chancellor on 1 October 2002.

Compensation for loss of office paid to a former higher paid employee:

	£'000	£'000
Payments to USS for enhanced pension benefits	21	—

Remuneration of other Higher Paid Staff, excluding employer's pension contributions but inclusive of payments made on behalf of the NHS 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:

	2003/04 £'000	2002/2003 £'000
£70,000 - £79,999	4	4
£80,000 - £89,999	1	2
£90,000 - £99,999	1	2
£120,000 - £129,999	—	1
£130,000 - £139,999	1	—
£140,000 - £149,999	—	2
£170,000 - £179,999	1	—

### NOTE 7 OTHER OPERATING EXPENSES

	2003/04 £'000	2002/2003 £'000
Residences, catering and conferences	10,202	8,967
Laboratory equipment and consumables	2,442	2,405
IT hardware, software and licences	2,941	2,762
Other equipment	679	728
Books and periodicals	1,630	1,836
Fellowships, scholarships and prizes	2,783	2,423
Field courses and other student support	2,816	2,082
Repairs and general maintenance	2,503	1,708
Heat, light, water and power	1,176	946
Rents and rates	417	326
Insurances	390	300
Non-contract staff and external examiners	2,712	4,416
Administrative costs including postage and telephones	1,828	1,528
Travel, accommodation, subsistence and hospitality	3,134	2,343
Publicity, publications and student recruitment	1,097	1,010
Legal, professional and consultancy fees	1,115	674
Auditor's remuneration	41	29
Auditor's remuneration in respect of non-audit services*	15	13
Other expenses	1,286	1,725
	<u>39,207</u>	<u>36,221</u>



## NOTES TO THE FINANCIAL STATEMENTS

\* In 2003/04: £nil (2002/03: £164k) was paid to the auditor for professional advice in connection with the Birks and Duryard capital project to redevelop student residences and was added to the capital cost of that scheme and not charged as a revenue expense.

### ANALYSIS OF 2003/04 EXPENDITURE BY ACTIVITY

	<b>Staff Costs £'000</b>	<b>Other Operating Expenses £'000</b>	<b>Depre- ciation £'000</b>	<b>Interest Payable £'000</b>	<b>Total 2003/04 £'000</b>	<b>Total 2002/03 £'000</b>
Academic schools	39,780	10,120	412	—	50,312	44,105
Academic services						
Central libraries and information services	1,895	2,054	43	—	3,992	3,664
Central computer and computer networks	2,338	723	156	—	3,217	3,154
	<u>4,233</u>	<u>2,777</u>	<u>199</u>	<u>—</u>	<u>7,209</u>	<u>6,818</u>
Administration						
Central administration and services	5,360	2,150	—	10	7,520	6,287
General education expenses	1,389	3,908	—	—	5,297	4,411
Staff and student facilities	921	987	—	—	1,908	1,604
	<u>7,670</u>	<u>7,045</u>	<u>—</u>	<u>10</u>	<u>14,725</u>	<u>12,302</u>
Premises						
Rent and rates	—	406	—	—	406	322
Light, heat, power and water	—	1,176	—	—	1,176	946
Repairs and general maintenance	2,366	2,385	—	—	4,751	3,464
Cleaning, portering and security	2,218	172	—	—	2,390	2,278
Others	22	95	2,054	135	2,306	2,632
	<u>4,606</u>	<u>4,234</u>	<u>2,054</u>	<u>135</u>	<u>11,029</u>	<u>9,642</u>
Other Expenditure						
Residences, catering and conferences	5,599	10,202	2,526	1,444	19,771	18,061
Research grants and contracts	7,477	3,823	449	—	11,749	11,289
Other expenses	1,280	1,006	—	—	2,286	2,213
FRS 17 additional pension costs	300	—	—	—	300	100
Exceptional items (see note 6)	638	—	—	—	638	—
	<u>15,294</u>	<u>15,031</u>	<u>2,975</u>	<u>1,444</u>	<u>34,744</u>	<u>31,663</u>
<b>Total</b>	<u>71,583</u>	<u>39,207</u>	<u>5,640</u>	<u>1,589</u>	<u>118,019</u>	<u>104,530</u>
2002-03: Comparatives	<u>60,689</u>	<u>36,221</u>	<u>5,763</u>	<u>1,857</u>	<u>104,530</u>	

## NOTES TO THE FINANCIAL STATEMENTS

The depreciation charge has been funded by:

	<b>£'000</b>
Deferred capital grants released – buildings (note 18)	922
Deferred capital grants released – equipment (note 18)	720
Revaluation reserve released (note 20)	2,175
General income	1,823
	<hr/>
	5,640
	<hr/>

### NOTE 8 INTEREST PAYABLE

	<b>2003/04</b>	<b>2002/2003</b>
	<b>£'000</b>	<b>£'000</b>
<b>On bank loans, overdrafts and other loans:</b>		
Repayable within 5 years, by instalments	9	185
Repayable wholly or partly in more than 5 years	1,580	1,672
	<hr/>	<hr/>
<b>Total</b>	1,589	1,857
	<hr/>	<hr/>

In addition interest payable in the year amounting to £650k was capitalised. It related to borrowings in respect of the development of new student residences, which were not brought into use until 2004-05.

### NOTE 9 EXCEPTIONAL ITEM – CHARGE ARISING ON RE-FINANCING

On 28 February 1997 a wholly owned subsidiary company of the University, Exeter Development Capital Limited issued £11.460m Accreting Preference Shares (APS) to a subsidiary of Nat West Bank plc. The funds received of £11.460m were loaned to the University. (Under Financial Reporting Standard 4, the preference shares issued by Exeter Development Capital Limited were accounted for as a long-term loan in the consolidated accounts).

An obligation existed in the form of a put/call option exercisable by either the University or Nat West Bank plc to redeem the preference shares under certain circumstances, prior to the redemption date. During the year the Bank exercised its option and the University was obliged to purchase the shares and pay an additional premium in accordance with terms agreed under the financial arrangements entered into with the Bank. This resulted in a charge of £2.654m reported as an exceptional item in the income and expenditure account. The University had additional bank facilities in place to meet the liability and also chose to refinance a fixed interest rate loan originally taken out in 1995 at the same time as refinancing the APS arrangement.

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 10 (DEFICIT)/SURPLUS ON CONTINUING OPERATIONS FOR THE YEAR

The (deficit)/surplus on continuing operations for the year is made up as follows:

	<b>2003/04</b>	<b>2002/2003</b>
	<b>£'000</b>	<b>£'000</b>
University's (deficit)/ surplus for the year	(5,104)	1,458
Surplus/(deficit) generated by the subsidiary undertakings and transferred to the University under a deed of covenant	1	(61)
<b>Total</b>	<b>(5,103)</b>	<b>1,397</b>

### NOTE 11 TANGIBLE FIXED ASSETS

<b>Group</b>	<b>Land and Buildings</b>		<b>Equipment</b>	<b>Total</b>
	<b>Freehold</b>	<b>Long Leasehold</b>	<b>£'000</b>	<b>£'000</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Cost or Valuation</b>				
At 1 August 2003	187,263	8,481	9,420	205,164
Additions	27,709	11,008	546	39,263
Disposals	(221)	—	(60)	(281)
At 31 July 2004	214,751	19,489	9,906	244,146
<b>Depreciation</b>				
At 1 August 2003	8,976	258	6,882	16,116
Charge for the Year	4,488	24	1,128	5,640
Disposals	—	—	(60)	(60)
At 31 July 2003	13,464	282	7,950	21,696
<b>Net Book Value</b>				
At 31 July 2004	201,287	19,207	1,956	222,450
At 1 August 2003	178,287	8,223	2,538	189,048
Inherited	—	213	—	213
Financed by capital grant	124,623	18,994	1,245	144,862
Other	76,664	—	711	77,375
<b>Net Book Value</b>				
<b>At 31 July 2004</b>	<b>201,287</b>	<b>19,207</b>	<b>1,956</b>	<b>222,450</b>

## NOTES TO THE FINANCIAL STATEMENTS

- 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 £144m have been financed, in whole or in part, by exchequer funds. Should these particular buildings be sold, the University would either have to surrender the proceeds to the Treasury or use them in accordance with the conditions given its Financial Memorandum with the Higher Education Funding Council for England.
- c) At 31 July 2004 freehold and leasehold land and buildings included £47.3m in respect of buildings under construction.

University	Land and Buildings		Equipment £'000	Total £'000
	Freehold £'000	Long Leasehold £'000		
<b>Cost or Valuation</b>				
At 1 August 2003	187,276	8,481	9,420	205,177
Additions	27,709	11,008	547	39,264
Disposals	(221)	—	(60)	(281)
At 31 July 2004	214,764	19,489	9,907	244,160
<b>Depreciation</b>				
At 1 August 2003	8,976	258	6,882	16,116
Charge for the Year	4,488	24	1,128	5,640
Disposals	—	—	(60)	(60)
At 31 July 2003	13,464	282	7,950	21,696
<b>Net Book Value</b>				
At 31 July 2004	201,300	19,207	1,957	222,464
At 1 August 2003	178,300	8,223	2,538	189,061

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 11A LAND AND BUILDINGS

#### Additions in Year

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<b>£'000</b>	<b>£'000</b>
Provision of student residences		
Residences redevelopment scheme	16,134	7,113
Other works	62	—
Academic building developments		
Combined Universities in Cornwall buildings at Tremough	11,008	7,168
Centre for Finance and Investment	2,772	565
Teaching laboratory improvements	2,095	—
Peninsula Medical School	1,212	665
Lecture theatre improvements	1,168	384
Thornlea	383	—
Harrison building (Computer Science)	369	37
Disability access improvements	323	140
Old Library	92	402
Biocatalysis Centre	28	2,188
Amory extension (sediment research)	21	899
Others	470	208
Student facilities		
Sports facilities	2,271	286
Family centre	51	—
Others	258	8
	38,717	20,063
<b>Funding Details</b>		
Specific and general reserves	2,972	145
Application of HEFCE grants	5,035	9,800
External contributions/grants	14,786	2,753
External loans, reserves and working balances	15,924	7,365
	38,717	20,063

See Note 29 for details of capital commitments and expenditure temporarily financed.

## NOTES TO THE FINANCIAL STATEMENTS

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### NOTE 11B LAND AND BUILDINGS

	<b>Tenure</b>	<b>Main Use</b>
Streatham Campus	Freehold	Academic Administration Sport and recreation Social Residential
St Luke's Campus	Freehold	Academic Administration Sport and recreation Social Residential
Camborne School of Mines – Campus	Long Leasehold	Academic Administration Sport and recreation Social
Camborne School of Mines – Mines	Long Leasehold	Academic
Birks Halls	Freehold	Residential
Bonhay House	Freehold	Residential
Brunel Close and Kingdom Mews	Freehold	Residential
Crossmead	Freehold	Conference centre
Chagford, Lydford and Widecombe (St. Germans)	Freehold	Residential
Duckes Meadow	Freehold	Sport and recreation
Duryard Halls	Freehold	Residential
Elizabethan	Freehold	Residential
Elmbrook	Freehold	Residential
Exeter Road, Topsham	Freehold	Sport and recreation
Garden Hill House	Freehold	Residential
Hayne Corfe (Cornwall)	Freehold	Academic
King Edward Court	Freehold	Residential
Mallison House	Freehold	Residential
Pantiles	Freehold	Residential
Rowancroft (House, Court & Mews)	Freehold	Residential
James Owen Court (Sidwell Street)	Freehold	Residential
Thomas Hall	Freehold	Residential
Thornlea	Freehold	Academic
Tremough (Combined Universities in Cornwall)	Long Leasehold	Academic
Triangle	Freehold	Residential
Other land and property in and around Exeter	Freehold	Various (mainly residential)
Other land and property in and around Camborne	Leasehold	Various

The assets listed above represent the main elements of the University's estate. The capital expenditure incurred in respect of these assets is included in the Balance Sheet.



## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 12 INVESTMENTS

	Group		University	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Fine art collection	1,613	300	1,613	300
Library special collection	2,101	2,101	2,101	2,101
Investment in quoted stock	1,208	1,125	1,208	1,125
Investment in long term deposit	—	1,128	—	1,128
Investment in associated and subsidiary companies	60	60	13,520	2,060
Investment in other unlisted companies	39	39	39	39
	<u>5,021</u>	<u>4,753</u>	<u>18,481</u>	<u>6,753</u>
Less: Provision for reduction in value of Exeter Enterprises shares	(60)	(60)	(60)	(60)
	<u>4,961</u>	<u>4,693</u>	<u>18,421</u>	<u>6,693</u>

The University's fine art collections of paintings, furniture, silverware and ceramics were professionally valued during the year ended 31 July 2001 by Messrs. Bearne's, Auctioneers and Valuers of Fine Art, on an open market value basis and for insurance purposes. During the current year ended 31 July 2004 Messrs. Sotheby's valued the University's collection of sculptures, which have now been included in the fine art valuation.

The University's special library collections were professionally valued during the year ended 31 July 2002 by Messrs Bonhams, Auctioneers and Valuers, on an open market value basis.

The investments in associated and subsidiary companies shares comprises the following:

- Dartvale Limited  
2,000,002 Ordinary £1 Shares fully paid (at cost)
- Exeter Development Capital Limited  
2 Ordinary £1 Shares fully paid (at cost)  
11,460,000 Preference shares of £1 each fully paid (at cost)
- Exeter Enterprises Limited  
60,110 Ordinary £1 Shares fully paid (at cost)
- Tremough Development Vehicle Limited  
50 Ordinary £1 Shares fully paid at cost

During the year ended 31 July 2002 the University took up 50% of the issued share capital of 100 £1 Ordinary shares in the Tremough Development Vehicle Limited. This joint venture company with the Falmouth College of Arts has been established to provide the construction of the main campus for the Combined Universities in Cornwall project to be based at Tremough in Penryn. It will also own and run student residences being built on that site.

## NOTES TO THE FINANCIAL STATEMENTS

The investment in other unlisted shares comprises the following investments:

Update Software Limited
5 Ordinary £1 Shares fully paid (at cost)
CVCP Properties Plc
37,355 Ordinary £1 Shares fully paid (at cost)
CSM (WA) Limited
1,750 Ordinary £1 Shares fully paid (at cost)

The market value of long-term investments excludes these unlisted shares.

All companies are registered in England and Wales and operate in the UK.

The University holds the entire ordinary share capital of Dartvale Limited, Exeter Development Capital Limited and Exeter Enterprises Limited. The results of Exeter Enterprises Limited have not been consolidated with those of the University on the grounds that they are not material to the University results.

### NOTE 13 ENDOWMENT ASSET INVESTMENTS – Group and University

	<b>2004</b>	<b>2003</b>
	<b>£'000</b>	<b>£'000</b>
Balance brought forward	9,772	8,981
Additions – new funds received	10	2
Additions – interest and dividends re-invested	371	389
Disposals – capital withdrawn	(161)	(222)
Disposals – income withdrawn	(299)	(340)
Appreciation/(depreciation) on disposals/revaluation	892	962
	<u>10,585</u>	<u>9,772</u>
The investments comprise:		
Fixed interest stocks	950	1,018
Equities	9,635	8,711
Bank balances	—	43
	<u>10,585</u>	<u>9,772</u>

### NOTE 14 DEBTORS

	<b>Group</b>		<b>University</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Amounts falling due within one year:				
Debtors	9,690	10,985	9,020	10,362
Amounts owed by group undertakings:				
Subsidiary companies	—	—	2,767	2,788
Prepayments and accrued income	6,468	5,966	6,468	5,965
	<u>16,158</u>	<u>16,951</u>	<u>18,255</u>	<u>19,115</u>



## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 15 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		University	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Bank loans and overdrafts	948	349	948	349
Payments received in advance	777	730	777	730
Trade creditors*	11,384	7,687	11,381	7,680
Amounts owed to group undertakings:				
Subsidiary companies	—	—	504	460
Taxation and social security	1,911	1,525	1,912	1,508
Accruals and deferred income	12,334	9,904	12,328	9,901
	27,354	20,195	27,850	20,628

\*Trade creditors includes an amount of £803k (2002-03: £814k) due in respect of pension liabilities following early retirements.

### NOTE 16 CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	Group		University	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Bank loans*	46,214	28,389	46,214	28,389
Inherited Liability – Cornwall County Council	72	78	72	78
Amounts owed to group undertakings:				
Subsidiary companies	—	—	14,986	4,359
Other long term creditors**	1,196	1,474	1,196	824
	47,482	29,941	62,468	33,650

\*Including rolled-up interest of £418k (2003: £34k)

\*\*Other long-term creditors includes an amount of £477k (2003: £824k) due in respect of pension liabilities following early retirements.

### NOTE 17 BORROWINGS - Group and University

#### a) Bank loans and overdrafts

	2004 £'000	2003 £'000
Bank loans and overdrafts are repayable as follows:		
In one year or less	942	344
In one to two years	1,843	373
In two to five years	7,320	1,278
In five years or more	37,051	26,738
Total	47,156	28,733

#### b) Finance Leases

The University is not committed to any finance lease obligations.

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 18 DEFERRED CAPITAL GRANTS - Group and University

	<b>Funding Council £'000</b>	<b>Other Grants £'000</b>	<b>Total £'000</b>
<b>At 1 August 2003</b>			
Land and buildings	22,759	9,741	32,500
Equipment	1,850	459	2,309
	<u>24,609</u>	<u>10,200</u>	<u>34,809</u>
Grants receivable			
Land and buildings	2,782	12,473	15,255
Equipment	(465)	121	(344)
	<u>2,317</u>	<u>12,594</u>	<u>14,911</u>
Released to Income and Expenditure Account			
Land and buildings	(706)	(216)	(922)
Equipment	(256)	(464)	(720)
	<u>(962)</u>	<u>(680)</u>	<u>(1,642)</u>
<b>At 31 July 2004</b>			
Land and buildings	24,835	21,998	46,833
Equipment	1,129	116	1,245
	<u>25,964</u>	<u>22,114</u>	<u>48,078</u>

### NOTE 19 ENDOWMENTS – Group and University Specific Endowments

	<b>2004 £'000</b>	<b>2003 £'000</b>
<b>At 1 August 2003</b>		
Additions	9,772	8,981
Disposals	10	2
Disposals	(51)	—
Appreciation of endowment asset investments	892	962
Income for the year	371	389
Transferred to income and expenditure account	(409)	(562)
	<u>10,585</u>	<u>9,772</u>
<b>At 31 July 2004</b>		
<b>Representing:</b>		
Trustee Securities Pool	1,779	1,617
Institute for Arab and Islamic Studies	8,014	7,421
Other	792	734
	<u>10,585</u>	<u>9,772</u>

Additions are new endowments. Income for the year includes investment interest and dividends received.



## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 20 REVALUATION RESERVE

#### Group and University

	Freehold Land & Buildings £'000	Fixed Asset Investments £'000	Total £'000
<b>At 1 August 2003</b>	96,996	2,626	99,622
Revaluation in the year			
Fixed asset investments – quoted shares	—	83	83
Fine Art	—	1,313	1,313
Transfer from revaluation reserve to general reserve in respect of:			
Depreciation on re-valued assets	(2,175)	—	(2,175)
<b>At 31 July 2004</b>	94,821	4,022	98,843

The revaluation movement relating to fine art is a result of the University obtaining a valuation of its collection of sculptures (see note 12).

### NOTE 21 INCOME AND EXPENDITURE ACCOUNT

#### 2003-04

##### Consolidated

	Restated Balance at 1 August 2003 £'000	Deficit for the year £'000	Revaluation Reserve £'000	Other Movements £'000	Balance at 31 July 2004 £'000
Capital reserve	18,496	—	—	1,527	20,023
Committed balances	14,500	—	—	(1,259)	13,241
Specific reserves	1,320	—	—	767	2,087
Residences equalisation	(3,557)	—	—	357	(3,200)
Financial restructuring	—	(2,654)	—	—	(2,654)
Pension liability	(9,800)	(300)	—	(1,200)	(11,300)
General reserves	5,412	(2,149)	2,175	(1,391)	4,047
	26,371	(5,103)	2,175	(1,199)	22,244

##### University

	Restated Balance at 1 August 2003 £'000	Deficit for the year £'000	Revaluation Reserve £'000	Other Movements £'000	Balance at 31 July 2004 £'000
Capital reserve	18,496	—	—	1,527	20,023
Committed balances	14,500	—	—	(1,259)	13,241
Specific reserves	1,320	—	—	767	2,087
Residences equalisation	(3,557)	—	—	357	(3,200)
Financial restructuring	—	(2,654)	—	—	(2,654)
Pension liability	(9,800)	(300)	—	(1,200)	(11,300)
General reserves	5,429	(2,150)	2,175	(1,391)	4,063
	26,388	(5,104)	2,175	(1,199)	22,260

## NOTES TO THE FINANCIAL STATEMENTS

### 2002-03

#### Consolidated

	<b>Balance at 1 August 2002 £'000</b>	<b>Prior year Adjust- ment FRS 17 £'000</b>	<b>Restated Balance at 1 August 2002 £'000</b>	<b>Surplus for the year £'000</b>	<b>Reval- uation Reserve Release £'000</b>	<b>Other Move- ments £'000</b>	<b>Balance at 31 July 2003 £'000</b>
Capital reserve	15,884	—	15,884	—	—	2,612	18,496
Committed balances	11,866	—	11,866	—	—	2,634	14,500
Specific reserves	3,016	—	3,016	—	—	(1,696)	1,320
Residences equalisation	(3,572)	—	(3,572)	—	—	15	(3,557)
Pension liability	—	(800)	(800)	200	—	(9,200)	(9,800)
General reserves	5,107	—	5,107	1,197	2,673	(3,565)	5,412
	<u>32,301</u>	<u>(800)</u>	<u>31,501</u>	<u>1,397</u>	<u>2,673</u>	<u>(9,200)</u>	<u>26,371</u>

#### University

	<b>Balance at 1 August 2002 £'000</b>	<b>Prior year Adjust- ment FRS 17 £'000</b>	<b>Restated Balance at 1 August 2002 £'000</b>	<b>Surplus for the year £'000</b>	<b>Reval- uation Reserve Release £'000</b>	<b>Other Move- ments £'000</b>	<b>Balance at 31 July 2003 £'000</b>
Capital reserve	15,884	—	15,884	—	—	2,612	18,496
Committed balances	11,866	—	11,866	—	—	2,634	14,500
Specific reserves	3,016	—	3,016	—	—	(1,696)	1,320
Residences equalisation	(3,572)	—	(3,572)	—	—	15	(3,557)
Pension liability	—	(800)	(800)	200	—	(9,200)	(9,800)
General reserves	5,063	—	5,063	1,258	2,673	(3,565)	5,429
	<u>32,257</u>	<u>(800)</u>	<u>31,457</u>	<u>1,458</u>	<u>2,673</u>	<u>(9,200)</u>	<u>26,388</u>

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 22 RECONCILIATION OF CONSOLIDATED OPERATING (DEFICIT)/SURPLUS TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	<b>2004</b>	<b>2003</b>
	<b>£'000</b>	<b>£'000</b>
(Deficit)/surplus before tax on continuing operations after depreciation of assets at valuation	(5,103)	1,397
FRS 17 – Pension Adjustment	300	(200)
Depreciation	5,640	5,763
Deferred capital grants released to income (note 18)	(1,642)	(1,161)
Endowment and investment income (note 5)	(907)	(1,167)
Interest payable (note 8)	1,589	1,857
Decrease in stock	39	8
Decrease/(Increase) in debtors	1,308	(8,497)
Increase in creditors	2,695	4,105
	<hr/>	<hr/>
Net cash inflow from operating activities	3,919	2,105
	<hr/>	<hr/>

### NOTE 23 RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

	<b>2004</b>	<b>2003</b>
	<b>£'000</b>	<b>£'000</b>
Income from endowments	378	389
Income from short term investments	447	480
Other interest received	45	124
Interest paid	(903)	(1,855)
	<hr/>	<hr/>
Net cash outflow from returns on investments and servicing of finance	(33)	(862)
	<hr/>	<hr/>

### NOTE 24 CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

	<b>2004</b>	<b>2003</b>
	<b>£'000</b>	<b>£'000</b>
Purchase of tangible assets	(35,402)	(21,928)
Payments to acquire long term investments	(121)	(226)
Payments to acquire endowment asset investments	(315)	(468)
	<hr/>	<hr/>
Total fixed and endowment assets acquired	(35,838)	(22,622)
Receipts from the sale of tangible assets	220	—
Receipts from the sale of long term investments	1,249	—
Receipts from the sale of endowment assets	460	562
Deferred capital grants received	14,396	15,575
Endowments received	10	2
	<hr/>	<hr/>
Net cash outflow from capital expenditure and financial investment	(19,503)	(6,483)
	<hr/>	<hr/>

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 25 MANAGEMENT OF LIQUID RESOURCES

	<b>2004</b> <b>£'000</b>	<b>2003</b> <b>£'000</b>
Withdrawals from deposit	(2,000)	—
Net cash (outflow) from management of liquid resources	(2,000)	—

### NOTE 26 FINANCING

	<b>2004</b> <b>£'000</b>	<b>2003</b> <b>£'000</b>
Debt due beyond one year:		
New secured loan repayable by 2016	—	499
New secured loan repayable by 2029	21,701	—
New secured loan repayable by 2030	14,134	4,034
New secured loan repayable by 2032	2,700	—
Repayment of amounts borrowed	(21,126)	(936)
Net cash inflow/(outflow) from financing	17,409	3,597

### NOTE 27 ANALYSIS OF CHANGES IN NET DEBT

	<b>Restated at</b> <b>1 August</b> <b>2003</b> <b>£'000</b>	<b>Cash</b> <b>Flows</b> <b>£'000</b>	<b>Other</b> <b>Changes</b> <b>£'000</b>	<b>At</b> <b>31 July</b> <b>2004</b> <b>£'000</b>
Cash in hand and at bank	9,140	(275)	—	8,865
Endowment asset investments	(493)	67	—	(426)
Overdrafts	—	—	—	—
	8,647	(208)	—	8,439
Debt due within 1 year	(1,163)	(588)	—	(1,751)
Debt due after 1 year	(29,940)	(16,821)	(721)	(47,482)
FRS 17 - Pension Liability	(9,800)	—	(1,500)	(11,300)
Current asset investments	—	2,000	—	2,000
Total	(32,256)	(15,617)	(2,221)	(50,094)



## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 28 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 (S2P). 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 Medical School.

The latest actuarial valuation for USS was at 31 March 2002 and for ERBS was 6 April 2003. 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:

	<b>USS</b>	<b>ERBS</b>
	31 March 2002	6 April 2003
Latest actuarial valuations	31 March 2002	6 April 2003
Past Service Liabilities		
Valuation rate of interest per annum	5.0%	5.5%
Salary increases per annum	3.7%	4.1%
Pension increases per annum	2.7%	2.6%
Future Service Liabilities		
Valuation rate of interest per annum	6.0%	5.5%
Salary increases per annum	3.7%	4.1%
Pension increases per annum	2.7%	2.6%
Market value of assets at date of last valuation	£19,938m	£41m
Value of past service liabilities	£19,776m	£62m
Proportion of members' accrued benefits covered by the actuarial value of the assets	101%	66%

#### (i) USS

The University participates in the Universities Superannuation Scheme, a defined benefit scheme that is externally funded and contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate trustee-administered fund. It is not possible to identify each institution's share of the underlying assets and liabilities of the scheme and hence contributions to the scheme are accounted for as if it were a defined contribution scheme. The cost recognised within the deficit for the year in the income and expenditure account being equal to the contributions payable to the scheme for the year.

## NOTES TO THE FINANCIAL STATEMENTS

The institution contribution rate required for future service benefits alone at the date of the valuation was 14.25% of salaries but it was agreed that the institution contribution rate would be maintained at 14% of salaries. To fund the reduction of 0.25% for the period of 12 years from the valuation (the average outstanding working lifetime of current members of the Scheme) required the use of £82.5 million of the surplus. This left a past service surplus of £79.5m (including the Supplementary Section) to be carried forward.

Surpluses or deficits which arise at future valuations may impact on the University's future contribution commitment. The next formal valuation is due as at 31 March 2005 when the above rates will be reviewed.

The total pension cost for the University was £5,033,000 (2003: £4,575,000). The contribution rate payable by the University was 14% of pensionable salaries.

### (ii) ERBS

The latest actuarial valuation (5 April 2003) showed that the funds held by the Trustees were insufficient to meet anticipated future commitments. The University agreed to increase employer's contributions in order to fund the projected shortfall; a rate of 6% was applied in 2002/03 and this was increased to 10% from 1 August 2003. The rate was increased to 16% from 1 August 2004. The Actuary updated the figures as at 31 July 2003 and as at 31 July 2004. 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:

	2004	2003
	%	%
Rate of increase in salaries	4.4	4.1
Rate of increase in pension payments	2.9	2.6
Discount rate	5.7	5.5
Inflation assumption	2.9	2.6

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

	<b>Long-term rate of return expected at 31 July 2004</b>	<b>31 July 2004</b>	<b>Long-term rate of return expected at 31 July 2003</b>	<b>31 July 2003</b>
	%	£m	%	£m
Equities	7.00	31.0	7.00	28.7
Bonds	5.00	14.8	5.00	15.1
Cash/Other	5.00	0.1	4.50	0.4
	<u>6.35</u>	<u>45.9</u>	<u>6.30</u>	<u>44.2</u>
Present value of scheme liabilities		(57.2)		(54.0)
Pension (liability)		<u>(11.3)</u>		<u>(9.8)</u>



## NOTES TO THE FINANCIAL STATEMENTS

### Income and Expenditure Account

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

	<b>2004</b>	<b>2003</b>
	<b>£m</b>	<b>£m</b>
Current service cost	1.4	0.6
Past service cost	—	—
	1.4	0.6
Analysis of amount credited to other finance income		
Expected return on pension scheme assets	(3.0)	(2.9)
Interest on pension scheme liabilities	3.0	2.6
	0.0	(0.3)

### Statement of Recognised Gains and Losses (STRGL)

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

	<b>2004</b>	<b>2003</b>
	<b>£m</b>	<b>£m</b>
Actual return less expected return on scheme assets	(0.3)	(0.6)
Experience (losses) on the scheme liabilities	(0.2)	(3.3)
Changes in financial and demographic assumptions underlying the present value of scheme liabilities	(0.7)	(5.3)
	(1.2)	(9.2)

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

	<b>2004</b>	<b>2003</b>
	<b>£m</b>	<b>£m</b>
(Deficit) on scheme at 1 August	(9.8)	(0.8)
Movements in the year:		
Current service cost	(1.4)	(0.7)
Contributions paid	1.1	0.6
Past services costs	0.0	0.0
Other finance income	(0.0)	0.3
Actuarial (losses)	(1.2)	(9.2)
	(11.3)	(9.8)

## NOTES TO THE FINANCIAL STATEMENTS

### (iii) Pension Cost

The total pension cost for the University was:

	<b>2004</b>	<b>2003</b>
	<b>£m</b>	<b>£m</b>
Contributions to USS - regular cost	5,033	4,575
Current service cost - ERBS	1,396	715
Contributions to other pension schemes	34	22
	<u>6,463</u>	<u>5,312</u>
Supplementary pension costs	39	44
Early retirement pension enhancement costs	44	222
	<u>6,546</u>	<u>5,578</u>

### NOTE 29 CAPITAL COMMITMENTS - Group and University

	<b>2004</b>	<b>2003</b>
	<b>£'000</b>	<b>£'000</b>
Commitments contracted at 31 July	15,381	36,919
Authorised but not contracted at 31 July	42,550	30,423
	<u>57,931</u>	<u>67,342</u>

During the year expenditure was incurred on academic buildings, student accommodation, conference facilities and student amenity buildings. An element of the expenditure on these facilities has been funded temporarily out of working balances and external loans as follows:

	<b>2004</b>	<b>2003</b>
	<b>£'000</b>	<b>£'000</b>
Academic buildings	1,060	71
Student accommodation and conference facilities	13,273	7,294
Sports facilities	1,281	—
Amenity and other buildings	89	—
	<u>15,703</u>	<u>7,365</u>

At 31 July 2004 total consolidated capital expenditure temporarily funded amounted to £59.6m.

At 31 July 2004 the University had commenced a non-residential capital programme of investment in the physical infrastructure for academic, non-academic and student services. The programme, costing an estimated £33m is to be completed during 2006/07. Funding of £15m will come from identified sources and a loan of up to £20m, which includes an element of funding to allow for contingencies, has been negotiated with the Royal Bank of Scotland.



## NOTES TO THE FINANCIAL STATEMENTS

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### **NOTE 30 CONTINGENT LIABILITIES**

The University was not aware of any contingent liabilities at 31 July 2004.

### **NOTE 31 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.

At 31 July 2004 the University held a 50% shareholding in Tremough Development Vehicle Limited. (TDV). It is a joint venture company between the University and Falmouth College of Arts (FCA) and was established to develop the first phase of buildings (under the Combined Universities in Cornwall initiative) at the Tremough campus. The University and FCA receive capital grants, which are released to TDV to fund the academic development at Tremough. The University owed £2.266m to TDV at 31 July 2004 (£1.198m at 31 July 2003).

In September 2003 the University entered into a guarantee in favour of Lloyds/TSB following completion of arrangements by TDV to borrow £18.6m to finance the building of student residences on the Tremough site in Cornwall. The University and Falmouth College of Arts have each guaranteed a maximum sum of £9.3m in connection with the facility.

Prior to 31 July 2004 the University and FCA subscribed equally to a joint venture company limited by guarantee for which charitable status was obtained. Tremough Campus Services (TCS) was established to operate student and commercial services for the Tremough campus under a combined services agreement.

### **NOTE 32 POST BALANCE SHEET EVENTS**

On 1 August 2004 the University and FCA transferred their shareholdings in TDV to TCS. With effect from the same date TDV transferred its interest in the site at Tremough to TCS, along with all other assets, contracts and liabilities relating to the building of the student residences at the campus. At the same time the University and FCA also transferred the guarantees given to Lloyds TSB Bank plc, in respect of borrowing by TDV, to TCS. TDV will continue to undertake academic related building works on behalf of TCS.



## NOTES TO THE FINANCIAL STATEMENTS

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### NOTE 33 ACCESS FUNDS

Summary of transactions for the year ended 31 July 2004

	<b>2004</b> <b>£'000</b>	<b>2003</b> <b>£'000</b>
Balance unspent at 1 August 2003	29	21
Funding Council grants	482	518
Interest earned	3	2
	<hr/>	<hr/>
	514	541
Disbursed to students	(472)	(511)
Audit fees	—	—
Administration costs	(3)	(1)
	<hr/>	<hr/>
Balance unspent at 31 July 2004	39	29

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 2004

	<b>2004</b> <b>£'000</b>	<b>2003</b> <b>£'000</b>
Balance brought forward at 1 August 2003	212	152
TTA grants received	3,538	2,914
	<hr/>	<hr/>
Total TTA training bursary funding available for the year	3,750	3,066
Disbursements to students	(3,659)	(2,854)
	<hr/>	<hr/>
Funds to be recovered at 31 July 2004	91	212

TTA 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 FINANCIAL STATEMENTS

### NOTE 35 ITT MINORITY ETHNIC RECRUITMENT (MER)

Summary of transactions for the year ended 31 July 2004

	<b>2004 £'000</b>
Basic and Challenge funds received	8
Recruitment funds received	2
	10
Total Minority Ethnic Recruitment funding available for the year	10
Disbursements to students	(10)
	—
Funds to be recovered at 31 July 2004	—

The funds are available solely for students; the University acts only as paying agent.

The MER are therefore excluded from the Income and Expenditure Account.

### NOTE 36 ITT STUDENT ASSOCIATES SCHEME (SAS)

Summary of transactions for the year ended 31 July 2004

	<b>2004 £'000</b>
Funds received	368
Disbursements to students	(368)
	—
Funds to be recovered at 31 July 2004	—

The funds are available solely for students; the University acts only as paying agent.

The SAS funds are therefore excluded from the Income and Expenditure Account.

### NOTE 37

#### PENINSULA MEDICAL SCHOOL – NOTE TO THE FINANCIAL ACCOUNTS 2003/04

#### INCOME AND EXPENDITURE ACCOUNT of the HE Community Chest for the year ended 31 July 2004

		University of Exeter 2002/2003 £000	University of Plymouth 2002/2003 £000	Total 2002/2003 £000	Total 2001/2002 £000
<b>INCOME</b>	<b>Note</b>				
Funding Council grants	3	2,169	2,170	4,339	5,008
Tuition fees and education contracts		283	282	565	340
University research support		134	134	268	360
NHS – SIFT funding	4	1,590	1,591	3,181	2,040
Research grants and contracts		2,338	2,337	4,675	4,754
Other income	5	751	751	1,502	1,238
Endowment and investment income		35	35	70	50
		7,300	7,300	14,600	13,790
<b>Total income</b>		<b>7,300</b>	<b>7,300</b>	<b>14,600</b>	<b>13,790</b>

## NOTES TO THE FINANCIAL STATEMENTS

### EXPENDITURE

Staff costs		4,629	4,629	9,258	7,393
Other operating expenses		2,591	2,591	5,182	5,585
Depreciation	6	53	53	106	6
<b>Total expenditure</b>		<u>7,273</u>	<u>7,273</u>	<u>14,546</u>	<u>12,984</u>
<b>Surplus on continuing operations</b>		<u>27</u>	<u>27</u>	<u>54</u>	<u>806</u>

### BALANCE SHEET of the HE Community Chest as at 31 July 2004

	Note	2004 £000	2003 £000
<b>Fixed assets</b>			
Tangible assets	6	<u>457</u>	<u>382</u>
<b>Current assets</b>			
Debtors	7	4,334	4,937
Cash at bank and in hand	8	3,242	512
		<u>7,576</u>	<u>5,449</u>
<b>Creditors: amounts falling due within one year</b>	9	<u>(6,733)</u>	<u>(4,665)</u>
<b>Net current assets</b>		<u>843</u>	<u>784</u>
<b>Total assets less current liabilities</b>		<u>1,300</u>	<u>1,166</u>
<b>NET ASSETS</b>		<u>1,300</u>	<u>1,166</u>
<b>Deferred capital grants</b>		440	360
<b>Reserves</b>	10	<u>860</u>	<u>806</u>
<b>TOTAL</b>		<u>1,300</u>	<u>1,166</u>

### Explanatory Notes

#### 1. Background

The Peninsula Medical School (PMS) 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. PMS, in turn, has partnership arrangements with three NHS Trusts (The Royal Devon and Exeter Healthcare Trust, Plymouth Hospitals NHS Trust and Royal Cornwall Hospitals Trust) and further arrangements with healthcare providers throughout the South West peninsula.



## NOTES TO THE FINANCIAL STATEMENTS

All income received in respect of PMS by each University is transferred to a "HE Community Chest", managed initially by the University of Exeter. Expenditure incurred by each University on behalf of PMS is reimbursed from the "HE Community Chest". Under the administrative arrangements for the School it has been agreed that whilst the accounts of each University will formally incorporate only part of PMS activities, each will carry an identical note, which sets out the total financial position of the "HE Community Chest".

### 2. *Audit arrangements*

A 50% share of the Income, Expenditure and Balance Sheet items of the "HE Community Chest" of the Peninsula Medical School 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 2004.

### 3. *Funding Council grants*

	<b>2004</b>	<b>2003</b>
	<b>£000</b>	<b>£000</b>
Recurrent grant	3,141	1,486
Specific grants		
HEFCE medical capital grant	107	2,086
HEFCE equipment capital grant	724	1,416
Widening participation	124	20
Other	153	—
Deferred capital grants released in the year		
Equipment	90	—
<b>Total</b>	<b>4,339</b>	<b>5,008</b>

### 4. *NHS – Service Increment for Teaching (SIFT) Funding*

During the year ended 31 July 2004, £3,180,864 of SIFT funding was receivable to cover HE expenditure attributable to the NHS aspects of the Peninsula Medical School.

### 5. *Other Income*

	<b>2004</b>	<b>2003</b>
	<b>£000</b>	<b>£000</b>
Other grant income	149	214
Other income	1,353	1,024
	<b>1,502</b>	<b>1,238</b>

"Other income" for the year ended 31 July 2003 included £285,990 transferred from the University of Plymouth and £100,067 transferred from the University of Exeter relating to activity prior to 1 August 2002. This activity took place within the Postgraduate areas that became part of PMS.



## NOTES TO THE FINANCIAL STATEMENTS

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### 6 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.

### 7 Debtors

	<b>2004</b>	<b>2003</b>
	<b>£000</b>	<b>£000</b>
Debtors	786	745
Prepayments and accrued income	1,978	1,703
Due from NHS partners	1,333	1,297
Due from partner universities	—	1,192
Due from The Exeter University Foundation	237	—
	<hr/>	<hr/>
	4,334	4,937
	<hr/>	<hr/>

### 8 Cash at Bank and In Hand

The University of Exeter held a balance of £3,164,799 at 31 July 2004 under the agreed management arrangements. A balance of £5,917 was held on the 'University of Plymouth Peninsula Medical School account', which facilitates payments to suppliers and £71,000 was held by the University of Plymouth on a short-term deposit.



## NOTES TO THE FINANCIAL STATEMENTS

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### 9. Creditors: Amounts falling due within one year

	<b>2004</b>	<b>2003</b>
	<b>£000</b>	<b>£000</b>
Trade creditors	137	122
Other creditors	19	8
Due to partner universities	896	71
Due to HEFCE re overpayment	—	478
Deferred income:		
HEFCE recurrent teaching Grant	1,850	1,074
Fees received in advance	—	160
SIFT income received in advance	1,038	—
Accruals and other deferred income	2,793	2,752
	<hr/>	<hr/>
	6,733	4,665
	<hr/>	<hr/>

### 10. Reserves

	<b>2004</b>	<b>2003</b>
	<b>£000</b>	<b>£000</b>
Opening balance	806	—
Surplus for the year	54	806
	<hr/>	<hr/>
Closing balance	860	806
	<hr/>	<hr/>

### 11. Expenditure within the NHS

During the year ended 31 July 2004 the following expenditure relating to PMS took place within the NHS (this expenditure was not funded through the "HE Community Chest"):

	<b>2004</b>	<b>2003</b>
	<b>£000</b>	<b>£000</b>
Total spend	5,842	1,868
	<hr/>	<hr/>





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