

FINANCIAL STATEMENTS

2005/06

Contents

	Page
Officers and Staff Principally Concerned with Financial Matters	2
Providers of Financial Services	2
Treasurer's Report and Financial Review	3-4
Statement of Corporate Governance	5-6
Statement of Responsibilities of the Council	7
Independent Auditors' Report to the Council	8-9
Statement of Principal Accounting Policies	10-12
Consolidated Income and Expenditure Account	13
Statement of Consolidated Total Recognised Gains and Losses	14
Balance Sheets	15
Consolidated Cash Flow Statement and Related Notes	16-17
Notes to the Accounts	18-36
Consolidated Five Year Results	37

OFFICERS AND STAFF PRINCIPALLY CONCERNED WITH FINANCIAL MATTERS

Membership of Council as at 19th December 2006

Dr M Acar	G Godfrey	G Picken ¹
J Blackwell	M A Gibson	S Proffitt ¹
Dr R H Boissier ^{4,5}	P Glover	Dr F Rowland ³
Sir Bryan Carsberg ^{3,4,5}	P J K Haslehurst ³	J A M Strong ³
P Coates ¹	N Honey ^{2,3,5}	J Swaffer
Dr S Dann	Sir John Jennings	Professor R Thomson
V Dhaliwal	Professor N Halliwell ^{3,5}	Professor Y Vardaxoglou
V Dhupa ⁴	J Mutton ^{2,3}	Professor P Warwick ⁵
G Edila	Professor S Pearce ^{3,4,5}	Dr C S Woodruff
Sir John Gains	Professor R Parry-Jones	A A Woods ^{2,3,4,5}

Membership of Committees as at 19th December 2006

Audit Committee ¹	Resources & Planning Committee ³	Remuneration Committee ⁴
Treasurer's Committee ²		Nominating Committee ⁵

Officers and Staff in Post as at 19th December 2006

Chair of Council	Sir Bryan Carsberg, MSc(Econ), LLD(Hon), ScD(Hon), DUniv(Hon), DLitt(Hon), MA(Econ)(Hon), FCA, HonFIA
	Director, Inmarsat plc Director, RM plc Director, Novae Group plc
University Treasurer and Chair of Treasurer's Committee	A A Woods, DL, DUniv (Hon), FCA Deputy Chairman, Derbyshire Building Society A Deputy Lieutenant for the County of Derbyshire
Chair of Audit Committee	S Proffitt, FCA Vice President of AstraZeneca R & D Charnwood
Vice-Chancellor and Designated Officeholder	Professor Shirley Pearce, CBE, BA Oxon, MPhil, PhD
Director of Finance	R Wiggans, MA ACA

Providers of Financial Services

External Auditors	Deloitte & Touche LLP, Nottingham
Internal Auditors	KPMG LLP, Nottingham
Bankers	Barclays Bank plc, Birmingham Lloyds Bank Ltd, Birmingham
Insurers	Universities Mutual Association Ltd, London

Treasurer's Report and Financial Review

I am pleased to present the University's Statement of Accounts for the year ended 31 July 2006. The accounts, which are consolidated with the results of University subsidiary companies comply with the *Statement of Recommended Practice on Accounting for Further & Higher Education* and the *Accounts Direction of the Higher Education Funding Council for England*. They have been audited by Deloitte & Touche LLP, Registered Auditors, whose report is unqualified.

Results for the year

Total income rose by 8.6% to £166m. The average rate of increase over the last five years has been 7.72%, giving an indication of the growth of the University.

In common with the rest of the sector, growth in staffing costs is a continuing pressure. In the year under review underlying pay growth, excluding the pay growth of subsidiaries and FRS 17 adjustments, is 5.6%. Continuing uncertainty over the future cost of University pension schemes increases the likelihood of above inflation pay cost growth moving forward. The University is engaged in an ongoing process of monitoring pay costs and the attendant risks resulting from pay cost increases whilst maintaining its commitment to investment in academic staff.

The surplus of £5.9m was, pleasingly ahead of that budgeted and ahead of the 3% strategic target set by the University Council; results for the year being helped through the achievement of international recruitment targets.

The Balance Sheet remains healthy. Net assets, after accounting for pension scheme liabilities (referred to later) stand at £138m. The University has taken the opportunity to re-structure its bank debt and to secure further undrawn facilities during the year at more advantageous terms than previously enjoyed. Following debt restructuring involving the repayment of £18.4m from cash reserves, outstanding long term debt has fallen to £34.2m. There is also an overall reduction in the net interest cost to the University going forward. At the year end, the University had net debt of £1.17m. The undrawn facilities are to assist further the estate development which is commented on later under Capital Projects.

Cash flow and funding

Better working capital management has resulted in a net cash inflow from operating activities of £19m prior to the impact of continuing investment in University infrastructure and facilities.

A total of £32.9m has been invested in the year under review of which £18.4m was funded from specific funding council grants and other grants. The continuing development programme demonstrates the University's ongoing commitment to investment in its infrastructure. As the University moves forward in a changing financial climate, consideration will need to be given to future funding sources for capital projects.

Capital Projects

In the year under review, the expansion works to Burleigh Court bedroom and conference facilities, the extension to the Sir Frank Gibb building housing the Department of Civil & Building Engineering, the new postgraduate centre, the Stewart Mason building, and the Keith Green building which forms HEFCE's Centre for Excellence for Teaching & Learning in Engineering were completed. New projects coming on stream include the extension to the Business School, the demolition of the old sports hall and the substantial construction project of new facilities to house health, exercise and bio-sciences. As has been the case, problems arising from the discovery and removal of asbestos still arise and have continued to impact upon the costs of the ongoing programme.

Pensions

Members of University staff are eligible for membership of the Universities Superannuation Scheme (USS) and the Leicestershire County Council Superannuation Scheme (LGSS). Also for academic staff who were employed by Loughborough College of Art & Design in August 1998, contributions are paid to the Teachers' Pensions (TP).

All three schemes are funded and are classified as multi-employer defined benefit schemes. FRS17 requires that employers should disclose their share of asset and liabilities for each such scheme. However, it is only possible to identify individual shares for the LGSS. Application of the accounting standard shows a deficit of £17.511m for this scheme at 31st July 2006 and it is inevitable that increases in contributions will be required in coming years. The USS fund is currently the subject of regular review by that fund's Board of Directors and, at this point in time, all indications suggest that it is in a healthier state due to the improved performance of the stock market over the period since the last triennial actuarial valuation. While increases in contributions are expected, it is hoped that these will not be significant.

Prospects

The surplus for 2005/06 at 3.6% was above the University's strategic target. The introduction of top up fees will generate additional resources for the University, but the expectations of our customers will similarly rise. Fortunately, the University is well advanced in terms of estate re-development planning and, though significant investment in academic staff has already been made, further investment in this area is planned.

Conclusion

I am pleased to report that the University has a stable and satisfactory financial position which supports its long term plans. Under the leadership of the new Vice Chancellor, an ambitious but realisable strategic plan for the period to 2016 is close to completion and I continue to be optimistic as to the future success of Loughborough University.

19th December 2006

**Alan A Woods
University Treasurer**

STATEMENT OF CORPORATE GOVERNANCE

The following statement is given to assist readers of the Financial Statements to obtain an understanding of the governance procedures applied by the University Council.

The University is committed to exhibiting best practice in all aspects of Corporate Governance. This statement describes the manner in which the University has applied the principles set out in Section 1 of the Combined Code on Corporate Governance issued by the London Stock Exchange in June 1998.

Throughout the year ended 31 July 2006, the University has been in compliance with all the Code provisions set out in section 1 of the Combined Code on Corporate Governance insofar as they relate to universities. During 2005/06 the Council has undertaken a detailed review of effectiveness of Council which included compliance with the Guide for Members of Governing Bodies of Universities and Colleges in England and Wales, a revised version of which was issued by the Committee of University Chairmen in 2004. An action plan was drawn up to ensure compliance with the Code and this has now been fully implemented.

Summary of the University's Structure of Corporate Governance

The **Council**, the governing body of the University, comprises independent, academic, non-academic and student members appointed under the Statutes of the University, the majority of whom are non-executive. The role of Chair of the Council is separated from the role of the University's Chief Executive, the Vice-Chancellor. The Council holds to itself the responsibilities for the ongoing strategic direction of the University, approval of major developments and the receipt of regular reports from the Executive Officers on the day to day operations. Certain matters are specifically reserved for Council under the Financial Memorandum with the Higher Education Funding Council for England (HEFCE). The Council meets at least three times a year, and it is advised by the Senate on academic issues.

Both Council and Senate conduct their routine business through committees, some of which are jointly composed. So far as financial management is concerned, the **Resources and Planning Joint Committee** has responsibility for the integration of academic, financial and physical planning and the allocation of resources to departments and sections.

Monitoring of the overall financial situation and treasury management are the responsibility of the **Treasurer's Committee**, which is chaired by a non-executive member of Council and on which there is a majority of independent members. The Resources and Planning Committee monitors the performance of faculties and business units regularly.

The External Auditors address their report on the Financial Statements to Council through the **Treasurer's Committee**.

The **Audit Committee** is comprised of independent members of Council, who are not otherwise involved in the management of the University, and other independent persons appointed by Council. Both Internal and External Auditors report to the Audit Committee on a regular basis. The Committee considers the detailed reports together with the recommendations on the systems and controls in operation. The Committee takes account of guidance issued by the HEFCE through its Code of Practice on Accountability and Audit. Council appoints the Internal and External Auditors and they have direct access to the Chair of Council, the Chair of Audit Committee and the Vice-Chancellor at any time.

The **Nominating Committee** of Council considers nominations for vacancies in Council membership under the relevant category.

The **Remuneration Committee** of Council determines the remuneration of professorial and senior administrative staff.

Internal Control

The Council, as the governing body of Loughborough University, 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 the governing body in the Charter 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 review process designed to identify the principal risks to the achievement of policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31 July 2006 and up to the date of approval of the financial statements, and accords with HEFCE guidance.

The principal features of the University's internal control structure are:

- A comprehensive strategic and operational planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets with clear allocation of responsibilities for achievement of strategic and operational plans. In addition the Council has adopted clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving substantial capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Council. Comprehensive Financial Regulations, detailing financial controls and procedures, have been approved by the Council. Regular reviews of academic performance and financial results involving variance reporting and updates of forecast out-turns take place.
- The Executive Management Group is tasked with the identification, evaluation and management of risk. A risk management strategy and policy document and an organisation-wide risk register have been established. It has been agreed where the principal responsibility rests for risks identified and a control and reporting strategy which now involves annual reporting back to the Executive Management Group has been implemented for each of the significant risks. A programme of risk awareness training for senior management continues and integration with the planning process has been introduced.
- The Audit Committee monitors the effectiveness of control, governance, the management of risk and value for money of the University's activities. It receives regular reports from the Internal Auditors, and where relevant, the External Auditors. The internal audit approach now reflects the increased emphasis on risk management. Periodic reports concerning internal control are received by Council from the Audit Committee. Reports on the progress on key projects and regular reports from senior management on the steps they are taking to manage risks in their area of responsibility are received by the Council and its principal committees.
- The Performance Monitoring Group and the Research Performance Monitoring Group monitor the performance of all sections of the University in the light of the University's targets set in the Strategic and Operational Plan. Both groups report to the Resources and Planning Committee.

The University Council, through the Audit Committee, has reviewed the effectiveness of the system of internal control of the University and its subsidiary companies for the period covered by these financial statements. Any system of internal control can, however, only provide reasonable but not absolute assurance against material financial misstatement or loss.

Going Concern

The University Council is satisfied that the University and its subsidiary companies have 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 financial statements.

STATEMENT OF THE RESPONSIBILITIES OF THE COUNCIL OF LOUGHBOROUGH UNIVERSITY

In accordance with the Royal Charter, the Council of the University is ultimately responsible for the administration and management of the affairs of the University and is required to present audited financial statements for each financial year.

The University Council is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the University and its subsidiary companies and enable it to ensure that the financial statements are prepared in accordance with the relevant parts of the Royal Charter, company law, the Statement of Recommended Practice on Accounting for Further and Higher Education and other Accounting Standards. In addition, within the terms and conditions of the Financial Memorandum between the Higher Education Funding Council for England and the University, the latter, through its designated office holder, 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 its subsidiary companies and of the surplus or deficit and cash flows of the University and its subsidiary companies for that year.

In preparing the financial statements, the University Council has to ensure that:-

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

The University Council has taken reasonable steps to: -

- ensure that funds from the Higher Education Funding Council for England are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Funding Council and any other conditions which the Funding Council may from time to time prescribe
- ensure that income from the Training and Development Agency for Schools is applied for the purpose for which it has been received and in accordance with the funding agreement with the Agency
- ensure that income from the Learning and Skills Council is applied for the purpose for which it has been received and in accordance with the funding agreement with the Council
- 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 its subsidiary companies and prevent and detect fraud, and
- secure the economical, efficient and effective management of the resources and expenditure of the University and its subsidiary companies.

19th DECEMBER 2006

Sir Bryan Carsberg
Chair of Council

INDEPENDENT AUDITORS' REPORT TO THE COUNCIL OF LOUGHBOROUGH UNIVERSITY

We have audited the financial statements of Loughborough University for the year ended 31 July 2006 which comprise the statement of principal accounting policies, the consolidated income and expenditure account, the statement of consolidated total recognised gains and losses, the consolidated balance sheet, the University balance sheet, the consolidated cash flow statement, the reconciliation of consolidated operating surplus to net cash flow from operating activities, the reconciliation of net cash flow to movement in net debt, and the related notes 1 to 35. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Council of the University, as a body, in accordance with the Financial Memorandum dated October 2003. Our audit work has been undertaken so that we might state to the Council 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 and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Members of the Council and auditors

As described in the Responsibilities of the Council, the Members of the Council are responsible for the preparation of the financial statements in accordance with the University's statute, the Statement of Recommended Practice on Accounting for Further and Higher Education and other applicable United Kingdom law and accounting standards (United Kingdom Generally Accepted Accounting Practice).

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice on Accounting for Further and Higher Education. We also report whether, in all material respects, income from funding bodies, grants and income for specific purposes and from other restricted funds administered by Loughborough University have been properly applied only for the purposes for which they were received and whether income has been applied in accordance with the Statutes and, where appropriate, with the Financial Memorandum with the Higher Education Funding Council for England.

We also report if, in our opinion, the Treasurer's Report is not consistent with the financial statements, if the University has not kept proper accounting records, the accounting records do not agree with the financial statements or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the Treasurer's Report, including the corporate governance statement, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing issued by the Auditing Practices Board and the Audit Code of Practice issued by the Higher Education Funding Council for England. 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 University Council in the preparation of the financial statements and of whether the accounting policies are appropriate to the University'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:

- (a) the financial statements give a true and fair view of the state of affairs of the University and the Group as at 31 July 2006 and of the surplus of the Group for the year then ended and have been properly prepared in accordance with the Statement of Recommended Practice on Accounting for Further and Higher Education Institutions;
- (b) in all material respects income from the Higher Education Funding Council for England, and the Teacher Training Agency, grants and income for specific purposes and from other restricted funds administered by the University have been applied only for the purposes for which they were received; and
- (c) in all material respects income has been applied in accordance with the University's statutes and, where appropriate, with the Financial Memorandum, dated October 2003 with the Higher Education Funding Council for England.

An audit does not provide assurance on the maintenance and integrity of the web -site, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statements since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area. Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

19th December 2006

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Nottingham

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

1. Accounting Convention

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of Endowment Asset Investments and certain land and buildings acquired from Loughborough College of Art and Design, and in accordance with both the Statement of Recommended Practice (SORP) in Accounting for Further and Higher Education 2003 and other applicable Accounting Standards.

2 Basis of Consolidation

The University and its subsidiaries prepare accounts to 31 July. The consolidated financial statements combine the financial statements of the University and all its subsidiary undertakings for the financial year to 31 July 2006. The individual subsidiary companies' financial statements have been prepared in accordance with the Companies Act and other relevant Accounting Standards.

The consolidated financial statements do not include the accounts of Loughborough Students Union, as it is a separate body over which the University does not have the power to exercise and nor does it exercise dominant influence. Expenditure, which is included in the Consolidated Income and Expenditure Account of the University, relates to the University's contribution to Union activities.

3 Recognition of Income

Income from Specific Endowments, Donations, Research Grants and Contracts is included to the extent of recurrent expenditure incurred and depreciation charged during the year, together with any related contributions towards overhead costs. Unspent endowments are shown as Endowment Reserves on the balance sheet, whilst unspent donations, where terms require are classed as deferred income. All income from other sources is credited to the Income and Expenditure Account on a receivable basis.

4 Merger with Loughborough College of Art and Design

Loughborough College of Art and Design merged with Loughborough University on 1 August 1998. The merger was accounted for by the 'acquisition method of accounting' in order to comply with the requirements of the Financial Reporting Standard (FRS) 6, "Acquisitions and Mergers". Fair values are attributed to the net separable assets and liabilities. The benefit arising as a consequence of no consideration having been paid by the University for the net value of the assets acquired is included in the Consolidated Balance Sheet as a deduction from Tangible and Intangible Assets. The fair value of the benefit is released to the Income and Expenditure Account over the periods in which the non-monetary assets are recovered, whether through depreciation or disposals. The release is aligned with the corresponding depreciation charge relating to the assets.

5 Pension Schemes

The University participates in the Universities Superannuation Scheme (USS), the Local Government Superannuation Scheme (LGSS) and the Teachers' Pensions (TP).

The USS and the TP are defined benefit schemes which are externally funded and contracted out of the State Earnings-Related Pension Scheme. The institution is unable to identify its share of the underlying assets and liabilities of these schemes on a consistent and reasonable basis and therefore, as required by FRS 17 "Retirement Benefits", accounts for these two schemes as if they were defined contributions schemes. As a result the amount charged to the Income and Expenditure Account represents the contributions payable to the schemes during the year.

The LGSS is a defined benefit scheme which is externally funded and contracted out of the State Earnings-Related Pension Scheme. The institution is able to identify its share of the assets and liabilities of this scheme and thus the University has fully adopted FRS 17 "Retirement Benefits" during the year. The impact of this standard has been fully reflected throughout the financial statements. Prior year comparatives have been restated where appropriate. The difference between the fair value of the assets held in the University's defined benefit pension scheme and the scheme's liabilities measured on an actuarial basis using the projected unit method are recognised in the University's balance sheet as a pension scheme asset or liability as appropriate. The carrying value of any resulting pension scheme asset is restricted to the extent that the University is able to recover the surplus through reduced contributions in the future or through refunds from the scheme.

Changes in the defined benefit pension scheme asset or liability arising from factors other than cash contribution by the University are charged to the Income and Expenditure Account or the statement of total recognised gains and losses in accordance with FRS17 "Retirement benefits".

The funds of the USS and LGSS are valued every three years by professionally qualified independent actuaries using the projected unit method, the rates of contribution payable being determined by the trustees on the advice of the actuaries. In the intervening years, the 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, and are accounted for on the basis of charging the cost of providing pensions over the period during which the University benefits from the employees' services. The TP is valued every five years by the Government Actuary. Contributions are paid at the rate specified by the Government Actuary. It is an unfunded Scheme and contributions are made to the Exchequer.

The pension charge for the period includes an amount in respect of enhanced pension entitlements relating to specific University staff who have taken early retirement in prior years. The calculation of the cost of early retirement provisions charged to the Income and Expenditure Account in the year of retirement is based on the total capital cost of providing enhanced pensions with allowance for future investment returns in excess of price inflation.

A provision is made for liabilities and charges representing the extent to which the capital cost of enhanced pension entitlements charged exceeds actual payments made. The provision will be released against the cost to the University of enhanced pension entitlements over the life of each relevant employee.

6 Land and Buildings

Land and buildings are stated at cost or, in the case of buildings acquired as a result of the merger with Loughborough College of Art and Design, at valuation: the basis of valuation is depreciated replacement cost and the valuation on 31 July 1998 was performed by GVA Grimley, International Property Advisors. Land which is held freehold is not depreciated as it is considered to have an indefinite useful life. Freehold buildings are depreciated over their estimated useful lives, which range between ten and fifty years depending on the method of construction used. Leasehold land and buildings are amortised over the life of the lease up to a maximum of fifty years. Improvements to buildings and long term maintenance projects are capitalised, where they are seen to increase the value or effective life of a building or building related plant and the value of the improvements is in excess of £50,000. Depreciation is charged from the year of completion and is calculated to write the cost off over the remaining life of the improved building or building related plant.

Where building projects are financed with the aid of specific grants they are capitalised and depreciated as above. The related grants are credited to a deferred capital grant account and are released to the Income and Expenditure Account over the expected useful, economic life of the building on a basis consistent with the depreciation policy.

Finance costs, which are directly attributable to the construction of land and buildings, are not capitalised as part of the cost of those assets.

7 Furniture and Equipment

Equipment, including computers and associated software, where the cost is less than £20,000 per individual item or group of related items, is written off in the year of acquisition. All other furniture and equipment is capitalised.

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

Main computer systems	- 7 years
Other main frame computers and telephone equipment	- 5 years
Motor vehicles and other general equipment	- 4 years
Equipment acquired for specific research projects	- project life (generally 3 years)
Furniture and fixtures	- between 5 and 10 years

Where equipment is acquired with the aid of specific grants it is capitalised and depreciated as above. The related grants are credited to a deferred capital grant account and released to the Income and Expenditure Account over the expected useful, economic life of the equipment (the period of the grant in respect of specific projects).

The consolidated tangible assets include items purchased by the subsidiary companies that have been capitalised following normal commercial criteria. Depreciation is provided on a straight-line basis on cost over a period of between 3 and 10 years.

8 Investments

Endowment asset investments are included in the Balance Sheet at market value. Fixed asset investments are included at cost. Short-term deposits are included at the lower of cost and net realisable value. Provision is made for any impairment in value of investments whether or not the impairment is expected to be permanent.

The income receivable from short-term investments includes the effects of identified reductions in value in investments (both realised and unrealised).

9 Stocks

Stocks of goods for re-sale are stated at the lower of cost and net realisable value. Stocks of consumable materials held in academic and service departments are excluded.

10 Maintenance of Premises

Actual expenditure on long-term repairs and maintenance of buildings and building-related plant below £50,000 and routine corrective maintenance is charged to the Income and Expenditure Account in the year in which it is incurred. The costs of long-term maintenance projects above £50,000 in value are capitalised with effect from 1 August 1998.

11 Foreign currency transactions

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

12 Cash Flows and Liquid Resources

Cash flows comprise increases or decreases in cash. Cash includes cash in hand, deposits repayable on demand less overdrafts. Deposits are repayable on demand if they are in practice available within 24 hours without penalty. No investments, however liquid, are included as cash. Liquid resources comprise assets held as a readily disposable store of value. They include term deposits, government securities and loan stock held as part of the University's treasury management activities. They exclude any such assets held as endowment asset investment.

13 Taxation Status

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 the Income and Corporation Taxes Act 1988 (ICTA). Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by Section 505 of the Income and Corporation Taxes Act 1988 (ICTA) 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.

All subsidiary companies (with the exception of Loughborough University Development Trust, which is a registered charity) are liable to Corporation tax and Value Added Tax in the same way as any other commercial organisation.

The University's principal activities are exempt from Value Added Tax, but certain ancillary supplies and services are liable to Value Added Tax at various rates. Expenditure includes irrecoverable Value Added Tax charged by suppliers to the University.

14 Operating lease rentals receivable

Operating lease rentals received are credited to the Income and Expenditure Account on an accruals basis over the period of the lease.

15 Leases

The costs of operating leases are charged to the Income and Expenditure Account as they accrue.

Consolidated Income and Expenditure Account

Year Ended 31 July 2006

	Note	2005/06 £'000	2004/05 As restated £'000
INCOME			
Funding Council Grants	1	57,930	53,218
Academic Fees and Support Grants	2	35,691	32,707
Research Grants and Contracts	3	31,531	28,854
Other Income	4	39,017	36,081
Endowment and Investment Income	5	1,936	2,080
Total Income		<u>166,105</u>	<u>152,940</u>
EXPENDITURE			
Staff Costs	6	91,741	87,707
Depreciation	12	8,415	7,717
Other Operating Expenses		58,326	51,695
Interest Payable	7	2,217	3,250
Total Expenditure	8	<u>160,699</u>	<u>150,369</u>
SURPLUS ON CONTINUING OPERATIONS BEFORE DISPOSAL OF ASSETS AND TAX	9	5,406	2,571
Profit on disposal of assets	9	758	1,565
SURPLUS ON CONTINUING OPERATIONS AFTER DISPOSAL OF ASSETS BUT BEFORE TAX		6,164	4,136
Tax	10	(209)	(46)
SURPLUS ON CONTINUING OPERATIONS AFTER TAX		<u>5,955</u>	<u>4,090</u>
Transfer from accumulated income of specific endowments		(47)	291
SURPLUS FOR THE YEAR RETAINED WITHIN RESERVES		<u>5,908</u>	<u>4,381</u>

The results for the year ended 31 July 2005 have been restated to reflect the full implementation of FRS 17 (see note 33) and to account for the transfer from the accumulated income of specific endowments to a specific endowment fund within the Balance Sheet to comply with the SORP for Higher and Further Education.

Statement of Consolidated Total Recognised Gains and Losses

FOR THE YEAR ENDED 31 JULY 2006

	Note	2005/06 £'000	2004/05 £'000 As restated
SURPLUS ON CONTINUING OPERATIONS AFTER TAX		5,908	4,381
Appreciation of Endowment Asset Investments	24	45	88
Prior Year's Endowment Income Expended in Current Year		40	(99)
Actuarial (loss)/gain in respect of pension scheme	32	<u>(220)</u>	<u>2,067</u>
TOTAL RECOGNISED GAINS RELATING TO THE YEAR		5,773	6,437
Prior year adjustment		(16,673)	0
TOTAL RECOGNISED LOSSES AND GAINS SINCE THE LAST ANNUAL REPORT		<u><u>(10,900)</u></u>	<u><u>6,437</u></u>
Reconciliation			
Opening Reserves and Endowments		69,083	
Prior year adjustment		(16,673)	
Opening Reserves and Endowments as restated		52,410	
Total Recognised Gains and Losses for the Year		5,773	
Closing Reserves and Endowments		<u><u>58,183</u></u>	

Balance Sheets as at 31 July 2006

	Note	2005/06		2004/05	
		Consolidated	University	Consolidated	University
		As restated £'000	As restated £'000	As restated £'000	As restated £'000
Tangible Assets	12	195,534	185,709	171,200	167,881
Benefit Arising from the Acquisition of LCAD	13	(3,297)	(3,297)	(3,431)	(3,431)
Investments	14	277	8,727	323	727
Long-term Loans	15	300	990	100	1,881
Total fixed assets		192,814	192,129	168,192	167,058
Endowment assets	16	1,434	1,434	1,349	1,349
Stocks and Stores in Hand		200	174	219	197
Debtors	17	13,407	12,544	15,096	15,296
Short Term Deposits	18	25,076	24,205	32,215	31,205
Cash at Bank and in Hand		8,341	6,449	14,640	12,855
Total current assets		47,024	43,372	62,170	59,553
Less: Creditors - amounts falling due within one year	19	(49,139)	(46,474)	(43,927)	(41,626)
Net current (liabilities)/assets		(2,115)	(3,102)	18,243	17,927
Total assets less current liabilities		192,133	190,461	187,784	186,334
Less: Creditors - amounts falling due after more than one year	20	(34,191)	(34,191)	(51,045)	(51,045)
Less: Provisions for liabilities and charges	22	(2,106)	(2,106)	(2,090)	(2,090)
NET ASSETS excluding pension liability		155,836	154,164	134,649	133,199
Pension liability	32	(17,511)	(17,511)	(16,673)	(16,673)
NET ASSETS including pension liability		138,325	136,653	117,976	116,526
Deferred Capital Grants	23	80,142	79,406	65,566	64,787
Endowments					
Specific	24	1,434	1,434	1,349	1,349
Reserves excluding pension liability	25	74,260	73,324	67,734	67,063
Pension reserve	25, 32	(17,511)	(17,511)	(16,673)	(16,673)
Reserves including pension liability	25	56,749	55,813	51,061	50,390
TOTAL		138,325	136,653	117,976	116,526

The figures for the year ended 31 July 2005 have been restated to reflect the full implementation of FRS 17 (see note 33).

S PEARCE, Vice-Chancellor and Designated Officeholder
R WIGGANS, Director of Finance
A A WOODS, Treasurer

Consolidated Cash Flow Statement and Related Notes

Year Ended 31 July 2006

RECONCILIATION OF CONSOLIDATED OPERATING SURPLUS TO NET CASH FLOW FROM OPERATING ACTIVITIES

	Note	2005/06	2004/05
		£'000	As restated £'000
Surplus Before Tax		5,406	2,571
Depreciation	12	8,415	7,717
Benefit on Acquisition of LCAD released to Income	13	(134)	(456)
Deferred Capital Grants released to Income	23	(3,872)	(3,430)
Investment Income	5	(1,936)	(2,080)
Interest Payable	7	2,217	3,250
Decrease/(Increase) in Stocks		19	(26)
Decrease/(Increase) in Debtors		1,730	(210)
Increase in Creditors		6,341	7,499
Increase/(Decrease) in provision against impairment in value of investments		16	(420)
Receipt of Donated Equipment		0	(20)
Pension costs less contributions payable		848	436
NET CASH INFLOW FROM OPERATING ACTIVITIES		19,050	14,831

CONSOLIDATED CASH FLOW STATEMENT

	Note	2005/06	2004/05
		£'000	£'000
NET CASH INFLOW FROM OPERATING ACTIVITIES		19,050	14,831
Returns on Investment and Servicing of Finance			
Income from Endowments	24	99	123
Other Interest		1,962	1,741
Interest Paid		(2,414)	(3,011)
		(353)	(1,147)
Taxation		(46)	(2)
Capital Expenditure and Financial Investment			
Payments made to acquire fixed assets		(32,927)	(18,695)
Proceeds from sales of fixed assets		935	2,429
Fixed Asset Investment Provision		46	(7)
Net (disposals)/additions to endowments		(7)	192
Changes in long term Loans		(200)	(60)
Deferred Capital Grants Received	23	18,448	7,231
		(13,705)	(8,910)
NET CASH INFLOW BEFORE USE OF LIQUID RESOURCES AND FINANCING		4,946	4,772
Management of Liquid Resources		7,139	1,177
Financing	30	(18,383)	(1,969)
(DECREASE)/INCREASE IN CASH		(6,298)	3,980

Consolidated Cash Flow Statement and Related Notes

Year Ended 31 July 2006

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	Note	2005/06 £'000	2004/05 £'000
(DECREASE)/INCREASE IN CASH IN THE PERIOD		(6,298)	3,980
Change in Short Term Deposits		(7,139)	(1,177)
Change in Debt		18,383	1,969
CHANGE IN NET FUNDS		4,946	4,772
Net Debt at Beginning of the Year	31	(6,116)	(10,888)
NET DEBT AT THE END OF THE YEAR	31	<u>(1,170)</u>	<u>(6,116)</u>

Notes to the Accounts

1 FUNDING COUNCIL GRANTS

	2005/06 £'000	2004/05 £'000
HEFCE Recurrent:		
Teaching	34,524	35,370
Research	14,288	12,245
Other	5,488	2,434
LSC Recurrent	961	863
TDA	695	688
Deferred Capital Grants Released in Year :		
Buildings (Note 23)	854	718
Equipment (Note 23)	1,120	900
	<u>57,930</u>	<u>53,218</u>

2 ACADEMIC FEES AND SUPPORT GRANTS

Home Students	17,926	17,373
International Students	17,765	15,334
	<u>35,691</u>	<u>32,707</u>

3 RESEARCH GRANTS AND CONTRACTS

Research Councils and Charities	15,481	13,066
Industry and Commerce	4,124	4,675
Governmental	11,926	11,113
	<u>31,531</u>	<u>28,854</u>

Facilities for research with a value of £170,000 (2004/05 - £170,000) were donated to the University, but are not included in the above.

4 OTHER INCOME

	2005/06 £'000	2004/05 £'000
Residences, Catering and Conferences	24,420	22,277
Other income	13,341	12,240
Benefit on acquisition of LCAD - Release to Income (Note 13)	134	456
Released from Deferred Capital Grants	1,122	1,108
	<u>39,017</u>	<u>36,081</u>

5 ENDOWMENT AND INVESTMENT INCOME

Income from Specific Endowments (Note 24)	99	123
Income from Short-term Investments	1,607	1,957
Net return on pension scheme	230	0
	<u>1,936</u>	<u>2,080</u>

As restated

Notes to the Accounts

6 STAFF COSTS

	2005/06	2004/05
	£'000	As restated £'000
Staff Costs :		
Wages and Salaries	75,243	72,445
Social Security Costs	6,148	5,825
Other Pension Costs (Note 32)	9,910	8,726
Exceptional Restructuring Costs	440	711
Total	<u>91,741</u>	<u>87,707</u>
Staff Costs - Operational	91,301	86,996
Staff Costs - Restructuring	<u>440</u>	<u>711</u>
<p>The emoluments of the Vice-Chancellor (excluding employers pension contributions) amounted to £158,300 (2004/05 - £155,400) and are disclosed on the same basis as for higher paid staff. The University's pension contributions to the Universities Superannuation Scheme (USS) in respect of the Vice-Chancellor are on the standard basis for academic and related staff and amounted to £20,952 (2004/05 - £21,756).</p>		
Remuneration of other higher paid staff, excluding employer's pension contributions:	No.	No.
£70,000 to £79,999	25	13
£80,000 to £89,999	8	7
£90,000 to £99,999	7	4
£100,000 to £109,999	3	1
	<u>43</u>	<u>25</u>
Average Staff Numbers by Major Category :	No.	No.
Academic	616	566
Research	359	330
Management & Specialist	362	392
Technical	185	180
Other	1,068	1,040
	<u>2,590</u>	<u>2,508</u>

The average staff numbers, by major category, are expressed as full-time equivalents and are disclosed at a consistent date, that is at 1 April each year.

Notes to the Accounts

7 INTEREST PAYABLE

	2005/06	2004/05 As restated
	£'000	£'000
Loans not wholly repayable within five years	2,217	2,986
Net charge on pension scheme	0	264
	<u>2,217</u>	<u>3,250</u>

8 ANALYSIS OF 2005/06 EXPENDITURE BY ACTIVITY

	2005/06	2004/05 As restated
	£'000	£'000
Academic Departments	64,570	59,663
Academic Services	10,964	10,241
Research Grants and Contracts	25,070	23,192
Residences, Catering and Conferences	20,317	19,140
Premises	14,679	14,430
Administration and Central Services	17,938	15,416
Other Expenses	7,161	8,287
	<u>160,699</u>	<u>150,369</u>

Notes to the Accounts

9 SURPLUS BEFORE TAX

	2005/06 £'000	2004/05 £'000
This is stated after charging/(crediting):		
External Auditors Remuneration in Respect of Audit Services (University 2005/06 - £43,000, 2004/05 - £37,600)	62	58
External Auditors Remuneration in Respect of Non-Audit Services	5	9
Profit on Disposal of Fixed Assets	(758)	(1,565)
Operating Lease Rentals	426	342
	<u>209</u>	<u>46</u>

10 TAX

UK Corporation Tax charge on the profits of subsidiary companies

209

46

11 ANALYSIS OF FUND BALANCES BETWEEN THE CONSOLIDATED NET ASSETS

	Tangible and Intangible Assets	Long-term and Endowment Investments	Long-term Loans	Net Current Assets	Long-term Liabilities, Provisions, Deferred Capital Grants and Pension Reserve	Total Funds
	£'000	£'000	£'000	£'000	£'000	£'000
Specific Endowments	0	1,434	0	0	0	1,434
Reserves	77,363	277	300	(1,574)	(19,617)	56,749
Loans	34,732	0	0	(541)	(34,191)	0
Deferred Capital Grants	80,142	0	0	0	(80,142)	0
Net Assets Total	<u>192,237</u>	<u>1,711</u>	<u>300</u>	<u>(2,115)</u>	<u>(133,950)</u>	<u>58,183</u>

Note: Tangible and Intangible Assets held by the subsidiary companies are financed by a combination of Other Reserves and Loans.

Notes to the Accounts

12 TANGIBLE ASSETS

	Freehold Land and Buildings £'000	Leasehold Land and Buildings £'000	Fixtures, Fittings and Equipment £'000	Total £'000
CONSOLIDATED				
Cost and valuation:				
At 1 August 2005	152,346	43,573	31,886	227,805
Additions at cost	23,987	1,613	7,327	32,927
Disposals at cost	(33)	0	(686)	(719)
At 31 July 2006	<u>176,300</u>	<u>45,186</u>	<u>38,527</u>	<u>260,013</u>
Depreciation:				
At 1 August 2005	(33,884)	(1,938)	(20,783)	(56,605)
Charge for the year	(3,908)	(910)	(3,597)	(8,415)
Eliminated on disposals	25	0	516	541
At 31 July 2006	<u>(37,767)</u>	<u>(2,848)</u>	<u>(23,864)</u>	<u>(64,479)</u>
Net Book Value:				
At 31 July 2006	<u>138,533</u>	<u>42,338</u>	<u>14,663</u>	<u>195,534</u>
At 31 July 2005	<u>118,462</u>	<u>41,635</u>	<u>11,103</u>	<u>171,200</u>
UNIVERSITY				
Cost and valuation:				
At 1 August 2005	149,416	43,573	29,352	222,341
Additions at cost	17,591	1,613	6,817	26,021
Disposals at cost	(34)	0	(523)	(557)
At 31 July 2006	<u>166,973</u>	<u>45,186</u>	<u>35,646</u>	<u>247,805</u>
Depreciation:				
At 1 August 2005	(33,513)	(1,938)	(19,009)	(54,460)
Charge for the year	(3,809)	(910)	(3,308)	(8,027)
Eliminated on disposals	25	0	366	391
At 31 July 2006	<u>(37,297)</u>	<u>(2,848)</u>	<u>(21,951)</u>	<u>(62,096)</u>
Net Book Value:				
At 31 July 2006	<u>129,676</u>	<u>42,338</u>	<u>13,695</u>	<u>185,709</u>
At 31 July 2005	<u>115,903</u>	<u>41,635</u>	<u>10,343</u>	<u>167,881</u>

Note: Freehold and leasehold buildings with a net book value of £32,599,000 (2004/05 - £24,414,000) and cost of £38,629,000 (2004/05 - £32,446,000) have been funded from Treasury sources: 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 Financial Memorandum with the Higher Education Funding Council for England. At 31 July 2006, freehold land and buildings at cost included £10,950,000 (2004/05 - £10,608,000) in respect of buildings under construction.

Note: The cost of fixed assets held for use in operating leases amount to £26,000,000 (2004/05 - £26,000,000) with accumulated depreciation of £1,713,503 (2004/05 - £1,199,000).

13 BENEFIT ARISING FROM THE ACQUISITION OF LOUGHBOROUGH COLLEGE OF ART & DESIGN (CONSOLIDATED AND UNIVERSITY)

	£'000
Fair Value:	
At 31 July 2006 and at 1 August 2005	<u>5,565</u>
Released to Income and Expenditure Account :	
At 1 August 2005	(2,134)
Release for year (Note 4)	(134)
At 31 July 2006	<u>(2,268)</u>
Net Book Value :	
At 31 July 2006	<u><u>3,297</u></u>
At 31 July 2005	<u><u>3,431</u></u>

14 INVESTMENTS

	2005/06		2004/05	
	Consolidated £'000	University £'000	Consolidated £'000	University £'000
Subsidiary companies (Note 35)	0	8,479	0	479
Subsidiary investments in spinouts:	29	0	75	0
Trade Investments:				
CVCP Properties PLC	42	42	42	42
Adsfab Limited	6	6	6	6
Lachesis Seed Fund Limited	200	200	200	200
Net book value at 31 July	<u><u>277</u></u>	<u><u>8,727</u></u>	<u><u>323</u></u>	<u><u>727</u></u>

Note: The market value of all shareholdings at 31 July 2006 is not significantly different from those values stated above.

Notes to the Accounts

15 LONG-TERM LOANS

	2005/06		2004/05	
	Consolidated £'000	University £'000	Consolidated £'000	University £'000
Loughborough Students Union	300	300	100	100
Imago @ Loughborough Ltd	0	690	0	1,781
	<u>300</u>	<u>990</u>	<u>100</u>	<u>1,881</u>

Note: The loan granted to Loughborough Students Union is unsecured, interest is linked to base rate and is repayable over the period to 31 October 2016.

Note: The loan granted to Imago @ Loughborough Ltd is unsecured, interest is linked to base rate and is repayable over the period to 31 July 2012.

16 ENDOWMENT ASSET INVESTMENTS (CONSOLIDATED AND UNIVERSITY)

	2005/06 £'000	2004/05 £'000
Balance at 1 August 2005	1,349	1,360
Additions	15	192
Disposals	(22)	0
Appreciation on Revaluation	45	88
Increase/(Decrease) in cash balances	47	(291)
Balance at 31 July 2006	<u>1,434</u>	<u>1,349</u>
Quoted Unit Trusts (Unlisted)	1,147	1,109
Bank Balances	287	240
Total Endowment Asset Investments	<u>1,434</u>	<u>1,349</u>

Notes to the Accounts

17 DEBTORS

	2005/06		2004/05	
	Consolidated £'000	University £'000	Consolidated £'000	University £'000
Amounts falling due within one year:				
Trade debtors	12,866	11,483	14,556	12,813
Other debtors	0	0	0	0
Prepayments and Accrued Income	541	416	540	466
Amounts due from subsidiary companies	0	645	0	2,017
	<u>13,407</u>	<u>12,544</u>	<u>15,096</u>	<u>15,296</u>

18 SHORT TERM DEPOSITS

Short term deposits include 63,113 BTG plc ordinary shares of 10p each.
The cost of the shares was £4,722 and their market value as at 31 July 2006 was £82,047.

	2005/06		2004/05	
	Consolidated £'000	University £'000	Consolidated £'000	University £'000
	<u>25,076</u>	<u>24,205</u>	32,215	31,205

19 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2005/06		2004/05	
	Consolidated £'000	University £'000	Consolidated £'000	University £'000
Bank Overdraft	142	0	96	0
Secured Loans	0	0	2,058	2,058
Unsecured Loans	541	541	12	12
Payments Received on Account	26,931	26,931	21,731	21,630
Trade creditors	15,143	14,396	14,544	13,976
Social Security and Other Taxation Payable	2,630	2,421	2,302	2,254
Accruals and Deferred Income	3,752	2,185	3,184	1,696
	<u>49,139</u>	<u>46,474</u>	<u>43,927</u>	<u>41,626</u>

Notes to the Accounts

20 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2005/06		2004/05	
	Consolidated £'000	University £'000	Consolidated £'000	University £'000
Secured loans repayable by 2028	0	0	51,045	51,045
Unsecured loans repayable by 2035	34,191	34,191	0	0
	34,191	34,191	51,045	51,045

21 BORROWINGS

	2005/06		2004/05	
	Consolidated £'000	University £'000	Consolidated £'000	University £'000
Analysis of Secured and Unsecured Loans and Overdrafts:				
In one year or less	683	541	2,166	2,070
Due between one and two years	564	564	2,163	2,163
Due between two and five years	1,867	1,867	7,143	7,143
Due in five years or more	31,760	31,760	41,739	41,739
	34,874	34,732	53,211	53,115

£5m of the above loan is fixed at a rate of 5.48% until December 2011. £5m of the above loan is subject to a collar in the range of 4.70%-7.18% until December 2011. £16m of the above loan is fixed at a rate of 5.1525% until March 2019. Interest on the remaining loan is charged at 0.18% above base rate. These loans are repayable by instalments in the period to 10 December 2035.

22 PROVISIONS FOR LIABILITIES AND CHARGES (CONSOLIDATED AND UNIVERSITY)

	Premature Retirement Compensation £'000	Enhanced Pension Costs £'000	Total £'000
At 1 August 2005	402	1,688	2,090
Utilised in year	(40)	(102)	(142)
Transfer from Income and Expenditure Account	42	116	158
At 31 July 2006	404	1,702	2,106

Note: The assumptions for calculating the Provision for Enhanced Pension Costs under Financial Reporting Standard (FRS) 17, Retirement Benefits, are as follows:

	31 July 2006	31 July 2005
Discount Rate	5.1%	5.0%
Inflation	3.1%	2.8%

Notes to the Accounts

23 DEFERRED CAPITAL GRANTS

CONSOLIDATED	Funding Council £'000	Other Grants £'000	Total £'000
At 1 August 2005:			
Buildings	24,414	35,787	60,201
Equipment	3,870	1,495	5,365
Total	<u>28,284</u>	<u>37,282</u>	<u>65,566</u>
Cash Receivable:			
Buildings	9,039	6,971	16,010
Equipment	1,753	685	2,438
Total	<u>10,792</u>	<u>7,656</u>	<u>18,448</u>
Released to Income and Expenditure:			
Buildings (Notes 1, 3 and 4)	(854)	(1,019)	(1,873)
Equipment (Notes 1, 3 and 4)	(1,120)	(879)	(1,999)
Total	<u>(1,974)</u>	<u>(1,898)</u>	<u>(3,872)</u>
At 31 July 2006:			
Buildings	32,599	41,739	74,338
Equipment	4,503	1,301	5,804
Total	<u>37,102</u>	<u>43,040</u>	<u>80,142</u>
UNIVERSITY	Funding Council £'000	Other Grants £'000	Total £'000
At 1 August 2005:			
Buildings	24,414	35,008	59,422
Equipment	3,870	1,495	5,365
Total	<u>28,284</u>	<u>36,503</u>	<u>64,787</u>
Cash Receivable:			
Buildings	9,039	6,971	16,010
Equipment	1,753	685	2,438
Total	<u>10,792</u>	<u>7,656</u>	<u>18,448</u>
Released to Income and Expenditure:			
Buildings	(854)	(976)	(1,830)
Equipment	(1,120)	(879)	(1,999)
Total	<u>(1,974)</u>	<u>(1,855)</u>	<u>(3,829)</u>
At 31 July 2006:			
Buildings	32,599	41,003	73,602
Equipment	4,503	1,301	5,804
Total	<u>37,102</u>	<u>42,304</u>	<u>79,406</u>

Notes to the Accounts

24 SPECIFIC ENDOWMENTS (CONSOLIDATED AND UNIVERSITY)

	2005/06 £'000	2004/05 £'000
At 1 August 2005	1,349	1,360
Net (Disposals)/Additions	(7)	192
Appreciation of Endowment Asset Investments	45	88
Income for Year	99	123
Expenditure for Year	(52)	(414)
At 31 July 2006	1,434	1,349

25 RESERVES

	2005/06		2004/05	
	Consolidated £'000	University £'000	Consolidated £'000	University £'000
Income and expenditure account reserve				
At 1 August as previously stated	51,061	50,390	62,653	62,063
Prior year adjustment in respect of FRS 17	0	0	(18,040)	(18,040)
At 1 August as restated	51,061	50,390	44,613	44,023
Surplus retained for the year	5,908	5,643	4,381	4,300
Actuarial (loss)/gain in respect of pension scheme	(220)	(220)	2,067	2,067
At 31 July	56,749	55,813	51,061	50,390
Balance represented by:				
Pension reserve	(17,511)	(17,511)	(16,673)	(16,673)
Income and expenditure reserve excluding pension reserve	74,260	73,324	67,734	67,063
	56,749	55,813	51,061	50,390

26 LEASE OBLIGATIONS

	2005/06		2004/05	
	Consolidated £'000	University £'000	Consolidated £'000	University £'000
Land and Buildings				
Annual, non-cancellable operating lease commitments in respect of leases expiring:				
Within one year	0	0	0	0
Between one and two years	0	0	6	0
Between two and five years	0	0	0	0
Over five years	70	70	70	70
	70	70	76	70
Other				
Annual, non-cancellable operating lease commitments in respect of leases expiring:				
Within one year	51	45	8	3
Between one and two years	185	167	204	204
Between two and five years	58	34	54	20
Over five years	60	0	0	0
	354	246	266	227

Notes to the Accounts

27 CAPITAL COMMITMENTS

Provision has not been made for the following capital commitments at 31 July 2006:

	2005/06		2004/05	
	Consolidated £'000	University £'000	Consolidated £'000	University £'000
Commitments contracted	7,652	7,562	12,891	12,891
Authorised but not contracted	6,844	5,784	3,967	3,967
	<u>14,496</u>	<u>13,346</u>	<u>16,858</u>	<u>16,858</u>
Guarantees –				
to various Building Societies for staff mortgages	6	6	7	7
to HSBC plc for Imago@Loughborough Ltd	0	500	0	500
to Barclays for purchase of equipment	0	0	29	29
to Barclays for sale of equipment	191	191	191	191
	<u>197</u>	<u>697</u>	<u>227</u>	<u>727</u>

28 CONTINGENT LIABILITIES

Notes: The amount relating to staff mortgage guarantees represents the maximum guaranteed by the University at 31 July 2006.

The University has given written undertakings to support the subsidiary companies for at least the next twelve months.

29 HARDSHIP FUNDS (CONSOLIDATED AND UNIVERSITY)

	2005/06		2004/05	
	£'000	£'000	£'000	£'000
Income:				
Excess of Income over Expenditure Brought Forward	54		44	
Funding Council Grants	457		456	
Interest Earned	2	513	1	501
	<u>513</u>		<u>501</u>	
Expenditure:				
Disbursed to Students	(430)		(432)	
Fund Running Costs	(16)	(446)	(15)	(447)
	<u>(446)</u>		<u>(447)</u>	
Excess of Income over Expenditure Carried Forward		<u>67</u>		<u>54</u>

Note:

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

Notes to the Accounts

30 ANALYSIS OF CHANGES IN CONSOLIDATED FINANCING DURING THE YEAR

	2005/06 £'000	2004/05 £'000
Balance at 1 August 2005	53,115	55,084
Capital Repayments	(18,383)	(1,969)
Balance at 31 July 2006	34,732	53,115
Repayable:		
Within one year	541	2,070
Over one year	34,191	51,045
	34,732	53,115

31 ANALYSIS OF CHANGES IN NET DEBT

	At 1st August 2005 £'000	Cash Flows £'000	Other Non-Cash Changes £'000	At 31st July 2006 £'000
Cash at Bank and In Hand :				
Endowment Assets	240	47	0	287
Other	14,640	(6,299)	0	8,341
Bank Overdraft	(96)	(46)	0	(142)
	14,784	(6,298)	0	8,486
Short Term Investments	32,215	(7,139)	0	25,076
Debts Due Within One Year	(2,070)	18,383	(16,854)	(541)
Debts Due After One Year	(51,045)	0	16,854	(34,191)
	(6,116)	4,946	0	(1,170)

Notes to the Accounts

32 PENSION SCHEMES

The two principal pension schemes for the University's staff are the Universities Superannuation Scheme (USS) and the Leicestershire County Council Superannuation Scheme (LGSS). Also for academic staff who were employed by Loughborough College of Art & Design in August 1998, contributions are paid to the Teachers' Pensions (TP).

The total pension cost for the University and its subsidiaries was:

	2005/06 £'000	2004/05 £'000
USS contributions paid	6,787	6,234
LGSS charge to the Income & Expenditure account	2,999	2,364
TP contributions paid	120	124
Contributions paid to other pension schemes	4	4
Total Pension Cost (Note 6)	9,910	8,726
Outstanding Pension Contributions at 31 July	1,151	1,065

The assumptions and other data relevant to the determination of the contribution levels of the Schemes are as follows:

	USS	LGSS	TP
Latest actuarial valuations	31 March 2005	31 March 2004	31 March 2001
Investment returns per annum	4.50%	6.30%	7.00%
Salary scale increase per annum	3.90%	4.40%	5.00%
Pension increase per annum	2.90%	2.90%	3.50%
Market value of assets at date of last valuation	£21,739 million	£1,389 million	£142,880 million
MFR proportion of members' accrued benefits covered by the actuarial value of the assets	126%	87%	100%

The Teachers' Pensions

TP is updated every year by the Government Actuary. Contributions are paid by the University at the rate specified. The Scheme is unfunded and contributions are made to the Exchequer. The payments from the Scheme are made from funds voted by Parliament.

The contribution rate payable by the employer was increased to 13.5% of pensionable salaries with effect from 1 April 2003 (14.1% 1 January 2007). The aim of the actuarial review was to specify the level of future contributions. The cost of the pension increases was excluded from the valuation and consequently the additional value is met directly by the Exchequer.

Under the definitions set out in Financial Reporting Standard 17 "Retirement benefits" (FRS 17), the TP is a multi-employer defined benefit pension scheme. The University is unable to identify its share of the underlying assets and liabilities of the scheme. Accordingly, the University has taken advantage of the exemption in FRS 17 and has accounted for its contributions as if it were a defined contribution scheme.

Notes to the Accounts

Universities Superannuation Scheme

USS is valued every three years by professionally qualified independent actuaries using the projected unit method, the rates of contribution payable being determined by the trustees on the advice of the actuaries. In the intervening years, the USS actuary reviews the progress of the USS scheme.

The contribution rate payable by the University to USS was 18.55% of pensionable salaries to 31 December 1996 and 14% thereafter. The actuary to USS has confirmed that it is appropriate to take the pensions costs in the institution's accounts to be equal to the actual contributions paid during the year. In particular, the contribution rate recommended following the 2005 valuation has regard to the surplus disclosed, the benefit improvements introduced subsequent to the valuation and the need to spread surplus in a prudent manner over the future working lifetime of current scheme members.

Under the definitions set out in FRS 17, the USS is a multi-employer defined benefit pension scheme. The University is unable to identify its share of the underlying assets and liabilities of the scheme. Accordingly, the University has taken advantage of the exemption in FRS 17 and has accounted for its contributions as if it were a defined contribution scheme.

Leicestershire County Council Superannuation Scheme

LGSS is valued every three years by professionally qualified independent actuaries using the projected unit method, the rates of contribution payable being determined by the trustees on the advice of the actuaries. In the intervening years, the LGSS actuary reviews the progress of the LGSS scheme.

For LGSS, the actuary has indicated that the resources of the scheme are likely, in the normal course of events, to meet the liabilities as they fall due at the level specified by the LGSS Regulations. As a result of the 2004 valuation, the contribution payable by the employer was increased to 12.3% of pensionable salaries from April 2005. In subsequent years the rate will increase to 13.5% (2006/7) and 14.7% (2007/8).

Under the definitions set out in FRS 17, the LGSS is a multi-employer defined benefit pension scheme. In the case of the LGSS, the actuary of the scheme has identified the University's share of its assets and liabilities as at 31 July 2006.

FRS 17 was issued in November 2000 and came into force for accounting periods ending on or after 22 June 2001. It requires that employers should disclose their share of assets and liabilities for each defined benefit scheme. Full FRS17, as required, has been implemented for the first time in the current year.

The following information is based upon a full actuarial valuation of the scheme at 31 March 2004 updated to 31 July 2006 by a qualified independent actuary.

The financial assumptions used by the actuary at 31 July 2006 were:

	2005/06 %	2004/05 %	2003/04 %
Price increases	3.1	2.8	2.9
Salary increases	4.6	4.3	4.4
Pension increases	3.1	2.8	2.9
Discount rate	5.1	5.0	5.8

The assets in the LGSS scheme and the expected rate of return were:

	2005/06		2004/05		2003/04	
	LONG-TERM RETURN %	FUND VALUE £'000	LONG-TERM RETURN %	FUND VALUE £'000	LONG-TERM RETURN %	FUND VALUE £'000
Equities	7.7	53,881	7.3	47,781	7.9	38,218
Bonds	4.7	12,458	4.7	10,655	5.4	9,509
Property	5.7	6,773	5.4	6,085	6.7	5,578
Cash	4.8	3,065	4.5	2,287	4.5	1,303
		<u>76,177</u>		<u>66,808</u>		<u>54,608</u>

The following amounts at 31 July 2006 were measured in accordance with the requirements of FRS 17.

	2005/06 £'000	2004/05 £'000	2003/04 £'000
Loughborough University's estimated asset share	76,177	66,808	54,608
Present value of Loughborough University's scheme liabilities	<u>(93,688)</u>	<u>(83,481)</u>	<u>(72,648)</u>
Deficit in the scheme - Net pension liability	<u>(17,511)</u>	<u>(16,673)</u>	<u>(18,040)</u>

Notes to the Accounts

Analysis of the amount charged to operating surplus	2005/06	2004/05
	£'000	£'000
Current service cost	2,959	2,341
Past service cost	40	191
Impact of settlements and curtailments	0	4
Total operating charge	2,999	2,536

Analysis of the amount that is credited to other finance income/charged to interest payable	2005/06	2004/05
	£'000	£'000
Expected return on pension scheme assets	4,438	3,977
Interest on pension scheme liabilities	(4,208)	(4,241)
Net return/(charge)	230	(264)

Analysis of the amount that would be recognised in statement of total recognised gains and losses (STRGL)	2005/06	2004/05
	£'000	£'000
Actual return less expected return on pension scheme assets	4,388	7,782
Experience gains and losses arising on the scheme liabilities	1	3,649
Changes in assumptions underlying the present value of the scheme liabilities	(4,609)	(9,364)
Actuarial (loss)/gain recognised in STRGL	(220)	2,067

Movement in deficit in the year	2005/06	2004/05
	£'000	£'000
Deficit in scheme at beginning of the year	(16,673)	(18,040)
Movement in the year:		
Current service cost	(2,959)	(2,341)
Contributions	2,151	2,100
Past service costs	(40)	(191)
Net return on assets	230	(264)
Impact of settlements and curtailments	0	(4)
Actuarial (loss)/gain	(220)	2,067
Deficit in the scheme at end of the year	(17,511)	(16,673)

History of experience gains and losses	2005/06	2004/05	2003/04	2002/03	2001/02
	£'000	£'000	£'000	£'000	£'000
Difference between the expected and actual return on scheme assets:					
Amount (£'000)	4,388	7,782	1,017	(740)	(10,302)
Percentage of scheme assets	5.8%	11.6%	1.9%	(1.5%)	(22.6%)
Experience gains and losses on scheme liabilities:					
Amount (£'000)	1	3,649	0	20	891
Percentage of the present value of the scheme liabilities	0.0%	4.4%	0.0%	0.0%	1.6%
Total amount recognised in statement of total recognised gains and losses:					
Amount (£'000)	(220)	2,067	930	(8,500)	(5,745)
Percentage of the present value of the scheme liabilities	(0.2%)	2.5%	1.3%	(12.7%)	(10.5%)

Notes to the Accounts

33 PRIOR YEAR ADJUSTMENT NOTE

The prior year adjustment relates to the full implementation of FRS 17.

FRS 17 requires the assets of defined benefit pension schemes, such as the LGSS, to be measured at market value at each balance sheet date, and the liabilities to be measured using a specific valuation method and to be discounted using a corporate bond rate. Any resulting share of the pension scheme surplus or deficit is recognised on the University's balance sheet. Any resulting gains and losses are recognised in the statement of total recognised gains and losses rather than being recognised gradually in the Income and Expenditure Account.

The adoption of FRS 17 has resulted in the following impact on the Income and Expenditure Account and statement of total recognised gains and losses. In accordance with the transitional arrangements of FRS 17, these figures have been reported in the Notes to the University's accounts since the year ending 31 July 2001.

	£'000
Income and Expenditure Account reserve as previously stated (Note 25)	67,734
Release of any SSAP 24 provisions for underfunding in LGPS at 1 August 2004	0
Pension liability at 1 August 2004	(18,040)
Movement during 2004/05:	
Employer service costs ¹	(2,341)
Employer contributions ¹	2,100
Impact of settlements and curtailments ¹	(4)
Past service costs ¹	(191)
Net interest/return on assets ²	(264)
Actuarial gain ³	2,067
Income and Expenditure Account reserve as restated at 31 July 2005	51,061
Analysis of prior year adjustment	
Adjustment to opening Income and Expenditure Account Reserve at 1 August 2004	(18,040)
Adjustment to other pension costs within staff costs (note 6) Income and Expenditure Account for year ended 31 July 2005 (see ¹ above)	(436)
Adjustment to Interest payable (note 7) within Income and Expenditure Account for year ended 31 July 2005 (see ² above)	(264)
Adjustment to Statement of Total Recognised Gains and Losses for the year ended 31 July 2005 (see ³ above)	2,067
Release of any movement in 2005 for SSAP 24 provision for underfunding in LGSS	0
Total	(16,673)

Figures restated:

Staff costs

31 July 2005 as previously stated	87,271
FRS 17 adjustment	436
31 July 2005 restated	87,707

Interest payable:

31 July 2005 as previously stated	2,986
FRS 17 adjustment	264
31 July 2005 restated	3,250

Notes to the Accounts

34 DISCLOSURE OF RELATED PARTY TRANSACTIONS

Due to the nature of the University's operations and the compositions of the Council, being drawn from local public and private sector organisations, it is inevitable that transactions will take place with organisations in which a member of the Council may have an interest. All transactions involving organisations in which a member of Council may have an interest, including those identified below, are conducted at arms' length and in accordance with the University's Financial Regulations and usual procurement procedures.

	Income £'000	Expenditure £'000	Balances as at 31.7.06 due (to)/from the University £'000
Members of Council			
J Mutton is Principal of Loughborough College	81	99	7
S Proffitt is a Vice President of AstraZeneca R&D Charnwood	127	0	(14)
Dr R Parry-Jones is Group Vice-President of The Ford Motor Company	1,021	5	(172)
Directors of subsidiaries & senior employees			
A T Bacon is Chair of Governors of Loughborough College	81	99	7
H M Pearson is a Director of UCAS	0	115	3
H M Pearson is a Governor of Loughborough College	81	99	7

The University has taken advantage of the exemption allowed by Financial Reporting Standard 8 not to disclose transactions between group companies.

The University Officers and Members of Council have used the catering, sporting and other facilities of the University on terms which are available to all members of University staff.

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Notes to the Accounts

35 SUBSIDIARY COMPANIES

The subsidiary companies (all of which are registered in England & Wales), wholly-owned or effectively controlled by the University, are as follows:

Company	Principal Activity
Ergonomics and Safety Research Ltd	Marketing of the expertise and facilities of the University in applicable specialist areas.
Loughborough University Enterprises Ltd	
Loughborough University Holdings Ltd	Holding company for Loughborough University Enterprises Ltd
CASCAiD Ltd	Production and sale of computer-aided careers guidance
Imago @ Loughborough Ltd	Management of conference and related commercial facilities
Loughborough Sports Facilities Ltd (Name changed from Loughborough University Sports Facilities on 6 April 2006)	Management of sports facilities
Loughborough University Services Ltd	Provision of utility and other services
Loughborough University Development Trust	Promotion of the charitable purposes of the University
Loughborough Innovation Centre Ltd	Letting of premises to business start-up companies
Imago @ Loughborough 2 Ltd	Provision of conference facilities (dissolved October 2006)
Open College Network South East Midlands Ltd	Provision of accreditation services for sub-degree level education (dissolved September 2006)

Consolidated Five Year Results

INCOME AND EXPENDITURE ACCOUNT

	2005/06 £'000	2004/05 £'000	2003/04 £'000	2002/03 £'000	2001/02 £'000
Income	166,105	152,940	149,472	135,771	121,709
Expenditure	(160,699)	(150,369)	(141,377)	(132,706)	(119,688)
Surplus For The Year Retained Within Reserves	5,908	4,381	8,043	3,818	2,192

BALANCE SHEET

	2005/06 £'000	2004/05 £'000	2003/04 £'000	2002/03 £'000	2001/02 £'000
Fixed Assets and Investments	192,814	168,192	157,594	145,896	91,817
Endowment Assets	1,434	1,349	1,360	1,508	1,634
Net Current Assets	(2,115)	18,243	22,434	15,953	15,327
Less Amounts Due After More Than One Year:					
Creditors Due After More Than One Year	(34,191)	(51,045)	(53,100)	(55,075)	(26,312)
Provisions	(2,106)	(2,090)	(2,510)	(2,205)	(2,643)
Pension liability	(17,511)	(16,673)	0	0	0
Total Net Assets	138,325	117,976	125,778	106,077	79,823
Represented by:					
Deferred Capital Grants	80,142	65,566	61,765	49,959	27,397
Specific Endowments	1,434	1,349	1,360	1,508	1,634
Reserves	74,260	67,734	62,653	54,610	50,792
Pension reserve	(17,511)	(16,673)	0	0	0
Total Funds	138,325	117,976	125,778	106,077	79,823

CASH FLOW STATEMENT

	2005/06 £'000	2004/05 £'000	2003/04 £'000	2002/03 £'000	2001/02 £'000
Net Cash Inflow from Operating Activities	19,050	14,831	14,678	13,825	9,026
Returns on Investment and Servicing of Finance	(353)	(1,147)	(1,419)	(762)	161
Taxation	(46)	(2)	0	11	(39)
Capital Expenditure and Financial Investment	(13,705)	(8,910)	1,420	(36,064)	(11,937)
Net Cash Inflow/(Outflow) Before Management of Liquid Resources and Financing	4,946	4,772	14,679	(22,989)	(2,789)
Management of Liquid Resources	7,139	1,177	(13,488)	(533)	4,437
Financing	(18,383)	(1,969)	(1,978)	29,629	(1,061)
(Decrease)/Increase In Cash Balances	(6,298)	3,980	(787)	6,107	587