

financial **S**tatements
and
governors' **r**eport

2005/06

GOVERNORS, EXECUTIVES AND ADVISERS

Board of Governors

Graham Stow (Chair)
David Dry (Deputy Chair)
Mike Cooke (from 14.12.05)
Ken Crossland
John Edwards
Lady Ann Fender
Alan Fernyhough
Martin Fiddler
Sharon Gwinneth
Professor Christine King
Karen Moir
Keith Norris
Ita O'Donovan (to 14.12.05)
Nigel Pursey
Keith Ralls
Ann Spears
Andy Watts

Executive Team

Professor Christine King	Vice-Chancellor
Paul Richards	Deputy Vice-Chancellor
Ken Sproston	University Secretary
Neil Scott	Finance Director (from 15.05.06)

Auditors

KPMG LLP
2 Cornwall Street
Birmingham
B3 2DL

Bankers

Lloyds TSB Plc
5 Market Square
Stafford
ST16 2JL

Solicitors

Martineau Johnson
No 1 Colmore Square
Birmingham
B4 6AA

REPORT OF THE GOVERNORS

The Governors submit their annual report and audited accounts for the year ended 31 July 2006.

Constitution and Activities

The University is a Higher Education Corporation as defined under the Education Reform Act 1988.

The powers of Higher Education Corporations are defined in Section 124 of the Act and include the power to provide higher and further education and to carry out research and publish the results of research as the University thinks fit.

The University was incorporated in November 1988 and on 1 April 1989 all properties, rights and liabilities which had been used and/or held by Staffordshire County Council for the purposes of the University were transferred to the Higher Education Corporation.

The University also enjoys exempt charitable status under the Act.

On 16 June 1992, the Privy Council confirmed its formal approval of a change of name from Staffordshire Polytechnic to Staffordshire University under the terms of the Further and Higher Education Act 1992.

Scope of the Financial Statements

The Financial Statements comprise the consolidated results for the University and its subsidiary undertakings, Staffordshire University Enterprises Limited, Octagon Computer Centre and the Friends of Staffordshire University Charitable Trust. The subsidiaries undertake a range of activities including consultancy work, the operation of recreational activities and property management for a variety of commercial and other organisations. The taxable profits of the subsidiary undertakings are transferred back to the University under a covenant arrangement.

Results for the Year

The University's consolidated income, expenditure and results for the year to 31st July 2006 are as follows:-

	2005/06	2004/05
	£'000	£'000
Income	89,053	83,237
Expenditure	90,800	81,808
Taxation		
Surplus/(Deficit) on continuing operations after depreciation of assets at valuation and taxation	(1,747)	1,429
Historical Cost Surplus for the Year	(672)	2,504

The 2005/06 Financial Statements show the full impact of the adoption of FRS17. The University group made an historical cost deficit of £0.7m compared with a restated surplus of £2.5m in 2004/05. Operating income grew by 7.0% to £89m, whilst year on year operating costs increased by 11.0% (£9.0m); 1% (£896k) of the cost increase being directly related to the FRS17 adjustments. Cash balances decreased by £0.7m to a closing figure of £13.3m.

Capital Investments

£5.0m was invested in capital projects during the year. Much of this was supported by earmarked capital allocations from the Higher Education Funding Council for England to support learning and teaching through the restructuring of teaching facilities and the enhancement and replacement of capital equipment. The University has continued to invest in work which will enable it to meet its obligations under the Disability Discrimination Act, 1995.

Cashflow

The consolidated Cashflow Statement shows cash inflows from operating activities of £3,693,000 (2004/05 : £4,983,000). Overall there was a net cash outflow of £700,000 (2004/05: inflow £605,000). Payments to acquire and improve fixed assets totalled £4,966,000 (2004/05: £4,203,000) with an inflow of capital grants of £2,976,000 (2004/05: £1,996,000).

Investment Performance

Cash deposits are invested in accordance with the University's Treasury Management Policy. The prime requirement of the policy is to ensure that the capital sum is not at risk, whilst achieving a rate of return commensurate with deposit rates achievable on the London Money Market.

Interest receivable increased to £737,000 in 2005/06, compared to £667,000 in 2004/05. A mixture of slightly higher interest rates and a consistent level of cash deposits has contributed to the increase in income from this source. The performance of cash deposits was reviewed during 2005/06 by the Employment and Finance Committee of the Board and was deemed satisfactory by the Committee.

Payment of Creditors

It is the University's policy to obtain the best terms for all business and therefore terms are negotiated individually with suppliers. The University's policy is to abide by the specific payment terms made in those agreements.

Employment of Disabled Persons

Applications by disabled persons for employment and for admission to courses of study or research are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of existing staff and students becoming disabled every effort is made to ensure that their employment or study with the University continues and that appropriate training and support is arranged. It is the policy of the University that the training, career development and promotion and opportunities to undertake study and research should, as far as possible, be identical for all staff and students.

Governors' Remuneration

Governors receive no remuneration from the University in respect of activities undertaken while acting as Governors.

Governors' Insurance

The University maintains insurance for its Governors in respect of their duties as Governors of the institution.

Graham Stow
Chair of the Board of Governors
date

CORPORATE GOVERNANCE

The University is committed to best practice in all aspects of corporate governance. This summary describes the manner in which the University has applied the principles set out in the revised Combined Code on Corporate Governance issued by the London Stock Exchange in July 2003. Its purpose is to assist readers of the Financial Statements to understand how the principles have been applied.

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 of Corporate Governance insofar as they relate to Universities. The University also supports, and is guided by, the Guide for Members of Governing Bodies of Universities and Colleges in England and Wales and Northern Ireland that was reissued by the Committee of University Chairmen (CUC) in November 2004.

In addition the Governing Body has also formally accepted the CUC's Governance Code of Practice and General Principles issued in November 2004. In this connection the Governing body has also agreed the following:

Statement of Primary Responsibilities of the Board of Governors

Section 3(i) of the University's Instrument of Government states that the Board of Governors shall be responsible for:

- (a) the determination of the educational character and mission of the University and for oversight of its activities;
- (b) the effective and efficient use of resources, the solvency of the institution and the Corporation and for safeguarding their assets;
- (c) approving annual estimates of income and expenditure;
- (d) the appointment, grading, assignment, appraisal, suspension, dismissal and determination of the pay and conditions of service of holders of senior posts; and
- (e) setting a framework for the pay and conditions of service of all other staff.

In particular the Board will:

- (a) approve the mission and strategic vision of the institution, long term business plans, key performance indicators (KPI's) and annual budgets, and ensure that these meet the interests of stakeholders.

- (b) appoint the head of the institution as chief executive of the institution and put in place suitable arrangements for monitoring his/her performance;
- (c) ensure the establishment and monitoring systems of control and accountability, including financial and operational controls and risk assessment, clear procedures for handling internal grievances and for managing conflicts of interest;
- (d) monitor institutional performance against plans and approved KPI's, which, where possible and appropriate, be benchmarked against other institutions.

This statement is also available on the University's website.

Summary of the University's Structure of Corporate Governance

The University's Governing Body comprises independent, co-opted, staff and student members appointed under the University's Instrument of Government. The roles of the Chair and the Deputy Chair of the Governing Body are separated from the role of the University's Chief Executive, the Vice-Chancellor. The matters specially reserved for decision by the Governing Body are set out in the Articles of Government. Under the Financial Memorandum with the Higher Education Funding Council for England, the Governing Body is responsible for the ongoing strategic direction of the University, the approval of major developments and the receipt of regular reports from Executive Officers on the day to day operations of its business and its subsidiary companies. The Governing Body meets four times a year and has five Committees; an Employment and Finance committee, a Nominations and Governance committee, an Audit committee, a Remuneration committee and an Estates committee. All of these committees are formally constituted with terms of reference and comprise mainly independent members of the Governing Body. In addition the Governing Body undertakes a regular review of its own effectiveness.

The Employment and Finance committee recommends to the Governing Body the University's annual revenue and capital budgets and monitors performance in relation to the approved budgets. It also reviews the University's annual financial statements together with the accounting policies.

The Nominations and Governance committee considers nominations for vacancies in the Governing Body membership and the reappointment of members under the Instrument of Government. It also advises the Governing Body on general governance matters.

The Audit committee is responsible for meeting, at least four times a year, with the External Auditors and Internal Auditors of the University and reviewing their work. The committee approves the Audit Plan and considers detailed reports together with recommendations for the improvement of the University's systems of internal control and management's response and implementation plans. It also receives and considers reports from the Higher Education Funding Council for England as they affect the University's business and monitor adherence with the regulatory requirements. Whilst senior executives attend meetings of the Audit committee as necessary, they are not members of the committee, and the committee may meet with the External and Internal Auditors on their own for independent discussions.

The Remuneration committee is responsible for determining the employment, contractual and remuneration arrangements for designated holders of senior posts. It normally reviews the salary levels of senior post holders on an annual basis and met twice during the financial year ended 31 July 2006.

The Estates committee has responsibility for advising the Governing Body on its Estates Strategy and the monitoring of Estates related projects.

The University maintains a Register of Interests of members of the Board of Governors and of senior managers of the University. This may be consulted by arrangement with the University Secretary.

In accordance with the Articles of Government of the University, the University Secretary has been designated Secretary to the Board and in that capacity provides independent advice on matters of governance to all Board members.

Statement of Internal Control

As the Governing Body of Staffordshire University, we have 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 University's Instrument and Articles of Government 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 principle 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 31st July 2006 and up to the date of approval of the Financial Statements.

As the Governing Body, we have responsibility for reviewing the effectiveness of the system of internal control. The following processes have been established.

- We meet four times a year to consider the plans and strategic direction of the University.
- We receive periodic reports from the Chair of the Audit Committee concerning internal control, and we require regular reports from managers on the steps they are taking to manage risks in their areas on responsibility, including progress reports on key projects. Risk management is a regular item on the agendas of both the full Board and its Committees.
- We have requested the Audit Committee to provide oversight of the risk management process.
- The Audit Committee receives regular reports from the firm of accountants contracted to provide an internal audit service which includes their independent opinion on the adequacy and effectiveness of the University's system of internal control, together with recommendations for improvement.
- A programme of facilitated workshops is held to identify and keep up to date the record of risks facing the organisation.
- A programme of risk awareness training is underway in order to increase awareness at all levels within the organisation.
- A system of key performance and risk indicators has been developed.
- A robust risk prioritisation methodology based on risk ranking has been established.
- An organisation-wide risk register is maintained and annually updated.
- Reports are received from budget holders and project managers on internal control activities.

The University has an internal audit service which operates to standards defined in the HEFCE Audit Code of Practice and which was last reviewed for effectiveness by the HEFCE Audit Service in

September 2004. The internal auditors submit regular reports which include an independent assessment on the adequacy and effectiveness of the system of internal control, together with recommendations for improvement.

The Governing Body's review of the effectiveness of the system of internal control is informed by the work of the internal auditors and 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.

Graham Stow
Chair of the Board of Governors
13.12.06

RESPONSIBILITIES OF THE GOVERNING BODY OF STAFFORDSHIRE UNIVERSITY

In accordance with the Education Reform Act 1988, the Governing Body of Staffordshire University is responsible, inter alia, for the administration and management of the affairs of the University and is required to present audited financial statements for each financial year.

The Governing Body is responsible, for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the University and to enable it to ensure that the financial statements are prepared in accordance with the Education Reform Act 1988, the Statement of Recommended Practice (SORP), Accounting for Further and Higher Education Institutions and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between the Higher Education Funding Council for England and the Governing Body of the University, the Governing Body 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 of the surplus or deficit and cash flows for that year.

In causing the financial statements to be prepared, the Governing Body 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.
- financial statements are prepared on the going concern basis unless it is inappropriate to presume that the University will continue in operation. Based on normal business planning and control procedures, the Governing Body has a reasonable expectation that the University has adequate resources to continue in operational existence for the foreseeable future. For this reason, it continues to adopt the going concern basis in preparing the University's financial statements.

The Governing Body 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 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 to prevent and detect fraud.
- secure the economical, efficient and effective management of the University's resources and expenditure.

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:-

- a comprehensive medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets.
- 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 and revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Board.
- comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Employment and Finance committee and the Board of Governors.
- clear definitions of the responsibilities of, and the authority delegated to, Faculty Pro Vice-Chancellors/Deans and Directors of Services.
- a professional internal audit team whose annual programme is approved by the Audit Committee.

Any system of internal financial control can, however, only provide reasonable, but not absolute, assurance against material misstatement or loss and during the year the Audit committee has reviewed the effectiveness of the University's system of internal financial control.

Graham Stow
Chair of the Board of Governors
13.12.06

INDEPENDENT AUDITOR'S REPORT TO THE GOVERNING BODY OF STAFFORDSHIRE UNIVERSITY

We have audited the Group University financial statements (the "financial statements") of Staffordshire University for the year ended 31 July 2006 which comprise the Group Income and Expenditure Account, the Group and University Balance Sheets, the Group Cash Flow Statement, the Group statement of total recognised gains and losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Board of Governors, in accordance with paragraph 13(2) of the University's Articles of Government and section 124B of the Education Reform Act 1988. Our audit work has been undertaken so that we might state to the Board of Governors those matters we are required to state to it in an auditor's 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 Board of Governors, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the University's Board of Governors and Auditors

The University's Board of Governors responsibilities for preparing the Group financial statements in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education, applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Responsibilities on page 7.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education. We also report to you whether income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the University have been properly applied only for the purposes for which they were received and whether, in all material respects, income has been applied in accordance with the Statutes and, where appropriate, with the Financial Memorandum with the Higher Education Funding Council for England and with the Training and Development Agency. We also report to you whether in our opinion the Governors' Report is not consistent with the financial statements, if the University has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the Governors' Report and the Corporate Governance Statement and consider the implications for our report if we become aware of any apparent misstatements within them or material inconsistencies with the financial statements.

Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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's Board of Governors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Group and 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:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the University and the Group as at 31 July 2006 and of the Group's results of income over expenditure for the year then ended;
- the financial statements have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education;
- in all material respects, income from the Higher Education Funding Council for England and the Training and Development Agency, grants and income for specific purposes and from other restricted funds administered by the University during the year ended 31 July 2006 have been applied for the purposes for which they were received; and
- in all material respects, income during the year ended 31 July 2006 has been applied in accordance with the University's statutes and, where appropriate, with the financial memorandum with the Higher Education Funding Council for England and the funding agreement with the Training and Development Agency.

KPMG LLP

*Chartered Accountants
Registered Auditor
December 2006*

CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT
For the Year Ended 31 July 2006

	Note	Year to 31 July 2006 £'000	Year to 31 July 2005 Restated £'000
INCOME			
Funding Council Grants	1	49,449	46,301
Academic Fees and Support Grants	2	22,150	21,324
Research Grants and Contracts	3	1,142	2,091
Other Operating Income	4	15,575	12,854
Endowment Income and Interest Receivable	5	737	667
TOTAL INCOME		89,053	83,237
EXPENDITURE			
Staff Costs	6	51,169	47,900
Depreciation	9,10	3,760	3,669
Other Operating Expenses	7	33,818	27,479
Interest Payable	8	2,053	2,760
TOTAL EXPENDITURE	9	90,800	81,808
(DEFICIT)/SURPLUS FOR THE YEAR BEFORE TAXATION		(1,747)	1,429
TAXATION		-	-
(DEFICIT)/SURPLUS FOR THE YEAR AFTER EXCEPTIONAL ITEMS AND TAXATION	22	(1,747)	1,429

NOTE OF HISTORICAL COST DEFICIT AND SURPLUS

	Year to 31 July 2006 £'000	Year to 31 July 2005 Restated £'000
Reported deficit/(surplus) on ordinary activities	(1,747)	1,429
Difference between historical cost depreciation charge and the actual depreciation charge calculated on the revalued amount	1,075	1,075
HISTORICAL COST (DEFICIT)/SURPLUS ON ORDINARY ACTIVITIES	(672)	2,504

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

BALANCE SHEET AS AT 31 JULY 2006

		GROUP Restated		CORPORATION Restated	
	Note	2006 £'000	2005 £'000	2006 £'000	2005 £'000
FIXED ASSETS					
Tangible Assets	10	93,703	91,877	85,653	84,116
Investments	11	33	33	33	33
		<u>93,736</u>	<u>91,910</u>	<u>85,686</u>	<u>84,149</u>
ENDOWMENT ASSET INVESTMENTS	12	292	294	292	294
CURRENT ASSETS					
Stocks	13	131	153	131	153
Debtors: Amounts falling due after more than one year	14	561	596	3,282	3,507
Debtors: Amounts falling due within one year	15	7,100	6,746	9,570	8,574
Cash at bank and in hand		13,340	14,040	13,274	13,983
		<u>21,132</u>	<u>21,535</u>	<u>26,257</u>	<u>26,217</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	16	17,085	14,872	17,379	15,174
NET CURRENT ASSETS		4,047	6,663	8,878	11,043
TOTAL ASSETS LESS CURRENT LIABILITIES		98,075	98,867	94,856	95,486
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	17	15,415	20,755	18,136	23,666
PROVISIONS FOR LIABILITIES AND CHARGES	18	819	1,239	819	1,239
NET ASSETS EXCLUDING PENSION LIABILITY		81,841	76,873	75,901	70,581
Net pension liability	31	(30,379)	(30,532)	(30,379)	(30,532)
NET ASSETS INCLUDING PENSION LIABILITY		51,462	46,341	45,522	40,049

BALANCE SHEET - continued

		GROUP Restated		CORPORATION Restated	
	Note	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Represented by:					
DEFERRED CAPITAL GRANTS ENDOWMENTS					
	19	15,757	13,809	15,757	13,809
Specific	20	292	294	292	294
RESERVES					
Revaluation Reserve	21	45,213	42,415	45,213	42,415
Income and Expenditure Account excluding pension reserve	22	20,579	20,355	14,639	14,063
Pension Reserve	22	(30,379)	(30,532)	(30,379)	(30,532)
Income & Expenditure Account including pension reserve		(9,800)	(10,177)	(15,740)	(16,469)
Total Reserves		35,413	32,238	29,473	25,946
TOTAL FUNDS		51,462	46,341	45,522	40,049

The consolidated accounts of the Group include the University's wholly owned subsidiaries and the Friends of Staffordshire University Charitable Trust. The accounts of the Corporation relate solely to the Higher Education Corporation.

The financial statements on pages 10 to 40 were approved by the Board of Governors on 13 December 2006 and signed by:

Graham Stow
Chair of the Board of Governors

Professor Christine King
Vice-Chancellor

CONSOLIDATED CASH FLOW STATEMENT

	Note	Year to 31 July 2006 £'000	Year to 31 July 2005 £'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	24	3,693	4,983
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Income from short term investments		735	667
Interest Paid		(1,522)	(1,688)
HEFCE reimbursement of interest paid		141	234
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(646)	(787)
CAPITAL EXPENDITURE			
Payments to acquire tangible fixed assets		(4,966)	(4,203)
Receipts from sales of tangible fixed assets		-	9
Deferred capital grants received		2,976	1,996
HEFCE reimbursement of principal repayments		3,874	266
NET CASH OUTFLOW FROM CAPITAL EXPENDITURE		1,884	(1,932)
TAXATION		-	(7)
NET CASH INFLOW AFTER TAXATION, BUT BEFORE FINANCING		4,931	2,257
FINANCING			
New loans acquired	25		-
Repayment of loans	25	(5,627)	(1,647)
Capital element of finance lease repayments	25	(4)	(5)
NET CASH OUTFLOW FROM FINANCING		(5,631)	(1,652)
(DECREASE)/INCREASE IN CASH FOR THE YEAR	26,27	(700)	605

CONSOLIDATED CASH FLOW STATEMENT - continued

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT (NOTE 28)

	Year to 31 July 2006 £'000	Year to 31 July 2005 £'000
(Decrease)/Increase in cash in year	(700)	605
Repayment of debt	5,631	1,652
Movement arising from cash flows	4,931	2,257
CHANGE IN NET DEBT	(8,079)	(10,336)
NET DEBT AT 1 AUGUST 2005		
NET DEBT AT 31 JULY 2006	(3,148)	(8,079)

STATEMENT OF CONSOLIDATED TOTAL RECOGNISED GAINS AND LOSSES

		Year to 31 July 2006 £'000	Year to 31 July 2005 Restated £'000
(Deficit)/Surplus for the year		(1,747)	1,429
Reimbursement of inherited debt		3,873	266
Actuarial gain/(loss) in respect of pension scheme	22	1,049	(373)
Total recognised gains/(losses) relating to the year		3,175	1,322
Prior year adjustment*	32	-	(20,859)
Total recognised gains/(losses) since the last period		3,175	(19,537)
Reconciliation			
Opening Reserves		32,238	51,775
Total recognised gains/(losses) for the year		3,175	1,322
Prior year adjustment*		-	(20,859)
Closing Reserves		35,413	32,238

*Net pension liability at 1 August 2004, less SSAP 24 provision at 1 August 2004

STATEMENT OF ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATION TECHNIQUES

The following accounting policies have been applied consistently in detailing with items which are considered material in relation to the financial statements, except as noted below.

In these financial statements the following new standards have been adopted for the first time:

- FRS 21 "Events after the balance sheet date";
- FRS 28 "Corresponding amounts".

The accounting policies under these new standards are set out below together with an indication of the effects of their adoption. FRS 28 "Corresponding amounts" has had no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985. FRS21 has no impact.

BASIS OF PREPARATION

These financial statements have been prepared in accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education and in accordance with applicable Accounting Standards.

PRIOR YEAR ADJUSTMENT

The University has adopted FRS 17 Retirement Benefits in the financial statements. The full adoption of the standard represents a change in accounting policy and the comparative figures have been restated accordingly. Details of the effect of adopting FRS 17 are given in note 32.

BASIS OF ACCOUNTING

The financial statements are prepared on the historical cost basis, as modified by the revaluation of some assets.

BASIS OF CONSOLIDATION

The financial statements of the University include its wholly owned subsidiaries, Staffordshire University Enterprises Limited and Octagon Computer Centre Limited. They also include the Friends of Staffordshire University Charitable Trust.

The consolidated financial statements do not include those of Staffordshire University Union of Students as it is a separately managed organisation. The audited financial statements of the Union of Students are shown in summary form in note 33 of the accounts.

HEFCE GRANTS

Recurrent grant from HEFCE represents the funding allocation which is attributable to the current accounting period.

Deferred credits in respect of grants received from HEFCE which are attributable to subsequent accounting periods are included in accruals and deferred income.

CAPITAL RESERVE

Capital reserve represents the difference between the valuation of tangible assets inherited from Staffordshire County Council and the loan account with the County Council. This amount is released to the Income and Expenditure account over the life of the assets.

ACADEMIC FEES

Academic fees represent student fees received and receivable attributable to the current accounting period.

TANGIBLE FIXED ASSETS

Tangible fixed assets are stated at cost or valuation less accumulated depreciation as shown in note 10 to the financial statements.

Buildings under construction are accounted for at cost. They are not depreciated until they are brought into use.

A review of impairment of fixed assets is carried out if events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable.

DEPRECIATION

Depreciation is not provided on freehold land. Freehold buildings have been depreciated over the estimated remaining useful life of each building with a base date of 1 April 1989. Depreciation on newly acquired buildings is provided for at the rate of 2% per annum on a straight line basis.

On all other tangible fixed assets depreciation is provided to write off the cost or valuation over their useful lives on a straight line basis at the following annual rates :-

Plant and Machinery	20% per annum
Fixtures and Fittings	20% per annum
Computer Equipment (general)	33.3% per annum
Computer Equipment (servers)	20% per annum

Office Furniture and Equipment	20% per annum
Major Refurbishments	10% per annum

Expenditure which extends the useful life of an asset has been depreciated over the assessed extended life of the asset.

Assets held under finance leases are depreciated over the life of the lease if this is a shorter period. Equipment costing less than £10,000 is written off in the year of acquisition.

LEASED ASSETS

Payments made in respect of assets held under operating leases are charged to the income and expenditure account on a straight line basis over the term of the lease.

Leasing agreements which transfer to the University substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged to the income and expenditure account.

CAPITAL GRANTS

Grants applied to acquire tangible fixed assets are credited to deferred grants and released to the income and expenditure account over the estimated useful lives of the related assets.

STOCK

Stock is valued at the lower of cost and net realisable value.

TAXATION

The Corporation is an exempt charity and is exempt from Income Tax and Corporation Tax. Irrecoverable Value Added Tax is included in the financial statements with the expenditure to which it relates, with any partial recovery netted off against these figures.

FRS 19 DEFERRED TAXATION

FRS 19 requires full provision to be made for deferred tax assets or liabilities arising from timing differences between recognition in the financial statements and in the tax computation.

Deferred taxation has been recognised as a liability or asset if transactions have occurred at the balance

sheet date that give rise to an obligation to pay more taxation in future, or a right to pay less taxation in future. An asset is not recognised to the extent that the transfer of economic benefits in future is uncertain. Deferred tax assets and liabilities recognised have not been discounted.

INVESTMENTS

Fixed asset investments are stated at market value. Endowment asset investments include fixed interest stocks which are stated at historical cost.

PENSION SCHEMES

Retirement benefits to employees of the University are provided by the Teachers' Pension Scheme (TPS) and the Local Government Pension Scheme (LGPS). These are defined benefit schemes which are externally funded and contracted out of the State Earnings Related Pension Scheme (SERPS). Contributions to the TPS are charged as incurred.

Contributions to the TPS scheme are charged to the income and expenditure account so as to spread the cost of pensions over employees' working lives with the University in such a way that the pension cost is a substantially level percentage of current and future pensionable payroll. The contributions are determined by qualified actuaries on the basis of quinquennial valuations using a prospective benefit method.

The assets of the LGPS are measured using closing market values. LGPS liabilities are measured using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The increase in the present value of the liabilities of the scheme are expected to arise from employee service in the period is charged to the operating surplus. The expected return of the scheme's assets and the increase during the period in the present value of the scheme's liabilities, arising from the passage of time, are included in pension finance costs. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

Further details of the pension schemes are given in note 31.

REPAIRS AND MAINTENANCE

The University has a five year rolling maintenance plan which is reviewed on an annual basis. The cost of maintenance is charged to the income and expenditure account as incurred.

	Year to 31 July 2006 £'000	Year to 31 July 2005 Restated £'000
1. FUNDING COUNCIL GRANTS		
Recurrent Grant		
HEFCE	43,018	41,306
LSC	62	145
TDA	169	159
Research and Selective Initiatives	4,530	3,612
HEFCE Reimbursement of Inherited Liabilities	106	248
HEFCE Reimbursement of breakage cost for Inherited Liabilities	491	-
Release of Capital Grants		
Buildings	339	109
Equipment	734	722
	49,449	46,301
2. ACADEMIC FEES AND SUPPORT GRANTS		
Full-Time Students -UK/EU	10,201	9,862
Full-Time Students - Overseas	4,106	4,002
Part-Time Fees	1,718	1,562
Education Contracts	5,509	5,429
Short Course Fees	616	469
	22,150	21,324
3. RESEARCH GRANTS AND CONTRACTS		
Research Councils	113	243
UK Based Charities	116	136
UK Industry and Commerce	253	314
UK Central Government/Health Authorities	467	1,089
European Community Programmes	128	309
Other Research Grants and Contracts	65	-
	1,142	2,091
4. OTHER OPERATING INCOME		
Residences, Catering and Conferences	5,651	5,133
Consultancy/Self Financing Fees	7,357	4,976
Other Rents/Lettings	606	536
Release from deferred capital grants (non-funding council)	193	160
Other Income	1,768	2,049
	15,575	12,854

NOTES TO THE FINANCIAL STATEMENTS - continued

	Year to 31 July 2006 £'000	Year to 31 July 2005 £'000
5. ENDOWMENT INCOME AND INTEREST RECEIVABLE		
Investment Income	735	666
Endowment Income (Note 12)	2	1
	737	667

	31 July 2006 Total £'000	31 July 2005 Restated Total £'000
6. STAFF		
Staff Costs		
Wages	41,891	39,650
Social Security Costs	3,204	3,045
Other Pension Costs (including FRS 17 adjustments)	5,926	5,104
Redundancy/Managed Severance Scheme	148	101
	51,169	47,900

	Year to 31 July 2006 £'000	Year to 31 July 2005 £'000
Emoluments of the Vice-Chancellor		
Salary costs	160	146
Benefits in kind	3	3
Employers Pension Contributions	21	20
	184	169

The salary and benefits of the Vice-Chancellor are shown on the same basis as for higher paid staff. The University's pension contributions to the Teachers' Superannuation Scheme are paid at the same rate as for other academic staff and amounted to £20,655 (2005: £19,710)

	2006 Number	2005 Number
Average Staff Numbers by Major Category		
Management	51	51
Academic	594	585
Administrative, Professional, Technical and Clerical Staff	851	823
Manual Staff	188	189
	1,684	1,648
Remuneration of other higher paid staff, including employer's pension contributions		
£70,000 - £79,999	12	11
£80,000 - £89,999	1	2
£90,000 - £99,999	-	1
£100,000 - £109,999	2	1
£110,000 - £119,999	1	1
	16	16

Higher paid staff numbers include four members of staff employed on a full-time basis with the University.

A general pay award of 3% was made with effect from 1st August 2005 approved by the Corporation.

NOTES TO THE FINANCIAL STATEMENTS – continued

	Year to 31 July 2006 £'000	Year to 31 July 2005 Restated £'000
7. OTHER OPERATING EXPENSES		
Consumables	1,732	1,607
Equipment and Tools	2,783	2,669
Operating Leases	1,200	1,396
Books and Periodicals	914	981
Printing - External and Internal	452	410
Protective Clothing/Laundry/Uniforms	71	67
Repairs and General Maintenance	2,096	1,774
Heat, Light, Water and Power	1,857	1,289
Rent and Rates	645	513
Staff and Student Development	1,930	1,515
Travel and Subsistence	1,443	1,223
Student Union Contributions	804	500
Auditors' Remuneration (Corporation)	51	34
Auditors' Remuneration (Subsidiaries)	4	9
Internal Audit Costs	73	79
Irrecoverable VAT Input Tax	2,471	1,982
Payments to Franchise Colleges	4,691	3,918
Telephones and Postages	927	862
Insurance	341	368
Publicity and Prospectus	1,042	1,227
Examinations/Awards Day	282	251
Subscriptions	328	280
Vehicle Hire/Lease	107	89
Other Expenses	381	155
Professional Charges	229	770
Consultancy	2,630	2,209
Legal Charges	22	401
Agency Servicing	370	114
Breakage Costs for Inherited Liabilities	491	-
Security	374	337
Movement in Provision for Bad/Doubtful Debts	848	280
Placement Fees	180	39
Registration Fees	142	131
Grant Payments (External Activity)	1,907	-
	33,818	27,479
8. INTEREST PAYABLE		
Loan not wholly repayable within five years	1,467	1,720
Finance Leases	-	1
Net return on Assets (FRS 17)	586	1,039
	2,053	2,760

NOTES TO THE FINANCIAL STATEMENTS - continued

9. ANALYSIS OF EXPENDITURE BY ACTIVITY

	Staff Costs	Dep'n	Other Operating Expenses	Interest Payable	Total
	£'000	£'000	£'000	£'000	£'000
Academic Departments	27,905	1,808	10,240	-	39,953
Academic Services	5,432	896	2,259	-	8,587
Research Grants & Contracts	442	-	848	-	1,290
Residences, Catering & Conferences	1,513	572	1,986	786	4,857
Premises	2,004	134	3,794	-	5,932
Administration	7,222	350	5,887	-	13,459
Other Expenses	6,651	-	8,804	1,267	16,722
Total Income and Expenditure Account	51,169	3,760	33,818	2,053	90,800

The depreciation has been funded by:	£'000
Deferred Capital Grants Released (note 20)	1,266
Transfer from Capital Reserve (note 22)	1,075
General Income	1,419
	<u>3,760</u>

10. TANGIBLE FIXED ASSETS - Group

	Freehold Land and Buildings	Assets in Course of Construction	Computer Equipment	Leased Computer Equipment	Other Equipment And Fittings	Leased Equipment and Fittings	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
COST OR VALUATION							
At 1 August 2005	116,979	801	7,886	351	5,549	808	132,374
Additions	3,742	1,077	133	-	672	-	5,624
Reclassifications	783	(801)	18	-	-	-	-
Disposals	(39)	-	(152)	-	(228)	-	(419)
At 31 July 2006	<u>121,465</u>	<u>1,077</u>	<u>7,885</u>	<u>351</u>	<u>5,993</u>	<u>808</u>	137,579
DEPRECIATION							
At 1 August 2005	28,943	-	6,516	351	3,882	805	40,497
Depreciation for year	2,638	-	652	-	467	3	3,760
Elimination on disposals	(9)	-	(152)	-	(220)	-	(381)
At 31 July 2006	<u>31,572</u>	<u>-</u>	<u>7,016</u>	<u>351</u>	<u>4,129</u>	<u>808</u>	43,876
Net Book Value							
At 31 July 2006	<u>89,893</u>	<u>1,077</u>	<u>869</u>	<u>-</u>	<u>1,864</u>	<u>-</u>	93,703
Net Book Value							
At 31 July 2005	<u>80,305</u>	<u>801</u>	<u>1,370</u>	<u>-</u>	<u>1,637</u>	<u>3</u>	84,116

10. TANGIBLE FIXED ASSETS - Corporation

	Freehold Land and Buildings £'000	Assets in Course of Construction £'000	Computer Equipment £'000	Leased Computer Equipment £'000	Other Equipment And Fittings £'000	Leased Equipment and Fittings £'000	TOTAL £'000
COST OR VALUATION							
At 1 August 2005	106,943	801	7,886	351	5,364	808	122,153
Additions	3,085	1,077	133	-	665	-	4,960
Reclassifications	783	(801)	18	-	-	-	0
Disposals	(39)	-	(152)	-	(228)	-	(419)
At 31 July 2006	110,772	1,077	7,885	351	5,801	808	126,694
DEPRECIATION							
At 1 August 2005	26,638	-	6,516	351	3,727	805	38,037
Depreciation for year	2,282	-	652	-	448	3	3,385
Elimination on disposals	(9)	-	(152)	-	(220)	-	(381)
At 31 July 2006	28,911	-	7,016	351	3,955	808	41,041
Net Book Value At 31 July 2006	81,861	1,077	869	-	1,846	-	85,653
Net Book Value At 31 July 2005	80,305	801	1,370	-	1,637	3	84,116

As a result of the Education Reform Act 1988, the freehold and leasehold interests in properties occupied by the Corporation, previously held by Staffordshire County Council, were formally transferred, under the direction of the Education Assets Board, to the Corporation itself with effect from 1 April 1989.

Freehold buildings, to which the Corporation now has title, were professionally revalued at 1 April 1989 on the basis of replacement cost at that date. The surplus was taken to the capital reserve. Freehold land was revalued on an open market, existing use basis at the same date.

Computer equipment, other equipment and fittings belonging to the University were revalued at 31 July 1995.

The transitional rules set out in FRS 15 "Tangible Fixed Asset" have been applied on implementing FRS 15. Accordingly, the book values at implementation have been retained.

In December 1996 the University entered into a joint venture agreement with Tamworth and Lichfield College to provide a new campus facility at Lichfield. The cost of this project was £3.2m. The project was partly funded by a grant from the European Regional Development Fund and by a loan facility taken out by the University. Responsibility for the loan is shared jointly by the University and the College and the value of the College's commitment is shown as a long term debtor in the University's Balance Sheet (see note 14).

During 2002/03 the University and the College entered into an agreement for the development of a second phase at the Lichfield campus. This phase was partly funded by a loan facility taken out by the College. Responsibility for the loan is shared jointly by the University and the College and the value of the University's commitment is shown as a long term creditor in the University's Balance Sheet (see note 18).

NOTES TO THE FINANCIAL STATEMENTS - continued

11. FIXED ASSET INVESTMENTS

	GROUP		CORPORATION	
	2006	2005	2006	2005
	£'000	£'000	£'000	£'000
Investments	33	33	33	33

The University has a £33,000 investment in CVCP Properties.

The investments in subsidiaries, which cost £4, are detailed below:

Professor M A Hughes and Professor C E King as nominees of the Corporation hold all the issued share capital of Staffordshire University Enterprises Limited, a company incorporated in and operating in Great Britain and registered in England and Wales. The main areas of activity of Staffordshire University Enterprises Limited are the undertaking of consultancy work and the operation of recreational activities.

Professor M A Hughes and Professor C E King as nominees of the Corporation also hold all the issued share capital of Octagon Computer Centre Limited, a company incorporated in and operating in Great Britain and registered in England and Wales. The principal activity of the company is to act as a property management company.

The Friends of Staffordshire University Charitable Trust is regarded as a quasi-subsiary of the University under the definition provided in Financial Reporting Standard 5. Under the provisions of this standard the accounts of the Trust have been consolidated in the group accounts of the University for the year ended 31 July 2006.

12. ENDOWMENT ASSET INVESTMENTS

	GROUP AND CORPORATION	
	2006	2005
	£'000	£'000
Balance at 1 August 2005	294	295
Additions	-	-
Interest Received	2	1
Prize Fund payments	(4)	(2)
Balance at 31 July 2006	292	294
	2006	2005
Represented by:	£'000	£'000
Thornhill Bequest	192	192
Fixed interest stocks	7	7
Bank balances	93	95
	292	294

All fixed interest stocks are listed investments and are stated at historical cost.

The value of the Thornhill Bequest, a collection of medieval Chinese pottery owned by the University, is included as an endowment investment. This was previously shown as a fixed asset investment in 2002/03. The value is based on a valuation made for insurance purposes as at 5th February 1998. The valuation was undertaken by professional advisors expert in this field.

NOTES TO THE FINANCIAL STATEMENTS - continued

13. STOCK

GROUP AND CORPORATION

	2006 £'000	2005 £'000
Raw materials and consumables	131	153

14. DEBTORS: Amounts falling due after more than one year

	GROUP		CORPORATION	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Amounts owed by subsidiary undertaking	-	-	2,721	2,911
Amounts owed under joint arrangement with Tamworth and Lichfield College Phase 1	561	596	561	596
	561	596	3,282	3,507

15. DEBTORS: Amounts falling due within one year

	GROUP		CORPORATION	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Trade debtors	3,478	3,076	3,474	3,072
Amounts owed by subsidiary undertakings	-	-	2,518	1,863
Other debtors	143	1,502	109	1,473
Prepayments and accrued income	3,479	2,168	3,469	2,166
	7,100	6,746	9,570	8,574

NOTES TO THE FINANCIAL STATEMENTS - continued

16. CREDITORS: Amounts falling due within one year:

	GROUP		CORPORATION	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Loans	1,654	1,980	1,844	2,170
Obligations under finance leases	-	4	-	4
Trade creditors	3,580	3,786	3,580	3,786
Amounts owed to subsidiary undertakings	-	-	148	141
Other taxation and social security	1,861	1,713	1,840	1,692
Other creditors	580	890	580	890
Accruals and deferred income	9,410	6,499	9,387	6,491
	17,085	14,872	17,379	15,174

17. CREDITORS: Amounts falling due after more than one year:

	GROUP		CORPORATION	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Bank loan account	14,834	16,182	14,834	16,182
Staffordshire County Council loan account	-	3,604	-	3,604
Building Society Mortgage	-	349	-	349
Obligations under finance leases	-	-	-	-
Tamworth & Lichfield College Phase 2	581	620	581	620
Amounts owed to subsidiary company	-	-	2,721	2,911
	15,415	20,755	18,136	23,666

LOAN OBLIGATIONS

	GROUP		CORPORATION	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Between one and two years	1,019	1,909	1,209	2,099
Between two and five years	4,002	4,133	4,572	4,703
Over five years	9,813	14,093	11,774	16,244
	14,834	20,135	17,555	23,046
Within one year	1,654	1,980	1,844	2,170
	16,488	22,115	19,399	25,216

NOTES TO THE FINANCIAL STATEMENTS - continued

The table below provides details of the University's bank loans

Original Loan £'000	Outstanding Balance at 31 July 2006 £'000	Interest Basis	Repayment Terms	Security
3,000	1,604	8.7% fixed until January 2008	Equal principal repayments over 20 years starting in December 1992.	University academic accommodation at the Stoke and Stafford campuses.
2,000	1,134	8.5% fixed until January 2009	Equal principal repayments over 20 years starting in January 1994	University academic accommodation at the Stoke and Stafford campuses.
3,200	1,981	8.0% fixed until July 2010	Equal principal repayments over 19 years starting in July 1995	University academic accommodation at the Stoke campus.
3,600	2,778	6.4% fixed until April 2011	Equal principal repayments over 15 years starting from October 2001	University student residential accommodation at the Stafford campus.
1,900	265	8.3% fixed until August 2007	Equal principal repayments over 10 years starting from August 1997.	University academic accommodation at the Stafford Campus.
1,600	1,192	5.8% fixed until October 2008	Equal principal repayments over 20 years starting from August 1998.	University academic accommodation at the Lichfield Campus owned jointly with Tamworth and Lichfield College.
3,900	3,790	7.5% fixed until August 2015	Equal principal repayments for 15 years starting August 2005.	University student residential accommodation at the Stafford campus.
3,500	3,400	7.2% fixed until October 2010	Equal principal repayments for 15 years starting October 2005.	University student residential accommodation at the Stoke campus.

The Building Society Mortgage is repayable over 15 years. The mortgage will be fully repaid in December 2006. The University is paying interest at a rate of 9.6% fixed up to the final repayment. The mortgage is secured on student residential accommodation with a total open market valuation of £5.5m as at January 1997.

NOTES TO THE FINANCIAL STATEMENTS - continued

18. PROVISIONS FOR LIABILITIES AND CHARGES

GROUP AND CORPORATION

	Pension Enhancement	Onerous Contracts	Legal Costs	2006 Total	2005 Total Restated
	£'000	£'000	£'000	£'000	£'000
At 1 August 2005	450	589	200	1,239	10,906
Prior year adjustment	-	-	-	-	(9,688)
Utilised in the year	(53)	(178)	(70)	(301)	(699)
Charge to Income and Expenditure Acct	11	-	(130)	(119)	720
At 31 July 2006	408	411	-	819	1,239

The prior year adjustment relates to the release of the SSAP24 provision.

19. DEFERRED CAPITAL GRANTS

GROUP AND CORPORATION

	Buildings	Equipment	2006 Total	2005 Total
	£'000	£'000	£'000	£'000
At 1 August 2005	10,298	3,511	13,809	12,138
Add cash received/receivable	2,735	479	3,214	2,662
Released to Income and Expenditure	(385)	(881)	(1,266)	(991)
At 31 July 2006	12,648	3,109	15,757	13,809

20. ENDOWMENTS RESERVE

GROUP AND CORPORATION

	2006 Specific	2005 Specific
	£'000	£'000
At 1 August 2005	294	295
Net Income for year	(2)	(1)
At 31 July 2006	292	294

NOTES TO THE FINANCIAL STATEMENTS - continued

21. REVALUATION RESERVE

GROUP AND CORPORATION

	2006 £'000	2005 £'000
At 1 August 2005	42,415	43,224
Add HEFCE reimbursement of loan repayments	3,873	266
Less Release of capital reserve (note 9)	(1,075)	(1,075)
At 31 July 2006	45,213	42,415

22. INCOME AND EXPENDITURE ACCOUNT RESERVE

GROUP CORPORATION

	2006 £'000	2005 Restated £'000	2006 £'000	2005 Restated £'000
As at 1 August as previously stated	(10,177)	8,551	(16,469)	2,004
Reversal of SSAP 24 provisions for underfunding in LGPS	-	8,314	-	8,314
Prior year adjustment in respect of FRS 17	-	(29,173)	-	(29,173)
At 1 st August as restated	(10,177)	(12,308)	(16,469)	(18,855)
(Deficit)/Surplus retained for the year	(1,747)	1,429	(1,395)	1,684
Transfer from capital reserve	1,075	1,075	1,075	1,075
Actuarial gain/(loss) in respect of pension scheme	1,049	(373)	1,049	(373)
At 31 July 2006	(9,800)	(10,177)	(15,740)	(16,469)
Balance represented by				
Pension Reserve	(30,379)	(30,532)	(30,379)	(30,532)
Income and Expenditure account reserve excluding pension reserve	20,579	20,355	14,639	14,063
At 31 July 2006	(9,800)	(10,177)	(15,740)	(16,469)

NOTES TO THE FINANCIAL STATEMENTS - continued

23. LEASE OBLIGATIONS

GROUP AND CORPORATION

	2006 £'000	2005 £'000
Obligations under finance leases fall due as follows:		
Within one year	-	4
Between one and two years	-	-
Between two and five years	-	-
	-	4

Annual commitments on operating leases in respect of assets other than land and buildings on leases expiring as follows are:

	2006 £'000	2005 Restated £'000
Within one year	1,137	1,226
Between two and five years	3,485	4,525
	4,622	5,751

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

24. NET CASH FLOW FROM OPERATING ACTIVITIES

	Year to 31 July 2006	Year to 31 July 2005 Restated
	£'000	£'000
(Deficit)/Surplus for the year before taxation and transfers from reserves	(1,747)	1,429
Interest Receivable	(737)	(667)
HEFCE Reimbursement Receivable	(106)	(248)
	<u>(2,590)</u>	<u>514</u>
Add back interest payable	1,467	1,721
Surplus from operating activities	(1,123)	2,235
Release of capital grant	(1,266)	(991)
Depreciation	3,760	3,669
Pension Adjustments (FRS17)	896	986
Loss on sale of fixed assets	38	223
Decrease/(Increase) in stock	22	7
(Increase)/Decrease in debtors	(1,010)	(1,576)
Decrease/(Increase) in creditors	2,558	(257)
Decrease/(Increase) in provisions	(182)	687
NET CASH INFLOW FROM OPERATING ACTIVITIES	<u>3,693</u>	<u>4,983</u>

25. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Building Society Mortgage £'000	LEA Loan Account £'000	Finance Leases £'000	Bank Loans £'000
Balance at 1 August 2005	904	3,874	4	17,337
Cash outflows from financing	<u>(560)</u>	<u>(3,874)</u>	<u>(4)</u>	<u>(1,193)</u>
Balance at 31 July 2006	<u>344</u>	<u>-</u>	<u>-</u>	<u>16,144</u>

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT - continued

26. ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS DURING THE YEAR

	£'000
Balance at 1 August 2005	14,040
Net cash inflow	(700)
	13,340

27. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	2006 £'000	2005 £'000	2006 Change in Year £'000	2005 £'000	2004 £'000	2005 Change In Year £'000
Cash at bank and in hand	13,340	14,040	(700)	14,040	13,435	605

28. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	Year Ended 31 July 2006 £'000	Year Ended 31 July 2005 £'000
Decrease in cash in year	(700)	605
Repayment of debt	5,631	1,652
New loans	-	-
Movement arising from cash flows	4,931	2,257
New finance lease	-	-
CHANGE IN NET DEBT	4,931	2,257
NET DEBT AT 1 AUGUST 2004	(8,079)	(10,336)
NET DEBT AT 31 JULY 2005	(3,148)	(8,079)

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT - continued

ANALYSIS OF CHANGES IN NET DEBT

	August 2005	Cash Flows 2006	Other Movements	July 2006
	£'000	£'000	£'000	£'000
Cash in hand, at bank	14,040	(700)	-	13,340
Debt due within 1 year	(1,980)	1,980	(1,654)	(1,654)
Debt due after 1 year	(20,135)	3,647	1,654	(14,834)
Finance Leases	(4)	4	-	-
	(8,079)	4,931	-	(3,148)

29. CAPITAL COMMITMENTS

GROUP AND CORPORATION

	2006	2005
	£'000	£'000
Contracted for	5,170	5,593

NOTES TO THE FINANCIAL STATEMENTS – continued

30. CONTINGENT LIABILITIES

The University is a member of UMALT, a company limited by guarantee formed to provide a mutual association for terrorism risks. Under the terms of its membership, each member acts as insurer and insured. If the association as a whole suffers a shortfall in any underwriting year, the members are liable for their prorated share, spread using a bank facility over 7 years. The University is a guarantor, on a joint and several basis with other members, of this £60 million bank facility. No liability has yet arisen under this guarantee.

31. PENSION COSTS

Retirement benefits for employees of the University are provided by defined benefit schemes which are funded by contributions from the University and employees. Payments are made to the Teachers Superannuation Scheme for academic staff and to the Staffordshire County Council Superannuation Scheme for non-academic staff. These are both independently administered schemes.

Total employees and employers contributions to the Teachers Superannuation Scheme for 2005/06 were £4,094k (2004/05 £4,004k) and for the Staffordshire County Council Superannuation Scheme £3,367k (2004/05 £2,990k).

Teachers' Pension Scheme

The Teachers Pension Scheme (TPS) is an unfunded scheme. Contributions on a 'pay as you go' basis are credited to the exchequer under arrangements governed by the Superannuation Act 1972. Actuarial valuations are carried out on a notional set of investments.

Under the definitions set out in Financial Reporting Standard 17 Retirement Benefits, the TPS is a multi-employer pension scheme. The University is unable to identify its share of the underlying (notional) assets and liabilities of the scheme. Accordingly, the University has taken advantage of the exemption in FRS 17 and has accounted for its contributions to the scheme as if it were a defined contribution scheme. The University has set out below the information available on the deficit in the scheme and the implications for the University in terms of the anticipated contribution rates.

The pensions cost is assessed every five years in accordance with the advice of the government. The assumptions and other data that have the most significant effect on the determination of the contribution levels are as follows:

Latest actuarial valuation	31 March 2001
Actuarial method	Prospective benefits
Notional Investment returns per annum.	7.0% per annum
Salary scale increases per annum	5.0% per annum
Market value of notional assets at date of last valuation.	£102,010 million
Proportion of members' accrued benefits covered by the actuarial value of the assets.	100%

NOTES TO THE FINANCIAL STATEMENTS – continued

Following the implementation of Teachers’ Pensions (Employers’ Supplementary contributions) Regulations 2000 the government actuary carried out a further review on the level of employers’ contributions. For the period from 1 April 2002 to 31 March 2003 the employer contribution was 8.35%. This rate increased to 13.5% from 1 April 2003.

Local Government Pension Scheme

The Local Government Superannuation Scheme (LGSS) is regulated by statute, with separate regulations for (a) England and Wales and (b) Scotland. The benefits of the LGSS are determined nationally by regulation and meet the definition of a defined benefit scheme.

The LGSS is a funded scheme, with some 100 separate funds administered locally by administering authorities. Each fund has a number of employing authorities. Staffordshire County Council is the administering authority with the District Councils in the County being employing authorities within that scheme. Each fund will also have admitted bodies, such as education institutions, whose employees are members of the LGSS. The LGSS is not therefore a national multi-employer scheme, but each separate LGSS fund is a multi-employer scheme.

The latest formal valuation of the Fund for the purpose of setting employers’ actual contributions was as at 31 March 2004, with the next formal valuation due as at 31 March 2007. The assumptions and other data that have the most significant effect on the determination of the contribution levels are as follows:

Valuation Date	31 st March 2004 Unsmoothed		31 st March 2001 Smoothed	
	% p.a. Nominal	% p.a. Real	% p.a. Nominal	% p.a. Real
Investment Returns	6.50%	3.60%	6.00%	3.20%
Pay Increases	4.40%	1.50%	4.30%	1.50%
Price Inflation/Pension Increases	2.90%	-	2.80%	-
Market Value of Assets (excluding defined contribution AVC funds)	£1,506m		£1,515m	
Actuarial Method	Projected Unit Method		Projected Unit Method	
Proportion of members’ accrued benefits covered by the actuarial value of assets	100%		100%	

Notes:

The figures marked “real” are net of assumed price inflation.

The “smoothed” returns are calculated as being the average investment returns in the 12 months leading up to the relevant valuation date.

NOTES TO THE FINANCIAL STATEMENTS – continued

A valuation of the Fund's liabilities as at 31 July 2006 has been undertaken by the Fund's actuary. The following valuation data has been used for the purposes of this disclosure.

- The individual membership data submitted as at 31 March 2004 for the purpose of the formal funding valuation at that date;
- The individual pensioner data in respect of unfunded pensions, including teachers' pensions as at 31 July 2006, where appropriate.
- The latest numbers of employees, deferred pensioners and pensioners as at 31 July 2006;
- Employer and employee contributions up to 31 July 2006;
- Actual Fund returns from 1 July 2005 up to 31 March 2006; and
- Any new early retirements from 1 August 2005 to the latest available date of 31 July 2006 on unreduced pensions which are not anticipated in the normal employer service cost (e.g. non ill-health retirements before the earliest of the employee's Rule of 85 retirement age (minimum of 60) or normal retirement age, which are not reduced).

FRS 17

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

	At 31 July 2006	At 31 July 2005	At 31 July 2004
Inflation	3.1%	2.8%	2.9%
Rate of increase in salaries	4.6%	4.3%	4.4%
Rate of increase for pensions	3.1%	2.8%	2.9%
Discount rate for liabilities	5.1%	5.0%	5.8%

Changes to the Local Government Pension Scheme (LGPS) under regulation 3 of the LGPS (Amendment) Regulations 2006 (Statutory Instrument 2006/966) permits employees retiring on or after 6 April 2006 to take an extra increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension.

On advice from our actuaries, we have taken the view that there is insufficient reliable evidence to assume a level of take up of the change in the pension scheme. Consequently, the valuation of the University's retirement benefit liabilities as at 31 July 2006 does not include any allowance for this change to the pension scheme.

NOTES TO THE FINANCIAL STATEMENTS – continued

The assets in the scheme (of which the Group's share is estimated at 2.99%) and the expected rates of return were:

	Long-term rate of return expected at 31 July 2006	Value at 31 July 2006 £'000	Long-term rate of return expected at 31 July 2005	Value at 31 July 2005 £'000	Long-term rate of return expected at 31 July 2004	Value at 31 July 2004 £'000
Equities	7.7%	1,595,300	7.3%	1,396,800	7.9%	1,072,000
Bonds	4.7%	253,300	4.7%	212,900	5.4%	192,000
Property	5.7%	164,600	5.4%	137,700	6.7%	142,000
Cash	4.8%	82,000	4.5%	53,000	4.5%	55,000
Total Market Value of Assets		2,095,200		1,800,400		1,461,000

	Year Ended 31 July 2006 £'000	Year Ended 31 July 2005 £'000	Year Ended 31 July 2004 £'000
Group's estimated asset share	62,741	52,875	42,444
Present value of scheme liabilities	(93,120)	(83,407)	(71,617)
Deficit in the scheme	(30,379)	(30,532)	(29,173)

Under the arrangements of FRS 17, a provision has been made by the Group for the Institution's share of the deficit of the scheme.

Analysis of pension finance income/(costs)

	Year Ended 31 July 2006 £'000	Year Ended 31 July 2005 £'000
Expected return on pension scheme assets	3,634	3,152
Interest on pension liabilities	(4,220)	(4,191)
Pension finance (costs)/income	(586)	1,039

Analysis of the amount charged to the Income and Expenditure Account

	Year Ended 31 July 2006 £'000	Year Ended 31 July 2005 £'000
Employer service cost (net of employee contributions)	3,148	2,247
Past service cost	86	114
Curtailment and Settlements	-	128
Total Operating Charge	3,324	2,489

NOTES TO THE FINANCIAL STATEMENTS – continued

Analysis of pension finance income/costs

	Year Ended 31 July 2006	Year Ended 31 July 2005
	£'000	£'000
Expected return on pension scheme assets	3,634	3,152
Interest on pension scheme liabilities	(4,220)	(4,191)
Pension finance income/(costs)	(586)	(1,039)

Amounts recognised in the statement of total recognised gains and losses (STRGL)

	Year Ended 31 July 2006	Year Ended 31 July 2005
	£'000	£'000
Actual return less expected return on pension scheme assets	4,515	6,049
Experience gains and losses arising on the scheme liabilities	24	3,500
Change in financial and demographic assumptions underlying the scheme liabilities	(3,490)	(9,922)
Actuarial gain/(loss) recognised in STRGL	1,049	(373)

Movement in (deficit)/surplus during the year

	Year Ended 31 July 2006	Year Ended 31 July 2005
	£'000	£'000
Deficit in scheme at 1 August	(30,532)	(29,173)
Movement in year:		
Current service charge	(3,148)	(2,247)
Contributions	2,329	1,970
Contributions in respect of unfunded benefits	595	572
Past service costs	(86)	(114)
Impact of Settlements and Curtailments	-	(128)
Net interest/return on assets	(586)	(1,039)
Actuarial gain or loss	1,049	(373)
Deficit in scheme at 31 July	(30,379)	(30,532)

History of experience gains and losses

	Year Ended 31 July 2006	Year Ended 31 July 2005	Year Ended 31 July 2004	Year Ended 31 July 2003	Year Ended 31 July 2002
Difference between the expected and actual return on assets	4,515	6,049	464	(770)	(8,686)
% of scheme assets	7.2%	11.4%	1.1%	(2.1%)	(25.6%)
Experience gains and losses on scheme liabilities	24	3,500	(907)	(2,889)	(2,788)
% of scheme liabilities	0.03%	4.2%	(1.3%)	(4.4%)	(5.5%)
Total amount recognised in STRGL	1,049	(373)	(534)	(11,339)	(8,138)
% of scheme liabilities	1.1%	(0.4%)	(0.7%)	(17.4%)	(16.2%)

NOTES TO THE FINANCIAL STATEMENTS – continued

32. PRIOR YEAR ADJUSTMENT

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 local government scheme, 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 Staffordshire University's accounts since the year ending 31 July 2001.

	Group	Corporation
	£'000	£'000
Income & Expenditure account reserve as previously stated (Note 23)	20,355	14,063
Pension Asset/(liability) at 1 st August 2004	(29,173)	(29,173)
Movement during 2004/05		
Employer Service Cost	(2,247)	(2,247)
Employer contributions	1,970	1,970
Contributions in respect of Unfunded Benefits	572	572
Past Service Costs	(114)	(114)
Impact of Settlements and Curtailments	(128)	(128)
Net Interest/Return on Assets	(1,039)	(1,039)
Actuarial gain/(loss)	(373)	(373)
Income and Expenditure Account Reserve as restated at 31st July	(10,177)	(16,469)
Analysis of Prior Year Adjustment		
Adjustment to opening Income and Expenditure Account reserve at 1 st August 2004	(29,173)	(29,173)
Adjustment to Income and Expenditure Account for the year ended 31 st July 2005	(338)	(338)
Adjustment to statement of Total Recognised Gains and Losses for the year ended 31 st July 2005	(373)	(373)
Release of any movement in SSAP24 provision for underfunding in LGPS	8,314	8,314
TOTAL	(21,570)	(21,570)

NOTES TO THE FINANCIAL STATEMENTS - continued

33. STUDENTS' UNION

The University has not consolidated the financial statements of the Staffordshire University Students' Union because they are not material to the group. The accounts of the Students' Union are separately audited by F Mazloomian & Co. The results to 31 July 2006 are summarised below.

Results for the year are:

	2006	2005
	£'000	£'000
INCOME	823	789
EXPENDITURE		
Administration Expenses	286	270
Communication	47	38
Education	-	-
Finance	74	66
Information Technology	6	5
Student Activity	197	222
Personnel/Welfare	54	44
Representation	152	142
	816	787
Surplus for the Year	7	2

SUMMARY BALANCE SHEET

	2006	2005
	£'000	£'000
Fixed Assets	519	302
Net Current Assets	359	353
Total Net Assets	878	655

34. ACCESS FUNDS

	Year to	Year to
	31 July	31 July
	2006	2005
	£'000	£'000
Funding Council Grants	886	1,002
Interest Earned	5	11
	891	1,013
Disbursements to Students	(853)	(978)
Balance Unspent 31 July 2006	38	35

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

NOTES TO THE FINANCIAL STATEMENTS - continued

35. TRAINING AND DEVELOPMENT AGENCY (TDA)

	Year to 31 July 2006 £'000	Year to 31 July 2005 £'000
(a) Student Bursaries		
Opening fund balance	2	7
Net Training and Development Agency grants received in year	216	197
Disbursed to students	(184)	(202)
Administration fee	-	-
Balance Unspent at 31 July owing to the Training and Development Agency	34	2
(b) Ethnic Minority Recruitment		
Opening fund balance	3	-
Net Training and Development Agency grants received in year	-	3
Disbursed to students	-	-
Support Payments to Schools	-	-
Development	-	-
Administration	-	-
Balance Unspent at 31 July owing to the Training and Development Agency	3	3

Training and Development Agency grants are available solely for students or school for student support and the University acts only as paying agent in administering these TDA grants. The grants and related disbursements are therefore excluded from the Income and Expenditure Account.

36. RELATED PARTY TRANSACTIONS

Due to the nature of the University's operations and the composition of the Board of Governors (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 Board of Governors may have an interest.

All transactions involving organisations in which a member of the Board of Governors may have an interest are conducted at arm's length and in accordance with the University's Financial Regulations and Standing Orders Relating to Contracts and normal procurement procedures. No transactions were identified which should be disclosed under Financial Reporting Standard 8 Related Party Disclosures.