



**UNIVERSITY OF
STIRLING**

**FINANCIAL STATEMENTS
2005 - 2006**



The Court

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MA, PhD, FRSE, Principal and Vice-Chancellor

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Professor Ian Douglas Aitken

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Financial Statements

for the year to 31st July 2006

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Report on the Financial Statements

SCOPE OF THE FINANCIAL STATEMENTS

The Financial Statements presented to the Court have been prepared in accordance with the recommendations of the Statement of Recommended Practice (SORP), Accounting for Further and Higher Education issued in August 2003 and the Accounts Direction issued by the Scottish Funding Council in May 2006.

RESULTS FOR THE YEAR

The summarised consolidated income, expenditure and surplus for the year ended 31 July 2006, together with comparative figures for 2004/05 are shown as follows:

	2006 £'000	2005 £'000
Income	83,360	78,237
Expenditure	(81,155)	(77,005)
Share of Operating losses in joint venture	(213)	(110)
Surplus	1,992	1,122
Transfer from accumulated income within Specific endowments	25	0
Surplus for the year retained within general reserves	<u>2,017</u>	<u>1,122</u>

REPORT OF THE CHAIRMAN OF THE FINANCE AND INFRASTRUCTURE COMMITTEE

The University's financial strategy over the last decade has been to generate sufficient recurrent resources and surpluses to maintain financial stability, to provide the funds for investment, and ensure sustainability in the future. The University has consistently returned a surplus since 1992 and the results for the year demonstrate yet again our performance is as constant as our strategy.

This year, for the first time, the financial statements also include the activities of SURE Ltd and Machrihanish Marine Farms Ltd. The net effect of the consolidation is an uplift of £41k in the declared surplus. In addition the requirements of FRS17 Retirement Benefits are adopted in full.

The overall surplus generated is £2.017 million, reflecting an increase in the operating surplus of 80% from 2004/2005 (restated). This surplus represents 2.4% of turnover which compares favourably with the target established in our financial strategy of 3% by 2007/2008.

Operating Results

Turnover increased from £78.2 million to £83.4 million, an increase of 6.5%. The major increases were achieved in Research income which increased from £7.6 million to £9.4 million and Other Income which increased from £19.8 million to £21.4

million, this was mainly due to increased income from the non academic areas of the University, and reflects the aims in the Financial Strategy to diversify our income streams.

The University experienced a major shortfall in its tuition fee income largely as a result of not achieving its target for overseas postgraduate students. This and the additional costs resulting from the revised capital development programme made it necessary to take strategic decisions on the appointment of staff and effect a reduction in non essential non-staff expenditure.

Nonetheless expenditure has increased from £77 million to £81.1 million an increase of 5.4% compared with an increase of 8.2% in the previous year's financial statements. Increased expenditure reflects additional staff costs, mainly as a result of pay awards and incremental progression. Other operating expenditure increased by 6.7%. This is attributable to a number of factors including assets to the value of £735k which did not comply with the University's capitalisation policy and were written off as repairs and maintenance. In addition there was increased expenditure in Research and non academic areas of the University which is directly related to the increases in income. Most notable is the increase in depreciation of 15.2% which reflects the charge resulting from the recent investments made in core management information systems including Finance, Student and Estates.

Research

As outlined above the levels of research grant and contract income, and overhead contribution, showed substantial and welcome increases in 2005-06 over the previous year. Income increased by almost 24% and overhead contribution by 40%, while overhead contribution also improved as a proportion of total research income from 15% to 17%.

While the overall performance in 2005-06 is encouraging, it must be noted that income levels remain a long way off what would be required to deliver a strong and sustainable research performance in the University. This has been benchmarked in the Research and Knowledge Transfer Strategy at 6% of total research grant and contract income for the Scottish Higher Education sector, which would have represented some £23 million in 2005-06. Furthermore, the level of new applications and awards during the year may give some cause for concern in terms of future income. New applications in 2005-06 were 15% up on 2004-05, but both the number and value of new awards declined, by 3% and 30% respectively. This level of award will not sustain the levels of income achieved in 2005-06.

The University introduced a new Research and Knowledge Transfer Strategy in June 2006, with an accompanying Implementation Plan, which is designed to address the shortfall in research grant and contract performance. These measures are expected to deliver a positive impact within a three year timescale.

Balance Sheet and Cash Flow Statement

The surplus generated is reflected in improvements in the Balance Sheet. This can be evidenced by the increase in cash balances and investments by 21.4% from £12.9 million to £15.6 million and the increase of 8.5% in the General Reserve position of the University from £27.6 million to £29.9 million prior to the impact of the FRS 17 derived pension deficit. Capital works of £4.3 million have been financed from reserves and external grants, no new loans were taken in the year.

Capital Projects

The University has a Capital Development Plan covering the 10 year period from 2003. During the past year considerable investment has been made in the refurbishment of teaching rooms and computer labs, the implementation of a major programme of space moves, and the improvement of the research and building services infrastructure. Capital allocations from the Scottish Funding Council under the SRIF3 and LTIF schemes have made a significant contribution to these projects. In addition, funding made available from the Lawn Tennis Association and sportscotland enabled the extension of the Tennis Centre. The MP Jackson Fitness Centre has also been extended on the basis that the investment will be serviced from future income.

During the year work also commenced on the largest on-going capital project, viz, the recladding of the Cottrell Building. The original fascia panels have now all been removed from the building and the contract to install thermally-efficient cladding panels and double glazing will commence in early 2007.

Pensions

The University participates in three defined benefit pension schemes which are contracted out. The Universities Superannuation Scheme (USS), the University of Stirling Pension Scheme (USPS) and the University of Stirling Pension Scheme for Contract Staff (USPSCS). In these financial statements the pension costs of USPS and USPSCS have been accounted for by following FRS17 – Retirement Benefits. FRS17 requires that the values of the pension scheme assets are stated at actual market values at the balance sheet date, and that the discount rate applied in the valuation of liabilities is based on a ‘best estimate’ using the yield on corporate bonds at that date rather than based on the long-term expected return on the scheme’s assets in addition to factors relating to mortality and inflation. Thus the FRS17 valuation is a snapshot at the balance sheet date, and surpluses or deficits may fluctuate significantly from year to year.

The impact on 2005/06 is to recognise a deficit of £2.6m in the Statement of Realised Gains and Losses together with a prior year adjustment of £8.5m giving a total deficit of £11.1m offsetting the General Reserve balance of £29.9m. Adjustments have been made to the comparative figures. Note 22 gives details of the adjustment.

The USS is a multi-employer scheme and under the requirements of FRS17 the University disclosure is limited to the basis and value of the contributions made.

The Year Ahead

The University continues to face difficult and challenging times. It is vital that the University supplements relatively modest increases in grants and fees by becoming more creative in the ways it generates additional income and attracts voluntary giving. In addition it faces rising costs from the implementation of the Framework Agreement, the impact of national salary awards in excess of what was indicated as affordable and projected increases in income, increased contributions to Pension Schemes to offset actuarial deficits, rising utility prices and improving the infrastructure through funding the Capital Development Programme.

These pressures arguably pose the University’s greatest financial challenge since the early 1980’s. In order to achieve the Financial Strategy, the University has planned to reduce its expenditure

by 8% over the period to 2008/09. Reductions will be phased to ensure they are achieved in a controlled manner. The University has made demonstrable progress during the budget period for 2006/2007 in this respect and whilst much remains to be done the University is well placed to face up to many challenges ahead with renewed confidence and optimism. The many stakeholders of the University can be assured that sound management will continue to deliver a commendable performance for 2006/2007 and in the future.

A Simpson
Chairman, Finance & Infrastructure Committee

Corporate Governance

The University is committed to exhibiting best practice in all aspects of corporate governance. This summary 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 and revised in 2003. Its purpose is to help the reader of the financial statements understand how the principles have been applied.

The Court is responsible for the University's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Court is of the view that there is an ongoing process for identifying, evaluating and managing the University's significant risks that has been in place for the period up to the date of approval of the financial statements. This process has been reviewed and approved by Court. It accords with the internal control guidance for directors on the Combined Code as amended by the British Universities Finance Directors Group.

The Court considers that the University has adequate resources to enable it to continue in operational existence for the foreseeable future.

The Workings of the University Court and its Committees

Court

In accordance with the University's Charter, the Court is the Governing Body of the University with overall responsibility for the management of the University's resources, the ongoing strategic direction of the University, approval of major developments and the receipt of regular reports from Executive Officers on the day to day operation of its business. On matters relating to academic work of the University, Court will normally only act on the recommendation of the Academic Council. The membership of the Court, some of whom are ex officio, comprises lay members, who are in the majority, the balance being made up of staff and student members as prescribed by Statute. The Chair of Court is a lay member and is supported by lay Chairs of the Finance & Estates Policy Committee and the Audit Committee. The University's Chief Executive is the Principal & Vice-Chancellor.

The Court Appointments Committee seeks and considers recommendations for potential lay members of Court. The Court meets four times per year and is supported by a Committee sub-structure, which includes a Policy, Planning & Resources Committee as well as the Committees indicated above.

In line with good practice, during 2005/2006, the Court undertook a review of its own effectiveness, which also considered the extent of Court's compliance with the CUC Guide for Members of Higher Education Governing Bodies in the United Kingdom. The outcomes of this review, set out in a report approved by Court at its meeting in December 2005, confirmed

that the University largely conformed to the good practice guidance set out in the document. However, it also identified a number of actions that required to be taken, which have been, or are currently being, implemented in accordance with an Action Plan approved by Court in March 2006.

During 2005/2006, the University reviewed its Charter & Statutes to take account of changes resulting from organisational development as well as recommendations arising from the Review of Court Effectiveness. Proposals for resulting changes to Charter & Statutes were allowed by Her Majesty The Queen in Council and approved by the Privy Council respectively on 19 July 2006.

Principal Committees

A number of changes to the University's committee structure arising from organisational development will be implemented from 1 August 2006. However, this section refers to the arrangements that were in place for the duration of 2005/2006 financial year.

In respect of its strategic and development responsibilities the Court receives recommendations from the Policy, Planning & Resources Committee which also recommends to Court the University's annual recurrent budget and capital expenditure plans. The monitoring of performance in relation to the approved budgets is undertaken by the Budget Review Group.

The Finance & Estates Policy Committee meets on a regular cycle to consider all matters of financial and estates concern and reports matters for formal approval to the Policy, Planning & Resources Committee and Court. The Remuneration Committee undertakes a review of professorial and senior administrative staff salaries including that of the Principal.

The Audit Committee is responsible for assisting and advising Court on the discharge of its responsibilities in ensuring that appropriate controls are in place to safeguard all funds received by the University, and in reviewing and monitoring accounting policies and practice. It oversees the remit and findings of both the internal and external auditors, and meets with them when required to review their reports. It also reviews the Financial Statements of the University prior to their submission to Court. While senior executives attend meetings of the Audit Committee as necessary, they are not members of the Committee, and the Committee may meet with the Internal and External Auditors on their own for independent discussions.

The operations of the University are not without risk and therefore the University has an established risk management process which advises senior management and which is taken into consideration in the development of the annual Strategic Plan and Strategic Plan Action Plan. For the year ending 31 July 2006, the Principal's Advisory & Strategy Group undertook the role of Strategic Risk Management Committee. It received reports from the risk owners of each of the strategic risks, Strategic Planning & Governance, the Risk Management Group (for insured risks) and the Safety, Health & Environment Committee. These were used to inform the University Court of risks which had been identified and of control measures which had been established to mitigate or reduce the impact of these risks. Following the structural changes associated with the implementation of organisational development from 1 August 2006, the remit and composition of the Risk Management Committee are currently under review, and revised committee arrangements will be in place for the coming session and for the formal annual review of the Strategic Risk

Register. The Register has been further developed during the year to include explicit mention of risk descriptions, mitigating actions to reduce the likelihood and impact of risks materialising, and risk indicators, or early warning signs that a risk may be about to materialise. These areas have been developed, in collaboration with the Risk Manager, by the individual risk owners for each strategic risk, who are also responsible for interim monitoring of their assigned risks.

The University Risk Manager has responsibility for co-ordinating the University's approach to risk management, including: updating and maintaining the Strategic Risk Register; analysing risk issues in the University planning process; provision of training in risk awareness, identification and management; ensuring that risk issues are considered throughout the planning process and co-ordinating the institutional business continuity planning process. Risk identification, assessment and the consideration of control measures are an integral part of the University planning process, and will continue to be further developed and integrated into plans in all areas of the University. Business continuity plans are already well developed in a number of areas of the University, and work is currently underway to produce robust departmental and institution-wide plans, which will in turn contribute to the further refinement of the strategic risk register.

The University has a Safety Policy and operates a safety management template across all activities. The template enables senior management to receive reports setting out non-financial key performance and risk indicators and to consider central issues highlighted by the operation of the system. The template is embedded in departmental and service-area management and is backed up by compulsory attendance at training sessions for all staff.

The Court receives an annual report from the Audit Committee supported by documentation from senior management and the relevant committees in order that it can complete its annual assessment for the year ending 31 July. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception.

Accounting Responsibilities of the University Court

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

The Court is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the University, and enable it to ensure that the financial statements are prepared in accordance with the University's Charter, the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education, Accounts Directions from the Scottish Funding Council for Further & Higher Education (SFC) and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between the SFC and the Court of the University, the Court, 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 University Court has ensured that:

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable accounting standards are 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. The Court is satisfied that the University has adequate resources to continue in operation for the foreseeable future; for this reason the going concern basis continues to be adopted in the preparation of the financial statements.

The University Court has taken all reasonable steps to:

- ensure that funds from the SFC 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 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:

- clear definitions of the responsibilities of, and the authority delegated to, heads of academic departments and service directorates;
- a comprehensive medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets;
- regular reviews of key performance indicators and business risks and quarterly reviews of financial results involving variance reporting and updates of forecast outturns;
- clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the University Court;
- comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Audit Committee, Finance & Estates Policy Committee and the Court;
- a professional Internal Audit team whose annual programme is approved by the Audit Committee and endorsed by the University Court and whose head provides the University Court with a report on internal audit activity within the University and an opinion on the adequacy and effectiveness of the system of internal control, including internal financial control.

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

Independent Auditor's Report

to the Members of the University Court of the University of Stirling

We have audited the group and parent University financial statements of the University of Stirling for the year ended 31 July 2006 which comprise the group Income and Expenditure Account, the group and parent 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 University Court, in accordance with the Charter and Statutes of the University. Our audit work has been undertaken so that we might state to the University Court 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 University Court, for our work, for this report, or the opinion we have formed.

Respective responsibilities of the University Court and Auditors

The University Court's responsibilities for preparing the Report on the financial statements and the group and parent University 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.

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 Scottish Funding Council. We also report to you whether in our opinion the Report on the financial statements 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 Report on the financial statements 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 Code of Audit Practice issued by the Scottish Higher Education Funding Council. 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 judgments made by the University Court in the preparation of the financial statements and of whether the accounting policies are appropriate to the group and parent 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 group and parent University as at 31 July 2006 and of the group's surplus 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 Scottish Funding Council, 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 Scottish Funding Council.

KPMG LLP
Chartered Accountants
Registered Auditor
20 Castle Terrace
Edinburgh
EH1 2EG

18 December 2006

Statement of Principal Accounting Policies

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. They conform to guidance published by the Funding Council.

Consolidated financial statements incorporating SURE Ltd and Machrihanish Marine Farms Ltd have been prepared. SUIP Ltd has not been consolidated into the University's financial statements due to the low level of control and influence which can be exercised by the University. It has been treated as an investment asset.

The financial statements do not include the Students' Association of the University of Stirling on the grounds that this is a members' association not directly controlled by the University.

Basis of Accounting

The financial statements are prepared under the historical cost convention, as modified by the revaluation of Investments.

Recognition of Income

Income from Specific and General Endowments and Donations, Research Grants, Contracts and Other Services Rendered is included to the extent of the relative expenditure incurred during the year, together with any related contributions towards overhead costs. All income from short-term deposits is credited to the income and expenditure account in the period in which it is earned.

Recurrent grants from the Funding Council are recognised in the period to which they relate.

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

Foreign Currencies

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 either at end of year rates or, where there are related forward foreign exchange contracts, at contract rates. The resulting exchange differences are dealt with in the determination of income and expenditure for the financial year.

Pension Schemes

The University has fully adopted accounting standard FRS17 "Retirement Benefits" in the preparation of these financial statements. The impact of this standard has been reflected throughout. Prior year comparatives have been restated where appropriate.

The difference between the fair value of the assets held in the University's defined benefit scheme and the scheme's liabilities measured on an actuarial basis using the projected unit method (for USPS) and attained age method (for USPCS) are recognised in the University's balance sheet as a pension scheme asset

or liability as appropriate. The pension scheme balance is recognised net of any related deferred tax balance.

Changes in the defined benefit pension scheme asset or liability arising from factors other than cash contribution by the University are charged to the Statement of Total Recognised Gains and Losses in accordance with FRS 17 'Retirement Benefits'.

The two principal pension schemes of the University are The Universities Superannuation Scheme covering academic and related staff and the University of Stirling Pension Scheme covering other staff. In addition, the University has set up a scheme for the non academic staff transferred from the former Colleges of Nursing under a contract from the Scottish Executive. This Scheme was initiated on 1st September 1996. The operating principles of the schemes are as follows:

Universities Superannuation Scheme

The Universities Superannuation Scheme is a defined benefit scheme which is externally funded and contracted out of the State Second Pension (S2P). The liabilities are valued every three years by a professionally qualified independent Actuary using the Projected Unit Method, the rates of contribution payable being determined by the Trustees on the advice of the Actuary. In the intervening years, the Actuary reviews the progress of the Scheme. Pension costs are assessed in accordance with the advice of the Actuary, based on the latest actuarial valuation of the Scheme, and are accounted for on the basis of charging the cost of providing pensions over the period during which the Institution benefits from the employee's services.

The University of Stirling Pension Scheme

The University of Stirling Pension Scheme is a defined benefit scheme which is contracted out of the State Earnings-Related Pension Scheme. The assets of the Scheme are held separately from those of the University. The Trustees have invested the Funds in a Managed Fund with Newton Investment Fund Managers Ltd and Legal & General Investment Management. The administration and actuarial services are provided by Aon Consulting. Contributions to the Scheme are calculated so as to spread the cost of pensions over employees' working lives with the University. The Contributions are determined by an actuary on the basis of triennial valuations using the Projected Unit Method.

The University of Stirling Pension Scheme for Contract Staff

The University of Stirling Pension Scheme for Contract Staff is a defined benefit scheme which is contracted out of the State Earnings-Related Pension Scheme. The assets of the Scheme are held separately from those of the University. The Trustees have invested the Funds with Friends Provident Corporate Pensions Ltd. The administration and actuarial services are also provided by Friends Provident with Aon Consulting providing independent advice. Contributions to the Scheme are calculated so as to spread the cost of pensions over employees' working lives with the University. The Contributions are determined by an actuary on the basis of triennial valuations using the Age Attained Method.

Variations from regular cost are spread over the expected average remaining working lifetime of members of the schemes, after making allowances for future withdrawals. A small number of staff remain in other pension schemes.

Tangible Fixed Assets

Land and Buildings

The land on which the campus is situated has been gifted and is

therefore not shown at cost or valuation. Other land and buildings are stated at cost. Buildings, including leasehold, are depreciated taking into account age, depreciation to date, and useful life or duration of lease.

Capitalised buildings are depreciated over their useful economic life according to their constituent parts as follows:

Long-term e.g. foundations & structure (30%-40% of cost) 80 years

Medium-term e.g. services (35%-45% of cost) 10 to 40 years

Short-term e.g. internal fittings (20%-25% of cost) 5 to 10 years

These rates have been implemented for all assets with effect from 1 August 2000.

Where buildings are acquired 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 related asset on a basis consistent with the depreciation policy.

Refurbishment improvements costing less than £25,000 per individual item or group of related items is written off to the income and expenditure account in the year of construction. All other refurbishment improvements are capitalised and depreciated over 15 years which is the expected interval between such refurbishments.

A review for impairment of all assets categorised as freehold and leasehold land and buildings, in the year end financial statements, is carried out annually.

Buildings under construction are accounted for at cost, based on the value of architects' certificates and other direct costs incurred to 31st July. They are not depreciated until they are brought into use.

Equipment

Equipment costing less than £25,000 per individual item or group of related items is written off to the income and expenditure account in the year of acquisition. All other equipment is capitalised at cost.

Capitalised equipment is depreciated over its useful economic life as follows.

Telephone equipment	- duration of lease
Other general equipment	- 3 years
Equipment acquired for specific research projects	- life of project (generally 3 years)

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

Software

Costs associated with the implementation of corporate information systems are capitalised and depreciated over the expected useful life of the systems.

Leased Assets

Fixed assets held under finance leases and the related lease obligations are recorded in the balance sheet at the fair value of the leased assets at the inception of the lease. Rental costs under operating leases are charged to expenditure in equal annual amounts over the periods of the leases.

Lease rental payments are charged to income and expenditure account in full as they do not currently reflect capital repayments. The difference between the cost of the lease and rental payments is also charged to revenue reflecting the increased liability which will continue to increase until 2005. Thereafter the rentals will reflect both interest and capital repayment.

Investments

Fixed asset investments that are listed are included in the balance sheet at market value.

Endowment asset investments that are not listed on a recognised stock exchange are carried at historical cost less any provision for impairment in their value. Listed investments that form part of endowment assets are included in the balance sheet at market value.

Current asset investments are included in the balance sheet at the lower of their original cost and net realisable value and comprise bank deposits.

Stocks

Stocks are stated at the lower of cost and net realisable value. Where necessary, provision is made for obsolete, slow-moving and defective stocks.

Fish Farm stocks are computed on a going concern basis using values agreed for insurance purposes, suitably discounted to arrive at a cost equivalent.

Maintenance of Premises

The University's long term maintenance arrangements are based on the Condition Survey, which forms the basis of the ongoing maintenance of the estate. The cost of routine and long term maintenance is charged as incurred to the income and expenditure account.

Taxation

The University is recognised by the Inland Revenue as a charity. Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by Section 505 of the Taxes Act 1988 or Section 256 of the Taxation Chargeable Gains Act 1992 to the extent that such income or gains are applied to exclusively charitable purposes. The University receives no similar exemption in respect of Value Added Tax.

Liquid Resources

Liquid resources include sums on short-term deposits with recognised banks, building societies and government securities. They exclude any assets held as endowment asset investments.

Provision

Provisions are recognised when the Institution has a present legal or constructive obligation as a result of a past event; it is probable that a transfer of economic benefit will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Consolidated Income and Expenditure Account

for the year ended 31st July 2006

	Note	2006 £'000	2005 £'000
INCOME			
Funding Council Grants	1	31,536	30,545
Tuition Fees and Education Contracts	2	20,134	19,662
Research Grants and Contracts	3	9,456	7,629
Other Income	4	21,395	19,862
Endowment and Investment Income	5	1,142	883
Total Income - group and share of joint venture		83,663	78,581
Less: share of joint venture's turnover		(303)	(344)
Total Group Income		83,360	78,237
EXPENDITURE			
Staff Costs	6	49,870	47,849
Other Operating Expenses	7	25,225	23,640
Depreciation	10	4,475	3,884
Interest Payable	8	1,585	1,632
Total Expenditure	9	81,155	77,005
Surplus on continuing operations after Depreciation of fixed Assets and before Tax		2,205	1,232
Share of operating losses in joint venture	18	(213)	(110)
Surplus on continuing operations after Depreciation of Fixed Assets and losses in joint venture but before Tax		1,992	1,122
Taxation		0	0
Surplus on continuing operations after Depreciation of Fixed Assets and after Tax		1,992	1,122
Transfer from accumulated income within specific endowments		25	0
Surplus for the year retained within General Reserves		2,017	1,122

It is considered there will be no corporation tax liability for the year.
The income and expenditure account is in respect of continuing activities

2004-05 figures are stated in accordance with the basis of preparation disclosed in the University's accounting policies.

Consolidated Cash Flow Statement

for the year ended 31st July 2006

	Note	2006 £'000	2005 £'000
Cash flow from Operating Activities	24	8,640	5,228
Returns on Investment and Servicing of Finance	25	(688)	(719)
Taxation		0	0
Capital Expenditure and Financial Investment	26	(4,345)	(2,427)
Management of Liquid Resources	28	800	(374)
Financing	27	(763)	(739)
Increase / (Decrease) in Cash in the year		<u>3,644</u>	<u>969</u>

Reconciliation of Net Cash Flow to Movement in Net Funds/(Debts)

	Note	2006 £'000	2005 £'000
Increase / (Decrease) in Cash in the year		3,644	969
Cash outflow / (inflow) from Liquid Resources	28	(800)	374
Cash inflow from new loan	28	0	0
Cash outflow in respect of loan and lease finance repayments	27	763	739
Change in Net Funds/(Debts) resulting from cash flows		<u>3,607</u>	<u>2,082</u>
Finance Lease non-cash transaction	28	20	(12)
Movement in Net Funds/(Debts) in Period		<u>3,627</u>	<u>2,070</u>
Net Funds/(Debts) at 1st August	28	(4,855)	(6,925)
Net Funds/(Debts) at 31st July	28	<u>(1,228)</u>	<u>(4,855)</u>

Statement of Total Recognised Gains & Losses (STRGL)

for the year ended 31st July 2006

	Note	2006 £'000	2005 £'000
Surplus on continuing operations after Depreciation of Fixed Assets and after Tax		1,992	1,122
Appreciation of Endowment Asset Investments	12	13	15
Endowment Income retained/(disbursed) for year	20	59	32
New endowments	20	28	37
Actual gain/loss in respect of pension scheme	21	(2,644)	433
Total gains and losses recognised in the year		(522)	1,639
Prior Year Adjustment		(8,344)	
Total gains and losses recognised since last financial statement		(8,896)	
Reconciliation			
Opening reserves and endowments as restated		20,520	18,881
Total recognised gains and losses for the year		(552)	1,639
Closing reserves and endowments		19,968	20,520

Notes to the Accounts

Note	2006 £'000	2005 £'000
1. Scottish Funding Council Grants		
Recurrent Grant for Teaching	20,511	20,037
Recurrent Grant for Research	8,336	8,003
Recurrent Grant for Other Purposes	755	728
Recurrent Grant for Special Initiatives	784	894
Deferred Capital Grants Released in Year		
Buildings (note 19)	641	422
Equipment (note 19)	509	461
	<u>31,536</u>	<u>30,545</u>
2. Tuition Fees and Education Contracts		
Full Time UK Domiciled Student charged Home Fees	6,393	6,013
Full Time Non-UK Domiciled Student charged Home Fees	598	741
Full Time Students charged Overseas Fees	4,212	4,106
Part Time Fees	2,014	2,197
Short and Full Cost Course Fees and Education Contracts	6,745	6,481
Research Training Support Grants	172	124
	<u>20,134</u>	<u>19,662</u>
3. Research Grants and Contracts		
Research Councils	2,953	1,688
UK Charities	1,212	1,229
Government Departments	3,773	3,482
UK Industry and Commerce	251	292
European Commission	623	819
Other Overseas	179	119
Other	465	0
	<u>9,456</u>	<u>7,629</u>

Notes to the Accounts - continued

Note	2006 £'000	2005 £'000
4. Other Income		
Consultancy and Short Courses	2,476	2,987
Catering	879	730
Residences	7,959	7,521
Stirling Management Centre	2,926	2,849
MacRobert Arts Centre	1,425	1,404
Aquaculture External Facilities	987	830
Sports Development Services	1,434	1,189
Other Income	2,392	1,418
Released from Deferred Capital Grants		
Buildings (note 19)	549	528
Equipment (note 19)	65	62
University's share of turnover of joint venture	303	344
	<u>21,395</u>	<u>19,862</u>
	2006 £'000	2005 £'000
5. Endowment and Investment Income		
Income from Specific Endowments (note 20)	53	29
Income from General Endowment Asset Investments (note 20)	21	26
Income from Short Term Deposits	196	196
Other Interest Receivable	575	612
Net Return on Pension Assets	297	20
	<u>1,142</u>	<u>883</u>

2004-05 figures are stated in accordance with the basis of preparation disclosed in the University's accounting policies.

Notes to the Accounts - continued

Note	2006 F.T.E.s	2005 F.T.E.s
6. Staff Costs		
Average Staff Numbers by Major Category		
Academic Departments	575	596
Academic Services	135	129
Administration and Central Services	208	200
Premises	161	159
Research Grants and Contracts	167	158
Catering and Residences	146	141
Miscellaneous	125	109
	<u>1,517</u>	<u>1,492</u>
Staff Costs		
	£'000	£'000
Wages and Salaries	41,508	39,867
Social Security Costs	3,278	3,185
Other Pension Costs	5,084	4,797
	<u>49,870</u>	<u>47,849</u>
Academic Departments	25,351	24,688
Academic Services	3,977	3,789
Administration and Central Services	5,168	4,920
Premises	2,703	2,660
Research Grants and Contracts	4,902	4,488
Catering and Residences	3,411	3,158
Miscellaneous	4,358	4,146
	<u>49,870</u>	<u>47,849</u>
Number of staff who received emoluments in the following ranges (including the Principal and Vice-Chancellor)		
	Number	Number
£70,000 - £79,999	5	4
£80,000 - £89,999	1	0
£90,000 - £99,999	0	0
£100,000 - £109,999	1	1
£130,000 - £139,999	0	0
£150,000 - £159,999	0	1
£160,000 - £169,999	1	0
Emoluments of the Principal and Vice-Chancellor		
	£'000	£'000
Salary	163	149
Benefits in kind	2	2
	<u>165</u>	<u>151</u>
Pension Contributions	22	21

Emoluments of the Principal and Vice-Chancellor are shown on the same basis as for other higher paid staff with the addition of non-monetary benefits as agreed with the Inland Revenue in 1997. Pension contributions are in respect of employer's contributions to USS.

2004-05 figures are stated in accordance with the basis of preparation disclosed in the University's accounting policies.

Notes to the Accounts - continued

Note	2006 £'000	2005 £'000
7. Other Operating Expenses		
Academic Departments	5,636	6,016
Academic Services	1,543	2,066
Administration and Central Services	3,192	3,047
Premises	3,995	2,925
Research Grants and Contracts	2,966	2,004
Consultancy and Short Courses	737	726
Catering	383	368
Residences	2,440	2,419
Stirling Management Centre	1,810	1,821
MacRobert Arts Centre	736	723
Aquaculture External Facilities	403	393
Sports Development Services	259	49
Miscellaneous	480	456
Early Retirement & Severance	645	627
	<u>25,225</u>	<u>23,640</u>
Other operating expenses include:		
Auditor's remuneration		
- external audit	45	45
- internal audit	43	37
- other services from either external or internal audit	0	0
	<u>88</u>	<u>82</u>
8. Interest Payable		
Bank loans not wholly repayable within five years	940	985
Finance leases	645	647
	<u>1,585</u>	<u>1,632</u>

Notes to the Accounts - continued

Note

9. Analysis of 2005-2006 Expenditure by Activity

	Staff Costs £'000	Depreciation £'000	Other Operating Expenses £'000	Interest Payable £'000	Total £'000
Academic Departments	25,351	572	5,636	0	31,559
Academic Services	3,977	239	1,543	0	5,759
Administration and Central Services	5,168	480	3,192	0	8,840
Premises	2,703	2,312	3,995	0	9,010
Research Grants and Contracts	4,902	0	2,966	0	7,868
Consultancy and Short Courses	1,205	0	737	0	1,942
Catering	662	0	383	0	1,045
Residences	2,749	703	2,440	1,080	6,972
Stirling Management Centre	288	133	1,810	96	2,327
MacRobert Arts Centre	857	0	736	0	1,593
Aquaculture External Facilities	468	33	403	0	904
Sports Development Services	1,000	3	259	52	1,314
Miscellaneous	535	0	480	357	1,372
Early Retirement & Severance	5	0	645	0	650
Total per Income and Expenditure Account	49,870	4,475	25,225	1,585	81,155

The depreciation charge has been funded by:

Deferred Capital Grants Released	1,764	(note 19)
General Income	2,711	
	<u>4,475</u>	

Notes to the Accounts - continued

Note

10. Tangible Fixed Assets (Group)

	Land, Buildings & Assoc. Equip.		Equipment £'000	Leased Equipment £'000	Assets Under Construction £'000	Total £'000
	Freehold £'000	Leasehold £'000				
At 1st August 2005 Cost	70,639	4,343	4,858	129	3,696	83,665
Additions at Cost	1,546	0	1,376	0	3,445	6,367
Disposals at Cost	(159)	0	(202)	0	(43)	(404)
Transfers	1,756	0	1,482	0	(3,238)	0
Revaluation in Year	0	0	0	0	0	0
At 31st July 2006 Cost	<u>73,782</u>	<u>4,343</u>	<u>7,514</u>	<u>129</u>	<u>3,860</u>	<u>89,628</u>
Depreciation						
At 1st August 2005	18,319	1,161	3,172	129	0	22,781
Charge for Year	2,909	135	1,431	0	0	4,475
Eliminated by Disposals	(103)	0	(202)	0	0	(305)
At 31st July 2006	<u>21,125</u>	<u>1,296</u>	<u>4,401</u>	<u>129</u>	<u>0</u>	<u>26,951</u>
Net Book Value						
At 31st July 2006	<u>52,657</u>	<u>3,047</u>	<u>3,113</u>	<u>0</u>	<u>3,860</u>	<u>62,677</u>
At 1st August 2005	<u>52,320</u>	<u>3,182</u>	<u>1,686</u>	<u>0</u>	<u>3,696</u>	<u>60,884</u>

Notes to the Accounts - continued

Note

10. Tangible Fixed Assets (University Only)

	Land, Buildings & Assoc. Equip.			Leased Equipment £'000	Assets Under Construction £'000	Total £'000
	Freehold £'000	Leasehold £'000	Equipment £'000			
At 1st August 2005 Cost	70,639	4,343	4,858	129	3,696	83,665
Additions at Cost	1,546	0	1,376	0	3,445	6,367
Disposals at Cost	(159)	0	(202)	0	(43)	(404)
Transfers	1,756	0	1,482	0	(3,238)	0
Revaluation in Year	0	0	0	0	0	0
At 31st July 2006 Cost	<u>73,782</u>	<u>4,343</u>	<u>7,514</u>	<u>129</u>	<u>3,860</u>	<u>89,628</u>
Depreciation						
At 1st August 2005	18,319	1,161	3,172	129	0	22,781
Charge for Year	2,909	135	1,431	0	0	4,475
Eliminated by Disposals	(103)	0	(202)	0	0	(305)
At 31st July 2006	<u>21,125</u>	<u>1,296</u>	<u>4,401</u>	<u>129</u>	<u>0</u>	<u>26,951</u>
Net Book Value						
At 31st July 2006	<u>52,657</u>	<u>3,047</u>	<u>3,113</u>	<u>0</u>	<u>3,860</u>	<u>62,677</u>
At 1st August 2005	<u>52,320</u>	<u>3,182</u>	<u>1,686</u>	<u>0</u>	<u>3,696</u>	<u>60,884</u>

Buildings with a net book value of £4,294,000 and cost £8,767,000 have been funded from Treasury Sources. In the event of these particular buildings being sold, the University would either have to surrender proceeds to the Treasury or use them in accordance with the Financial Memorandum with the Scottish Funding Council.

Notes to the Accounts - continued

Note	2006 £'000	2005 £'000
11. Investments		
Listed Investments		
Balance as at 1st August	232	183
Additions	58	94
Disposals	(53)	(88)
Appreciation on Disposals/Revaluation of Investments	29	43
	<u>266</u>	<u>232</u>
Balance as at 31st July	<u>266</u>	<u>232</u>
Fixed interest stocks and equities at Historical Cost	<u>389</u>	<u>389</u>
12. Endowment Assets		
Balance as at 1st August	1,387	1,303
Additions	77	101
Disposals	(15)	(32)
Appreciation on Disposals/Revaluation of investments (note 20)	13	15
	<u>1,462</u>	<u>1,387</u>
Balance as at 31st July	<u>1,462</u>	<u>1,387</u>
Represented by:		
Fixed interest stocks (listed)	15	15
Equities (listed)	113	103
Equities (unlisted)	0	0
Land and property	25	22
Cash balances (note 28)	1,309	1,247
	<u>1,462</u>	<u>1,387</u>
Total	<u>1,462</u>	<u>1,387</u>
Fixed interest stocks and equities at Historical Cost	<u>118</u>	<u>118</u>

Notes to the Accounts - continued

	Group		University	
	2006	2005	2006	Restated 2005
	£'000	£'000	£'000	£'000

Note**13. Debtors**

Amount falling due within one year:

Debtors	6,940	7,393	7,021	7,519
Prepayments and accrued income	1,322	1,121	1,322	1,121

Debtors falling due after more than one year

	488	528	488	528
	8,750	9,042	8,831	9,168

14. Creditors: Amounts falling due within one year

Bank Loans	822	783	822	783
Obligations under finance leases	700	666	700	666
Creditors	7,184	5,553	7,088	5,516
Accruals and deferred income	6,536	5,713	6,536	5,713
Social security and other taxation payable	1,202	1,253	1,202	1,253

	16,444	13,968	16,348	13,931
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15. Creditors: Amounts falling due after more than one year

Bank loans	12,152	12,954	12,152	12,954
Obligations under finance leases	4,742	4,796	4,742	4,796

	16,894	17,750	16,894	17,750
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Loans and obligations in notes 14 and 15 are secured.

Notes to the Accounts - continued

Note

16. Borrowings**a. Bank loans and overdrafts**

Bank loans and overdrafts are repayable as follows:

	Group		University	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
In one year or less	815	783	815	783
Between one and two years	829	802	829	802
Between two and five years	2,355	2,511	2,355	2,511
In five years or more	8,975	9,641	8,975	9,641
Total	12,974	13,737	12,974	13,737

Bank loans bearing interest based on LIBOR are repayable by instalments falling due between 1 August 2005 and 31 July 2019.

b. Finance Leases

The net finance leases obligations to which the institution is committed are:

	Group		University	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
In one year or less	700	666	700	666
Between one and five years	3,163	3,012	3,163	3,012
Over five years	6,953	7,803	6,953	7,803
	10,816	11,481	10,816	11,481
Less: Charges allocated to future rental periods	(5,374)	(6,019)	(5,374)	(6,019)
Total	5,442	5,462	5,442	5,462

17. Provisions for Liabilities and Charges

	Group and University			Total £'000
	Restructuring £'000	EC Projects £'000	Other £'000	
At 1st August 2005	204	316	354	874
Expenditure in the year	(204)	(21)	(30)	(255)
Transferred from I & E account	391	0	0	391
At 31st July 2006	391	295	324	1,010

The provision for EC projects relates to re-imburement due on European Commission funded projects following audits undertaken at the request of the European Commission. The Restructuring provision relates to the Voluntary Severance scheme agreed in year. Other provision relates to MHO pensions.

Notes to the Accounts - continued

Note

18. Joint Ventures

Machrihanish Marine Farm Ltd is a joint venture between the University and Lakeland Smolt Ltd. A 49% share of the company's gross assets and liabilities are included in the University's consolidated balance sheet and 49% of its net income is reported in the University's consolidated income & expenditure account. The company's principal activity is the commercial rearing of cod.

The University's share of the company turnover, assets and liabilities is as follows:

	2006	2005
	£'000	£'000
Turnover	<u>303</u>	<u>334</u>
Interest Payable	<u>13</u>	<u>9</u>
Share of gross assets	666	805
Share of gross liabilities	(1,057)	(970)
	<u>(391)</u>	<u>(165)</u>

The original investment in the joint venture (£245k) has been written off in a previous income and expenditure statement. The overall position of the joint venture shows negative liabilities and hence the University's share of the gross assets and liabilities above is included in the figure for provisions for liabilities and charges.

Notes to the Accounts - continued

Note

19. Deferred Capital Grants

	Group and University		
	Funding Council £'000	Other Grants and Gifts £'000	Total £'000
At 1st August 2005			
Buildings	10,473	12,204	22,677
Equipment	769	62	831
Total	11,242	12,266	23,508
Cash received			
Buildings	1,110	527	1,637
Equipment	345	17	362
Total	1,455	544	1,999
Released to income and expenditure account			
Buildings (notes 1 and 4)	(641)	(549)	(1,190)
Equipment (notes 1 and 4)	(509)	(65)	(574)
Total (note 9)	(1,150)	(614)	(1,764)
At 31st July 2006			
Buildings	10,942	12,182	23,124
Equipment	605	14	619
Total	11,547	12,196	23,743

20. Endowments

	Group and University		
	Specific £'000	General £'000	Total £'000
At 1st August 2005	675	712	1,387
Additions	28	0	28
Appreciation of endowment asset investments	13	0	13
Income for year	53	80	133
Transferred to income and expenditure account	(78)	(21)	(99)
At 31st July 2006	691	771	1,462
Representing			
Scholarship funds	136	0	136
Prize funds	136	0	136
Chairs and lectureships funds	237	0	237
Other funds	182	771	953
Total	691	771	1,462

Notes to the Accounts - continued

Note	Group		University	
	2006 £'000	2005 £'000	2006 £'000	Restated 2005 £'000
21. General Reserve				
Income and Expenditure Account				
Balance as at 1st August as previously stated	27,477	26,119	27,629	26,119
Prior Year Adjustment	(8,344)	(8,541)	(8,344)	(8,507)
	19,133	17,578	19,285	17,612
Historical Cost Surplus after				
Depreciation of Assets and Tax	2,017	1,122	2,243	1,240
Actuarial gain/(loss) on pension scheme liability	(2,644)	433	(2,644)	433
At 31st July 2006	18,506	19,133	18,884	19,285
Represented by:				
Income and Expenditure Account				
Balance as at 1st August as previously stated	27,477	26,085	27,629	26,119
Historical Cost Surplus after				
Depreciation of Assets and Tax	2,017	1,122	2,243	1,240
Transfer from Pension Reserve	95	270	95	270
	29,589	27,477	29,967	27,629
Pension Reserve				
Deficit in schemes at beginning of year	(8,344)	(8,507)	(8,344)	(8,507)
Movement in Year:				
Current Service Cost	(1,700)	(1,409)	(1,700)	(1,409)
Contributions	1,308	1,119	1,308	1,119
Other finance income	297	20	297	20
Actuarial Gain/(Loss)	(2,644)	433	(2,644)	433
Deficit in Scheme at end of year	(11,083)	(8,344)	(11,083)	(8,344)
Reconciliation				
Income and Expenditure Account	29,589	27,477	29,967	27,629
Pension Reserve	(11,083)	(8,344)	(11,083)	(8,344)
	18,506	19,133	18,884	19,285

Notes to the Accounts - continued

22. Prior Year Adjustment

The prior year adjustment relates to the implementation of FRS17.

FRS17 requires the assets of defined pension schemes, such as the University of Stirling Pension Schemes, 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 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 adjustments made to individual balances from the reported 2004-05 accounts are:

	Note	Reported in 2004-05 £'000	Adjustment £'000	Restated £'000
Staff Costs	6	47,559	290	47,849
Interest Receivable	5	-	20	20
Pension Liability	21	-	(8,344)	(8,344)
Pension Reserve:	21	-	(8,344)	(8,344)
I&E reserve at 1 August 2004	21	26,119	(8,507)	17,612
I&E reserve at 1 August 2005	21	27,477	(8,344)	19,133

23. Security Offset Arrangements

The University has committed £3,074,000 of its working capital as part security for the loan facility with Yorkshire Bank plc in respect of certain residences.

The University has entered into an offset arrangement with Yorkshire Bank plc where up to the lower of a) 30% of the outstanding balance on the loan referred to above and b) the difference between the amount of loan and the depreciated replacement cost of the properties given as security will be deposited as part security for the loans advanced.

Notes to the Accounts - continued

Note	2006 £'000	2005 £'000
24. Reconciliation of Operating Surplus to Net Cash Inflow from Operating Activities		
Surplus on continuing operations after depreciation of assets and before tax	1,992	1,122
Pension Costs less contributions payable (note 29)	392	290
Depreciation (note 10)	4,475	3,884
Revaluation of Investments (note 11)	(29)	(43)
Deferred Capital Grants Released to Income (note 19)	(1,764)	(1,473)
Profit on disposal of tangible fixed assets	0	0
Loss/(Profit) on disposal of investments	0	0
Share of operating losses in joint venture	213	110
Consolidation of subsidiary	0	177
Investment income and net endowment receivable	(1,042)	(883)
Interest payable (note 8)	1,585	1,632
(Increase) in stocks	(12)	(23)
(Increase) in debtors/prepayments	292	(1,080)
Increase in creditors/accruals	2,403	1,177
Increase/(Decrease) in provisions	136	335
Roundings	(1)	3
Net cash inflow from operating activities	8,640	5,228
25. Returns on Investment and Servicing of Finance		
Income from endowments (note 20)	133	87
Income from short term investments (note 5)	196	196
Other interest received (note 5)	575	610
Interest paid	(1,592)	(1,612)
Net cash outflow from returns on investments and servicing of finance	(688)	(719)
26. Capital Expenditure and Financial Investment		
Purchase of tangible fixed assets (other than leased equipment)	(6,367)	(5,237)
Purchase of investments (note 11)	(58)	(94)
Sale of investments (note 11)	53	88
Payments to acquire endowment assets	(20)	(48)
Sale of Tangible Fixed Assets	0	0
Receipt from sale of endowment assets	20	47
Deferred capital grants received (note 19)	1,999	2,780
Endowments received (note 20)	28	37
Net cash outflow in respect of capital expenditure and financial investment	(4,345)	(2,427)

Notes to the Accounts - continued

Note

27. Analysis of Changes in Financing during the Year

	Total £'000	Finance Leases £'000	Loans £'000
Balances at 1st August 2004	19,926	5,450	14,476
New leases/loans	0	0	0
Capital Repayments	(739)	0	(739)
Net Amount Repaid in Year	<u>(739)</u>	<u>0</u>	<u>(739)</u>
Non-cash transaction	12	12	0
Balances at 31st July 2005	19,199	5,462	13,737
New leases/loans	0	0	0
Capital Repayments	(763)	0	(763)
Net Amount Acquired/(Repaid) in Year	<u>(763)</u>	<u>0</u>	<u>(763)</u>
Non-cash transaction	(20)	(20)	0
Balances at 31st July 2006	<u>18,416</u>	<u>5,442</u>	<u>12,974</u>

28. Analysis of Changes in Net Funds	At 1st August 2005 £'000	Cash Flows £'000	Non-cash Changes £'000	At 31st July 2006 £'000
Cash in hand, and at bank	9,223	3,582	0	12,805
Endowment asset investments (note 12)	<u>1,247</u>	<u>62</u>	<u>0</u>	<u>1,309</u>
	10,470	3,644	0	14,114
Short term deposits	3,874	(800)	0	3,074
Debt due within one year	(790)	763	(815)	(842)
Debt due after one year	(12,947)	0	815	(12,132)
Finance leases	(5,462)	0	20	(5,442)
Total	<u>(4,855)</u>	<u>3,607</u>	<u>20</u>	<u>(1,228)</u>

Major non-cash transactions

The terms of the financial lease are such that the interest implicit in the lease is less than the payments actually made. There is therefore an element of capital repayment made and this is reflected in the non-cash changes.

Notes to the Accounts - continued

Note

29. Pension Schemes*Composition of Schemes*

The University participates in three defined benefit contracted out pension schemes, the Universities Superannuation Scheme (USS), the University of Stirling Pension Scheme (USPS) and the University of Stirling Pension Scheme for Contract Staff (USPSCS). USS provides benefits based on final pensionable salary for academic and related employees of all UK Universities.

USPS and USPSCS provide similar benefits for other staff of the University. An actuarial valuation of USPSCS was carried out as at 1st September 2005 by a qualified independent actuary. A full actuarial valuation of USPS was carried out at 1 August 2003 and updated to 31 July 2006 by a qualified independent actuary. The major assumptions used by the actuary, for the USPS and USPSCS schemes were:

	At 31/07/06	At 31/07/05	At 31/07/04
Rate of increase in salaries	4.1%	3.8%	4.0%
Rate of increase in pensions in payment	2.9%	2.5%	2.8%
Rate of increase of deferred pensions	3.1%	2.8%	3.0%
Discount rate	5.1%	5.0%	5.8%
Inflation assumption	3.1%	2.8%	3.0%

The assets in the USPS and USPSCS schemes and the expected rates of return were:

	Long-term rate of return expected at 31/07/06	Long-term rate of return expected at 31/07/05	Long-term rate of return expected at 31/07/04
Equities	8.0%	8.0%	8.5%
Bonds	4.5%	4.5%	5.3%
Other	4.5%	4.5%	5.3%
	Value at 31/07/06 £m	Value at 31/07/05 £m	Value at 31/07/04 £m
Equities	28.5	24.6	19.4
Bonds	3.0	2.2	2.4
Other	2.3	2.5	1.5
Total market value of assets	<u>33.8</u>	<u>29.3</u>	<u>23.3</u>
Present value of scheme liabilities	<u>(44.8)</u>	<u>(37.6)</u>	<u>(31.8)</u>
Deficit in schemes	<u>(11.0)</u>	<u>(8.3)</u>	<u>(8.5)</u>

Notes to the Accounts - continued

	31/07/06	31/07/05
	£'000	£'000
Movement in Deficit Through the Year		
Deficit in Scheme at beginning of year	(8,344)	(8,507)
Current Service Cost	(1,700)	(1,409)
Contributions	1,308	1,119
Other finance income	297	20
Actuarial Gain/(Loss)	(2,644)	433
Deficit in Scheme at end of year	<u>(11,083)</u>	<u>(8,344)</u>
	31/07/06	31/07/05
	£m	£m
Net assets excluding pension liability	55.2	52.5
Pension liability	<u>(11.0)</u>	<u>(8.3)</u>
Net assets including pension liability	<u>44.2</u>	<u>44.2</u>
General reserve excluding pension liability (note 21)	30.0	27.6
Pension reserve deficit	<u>(11.0)</u>	<u>(8.3)</u>
General reserve	<u>19.0</u>	<u>19.3</u>
	31/07/06	31/07/05
	£'000	£'000
Analysis of Amount Charged to Operating Profit		
Current service cost	<u>1,700</u>	<u>1,409</u>
Total operating charge	<u>1,700</u>	<u>1,409</u>
Analysis of amounts credited to Other Investment Income		
Expected return on pension scheme assets	2,208	1,867
Interest cost	<u>(1,911)</u>	<u>(1,847)</u>
Net return	<u>297</u>	<u>20</u>
Analysis of amounts recognised in STRGL		
Actual return less expected return on pension scheme assets	1,524	3,837
Experience gains and losses arising on the scheme liabilities	(64)	0
Changes in financial assumptions underlying the scheme liabilities	<u>(4,104)</u>	<u>(3,404)</u>
Actuarial Gain/(Loss) recognised in STRGL	<u>(2,644)</u>	<u>433</u>

Notes to the Accounts - continued

History of Experience Gains and Losses

	31/07/06	31/07/05	31/07/04	31/07/03
Difference between the expected and actual return on scheme assets:				
Amount (£'000)	1,524	3,837	185	(561)
Percentage of scheme assets	4.5%	13.1%	0.8%	-2.7%
Experience gain/(loss) arising on the scheme liabilities:				
Amount (£'000)	(64)	0	299	(285)
Percentage of scheme assets	0.1%	0.0%	0.9%	-1.0%
Total amount of actuarial gain/(loss)				
Amount (£'000)	(2,644)	433	531	(2,873)
Percentage of scheme assets	5.9%	1.1%	1.7%	-9.6%

Universities Superannuation Scheme (USS)

The institution participates in the Universities Superannuation Scheme, a defined benefit scheme which is externally funded and contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate trustee-administered fund. The institution is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 "Retirement benefits", accounts for the scheme as if it were a defined contribution scheme. As a result the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

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

At the actuarial valuation date, the market value of the assets of the scheme was £21.740 million and the value of the past service liabilities was £28.308 million indicating a deficit of £6.568 million. The assets therefore were sufficient to cover 77% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The actuary also valued the scheme on a number of other bases as at the valuation date. Using the Minimum Funding Requirement prescribed assumptions introduced by the Pensions Act 1995, the scheme was 126% funded at that date; under the Pension Protection Fund regulations introduced by the Pensions Act 2004 it was 110% funded; on a buy-out basis (ie assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 74% of the amount necessary to secure all the USS benefits with an insurance company; and using the FRS17 formula as if USS was a single employer scheme, the actuary estimated that the funding level would have been approximately 90%.

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

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

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

Notes to the Accounts - continued

The total pension cost for the University was £5,084k (2005: £4,797k). This includes £430k (2005: £402k) outstanding contributions at the balance sheet date. The contribution rate payable by the institution was 14% of pensionable salaries.

	31/07/06	31/07/05
	£'000	£'000
The total pension costs for the University were:		
Contribution to USS	3,848	3,764
Contribution to USPS Schemes	1,236	1,033
Total Pension Costs (note 6)	<u>5,084</u>	<u>4,797</u>

The University has considered it prudent to make provision in its 2006/07 budget for additional contributions to both USPS and USPSCS. Following acceptance of the 2005 actuarial valuation for USPSCS agreement has been reached with the trustees on the rate of contribution with a target recovery period of 8 years. The USPS 2006 actuarial valuation is awaited and therefore no decision has yet been reached.

Notes to the Accounts - continued

Note

30. Capital Commitments

	Group and University	
	2006 £'000	2005 £'000
Commitments contracted at 31st July	1,196	0
Authorised but not contracted at 31st July	0	0
	<u>1,196</u>	<u>0</u>

31. Financial Commitments

	Group and University	
	2006 £'000	2005 £'000
Operating lease commitments for the 2006 financial year, on leases expiring:		
Within one year	0	0
Between one and five years	0	0
Over five years		
Union Street residential property lease	490	478
Lyon Crescent residential property lease	348	332
Campus district heating	269	279
	<u>1,107</u>	<u>1,089</u>

32. Access Funds

	2006 £'000	2005 £'000
Balance at 1st August	12	41
Funding Council Grants	434	366
Interest Earned	5	6
	<u>451</u>	<u>413</u>
Disbursed to students	(438)	(401)
Balance Unspent as at 31st July	<u>13</u>	<u>12</u>

The grants and related disbursements are available solely to students, with the University acting as paying agent. These funds are therefore excluded from the Income and Expenditure Account. The University accounts to the Scottish Executive on the use of these funds to 31st March.

33. Contingent Liability

The University is a member of UMA(SR) Limited, a company 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 pro rata share (University of Stirling 0.2%), spread using a member's loan facility over seven years. No liability has yet risen under this guarantee.

The University has guaranteed 49% of a £100k bank overdraft facility arranged with Nordia Bank ASA and a £175k bank overdraft facility arranged with HBOS in relation to Machrihanish Marine Farms Limited.

Notes to the Accounts - continued

Note**34. Related Party Transactions**

The Chairman of the Court, Dr. Doris Littlejohn, is the Vice Chair of Forth Valley NHS Board and non-executive Director of Law at Work (Holdings) Ltd. Mr Graeme M Simmers is a member of Forth Valley NHS Board. Provost Colin M O'Brien is the Director of Scottish Enterprise Forth Valley and a Director of Stirling Enterprise Park. Mr Alastair J F Wilson is the President and Mr Christopher J Wooff is Vice President (Services) as well as Treasurer of Stirling University Student Association. Mrs Mary Sweeney is National Co-ordinator of Learning & Teaching Scotland. The aggregate amounts of transactions between the University and related parties in the year and amounts outstanding at the year-end are:

	Income £'000	Expenditure £'000	Creditor £'000	Debtor £'000
Stirling University Innovation Park Ltd.				
Accounting services, Security, Maintenance	40		2	0
Salary funding and Recharges		26	0	
Stirling University Student Association				
Insurance, Rent Payable	402			16
Scottish Enterprise Forth Valley				
Rent Payable, Facilities	33		6	
Forth Valley NHS Board				
Reserach Grant, Media Services	3			0
Teaching costs and fees		157	23	
Law at Work (Holdings) Ltd.				
HR Services		9	0	
Learning & Teaching Scotland				
Course fees, Facilities	301		36	
	<u>779</u>	<u>192</u>	<u>67</u>	<u>16</u>

35. University Companies

The University owns 100% of the issued share capital of ordinary shares of SURE Limited. The principal activity of the company is to develop and promote research innovation and commercialisation on behalf of the University.

The University owns 49% of the issued share capital of ordinary shares of Machrihanish Marine Farms Limited, a company registered in Scotland and operating in the UK. The principal activity of the company is the farming of cod.

The University owns 50% of the issued share capital of Stirling University Innovation Park Limited. The principal activity of the company is the development, promotion and management of Stirling University Innovation Park. In view of the lack of controlling interest, the company's results have not been consolidated into the University's Financial Statements.

Surplus/(Deficit) for the year

As permitted by section 230 of the Companies Act 1985, the income and expenditure account of the University (the holding company) has not been shown separately in these financial statements. The University's historical cost surplus for the year was £1,976k (2004/05: Restated £1,122k).

36. Works of Art

The University displays a number of valuable works of art, not included in the Balance Sheet. The approximate value of the collection for insurance purposes is £2.4m.

Composition of Committees concerned directly with Finance

in the year ended 31st July 2006

Membership of Audit Committee

Mr G M Simmers (Chair) *

Mrs K M A Dalyell *

Mr R G Burnett *

Mr S W Foster *

Membership of Finance & Estates Policy Committee

Mr A G Simpson (Chair) *

Mr P Grice *

Mr G D C Burns *

Professor C M Hallett

Dr D Littlejohn *

Professor S E Marshall

Professor W M McInnes

Professor R H Richards

Mr C Wooff

Membership of Policy, Planning & Resources Committee

Professor C M Hallett (Chair)

Professor R Ball

Mr K J Clarke

Professor J Field

Professor N H Keeble

Dr D Littlejohn *

Professor S E Marshall

Mrs A S McAlindin *

Dr R McKean

Mr A G Simpson *

Professor C Sommerville

Professor D W G Timms

Mr A Wilson

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Macrobert Arts Centre

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Research & Knowledge Transfer

+44 (0) 1786 467041

Sports Development Service

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Stirling Management Centre

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