

Cranfield University

Financial Statements

31st July, 2009



CRANFIELD UNIVERSITY

FINANCIAL STATEMENTS

for the year ended 31st July, 2009

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CRANFIELD UNIVERSITY

OPERATING AND FINANCIAL REVIEW AND TREASURER'S REPORT

FOR THE YEAR ENDED 31ST JULY, 2009

The activities of the University include teaching, research, design and development work in the fields of engineering, applied science, manufacturing and management. Operations are primarily carried out on campuses at Cranfield in Bedfordshire and Shrivenham in Oxfordshire. The University is an exempt charity subject to the Charities Acts 1992 and 1993.

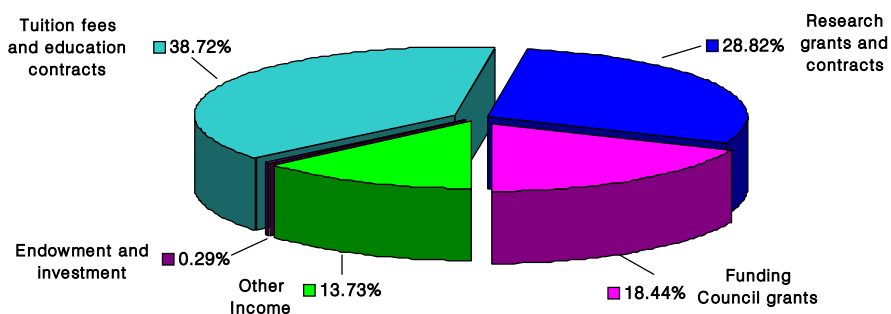
The financial statements presented to Court comprise the consolidated results of the University and its subsidiaries. Subsidiary companies undertake activities which, for legal and commercial reasons, are more appropriately channelled through a limited company and include the development of activities emanating from Cranfield University.

Results for the year and position at year end

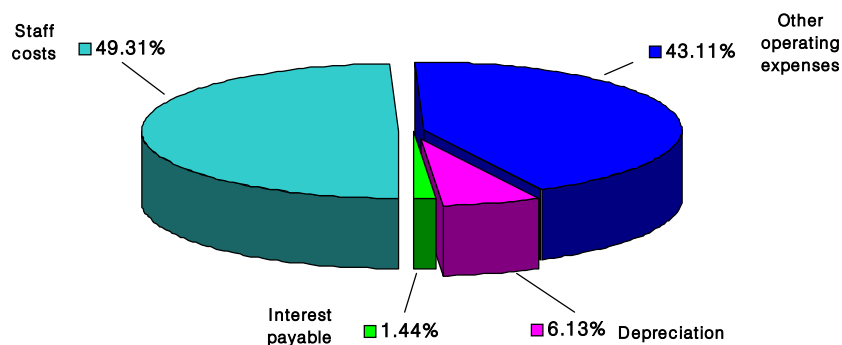
The consolidated results for the year ended 31st July, 2009 are summarised below :-

	2009	2008
	£'000	£'000
Income	157,538	152,873
Expenditure	(157,502)	(151,354)
Surplus for year retained in general reserves	36	1,519

INCOME 2009



EXPENDITURE 2009



CRANFIELD UNIVERSITY
OPERATING AND FINANCIAL REVIEW AND TREASURER'S REPORT
FOR THE YEAR ENDED 31ST JULY, 2009
(continued...)

Results for the year and position at year end *(continued...)*

Income was 3.1% higher compared to the previous year. Funding council income, tuition fees and research all grew strongly. The surplus for the year retained in general reserves was £36,000 (2008 - £1,519,000). This was a satisfactory financial performance considering the very difficult economic climate faced in the year.

Capital expenditure in the year amounted to £12,756,000 (2008 - £24,846,000). This includes the development of the Chilver Hall Student Accommodation and the start of the second phase of the Silsoe relocation.

The statement of consolidated cash flow shows an increase in cash of £11,213,000. Net cash inflows from operating activities was £10,584,000 as shown in Note 25.

There was a loss on exchange of £592,000 in the year primarily relating to the University's floating rate Euro loans. This is purely an accounting charge rather than a real cash outflow, as the University has a natural hedge based on its strong Euro income streams.

Consolidated reserves and endowments decreased by £18,526,000 (2008 – decreased £12,076,000) as explained in the statement of total recognised gains and losses on page 18. Of this, £17,525,000 relates to an actuarial loss on the Local Government Pension Scheme as explained in note 29.

Principal risks and uncertainties

The University receives a significantly smaller proportion of its income from HEFCE, at 18% for the 2008/2009 year, than the majority of the sector. This reflects the distinctive mission of Cranfield as a wholly postgraduate University. The nature of the income streams place the University at risk to downturns in the general economy at an earlier stage than the majority of the sector and this is reflected in this year's financial performance.

As with other Higher Education Institutions, Cranfield is vulnerable to decisions made by HEFCE, Research Councils and other Government bodies. In particular, Cranfield relies very heavily on the 'institutional exceptional funding' it receives from HEFCE. This was the subject of a review in the year, leading to some reduction with the majority of the funding subject to a further review in 2011. More generally, greater pressure on public funding increases the risk of a real-terms reduction in the unit of student funding. This will impact Cranfield less than the majority of the sector due to our relatively small long course student numbers.

The University is also at risk from cost inflation, especially that related to employment costs. Pension costs continue to rise and a tight control of salary costs is vital to the future sustainability of the University. As part of this process, a voluntary release scheme was implemented shortly after the year end.

To achieve the growth aspirations of the University, major investment in the infrastructure of the Cranfield campus has been approved by Council over the next few years and it is a high priority for the University that this investment is achieved.

CRANFIELD UNIVERSITY
OPERATING AND FINANCIAL REVIEW AND TREASURER'S REPORT
FOR THE YEAR ENDED 31ST JULY, 2009
(continued...)

Key Performance Indicators (KPI's):-

The University benchmarks its performance against the rest of the sector, where comparable information is available:-

	Cranfield Actual 2009	Mean Average HEFCE funded HEI* Forecast 2009
Income growth	3.1%	5.6%
Surplus for year as a % of total income	0.02%	0.68%
Staff costs as a % of total income	49.7%	57.4%
Cash flow from operating activities as a % of total income	6.7%	2.9%
Net liquidity as number of days expenditure	61	71
External borrowings as a % of total income	15.3%	22.9%
Discretionary reserves (excluding FRS17) as a % of total income	31.2%	44.2%

*Source: HEFCE 'Single conversation' annual accountability returns, July 2009.

The table above reflects the position that despite a difficult year the University remains in sound financial health. Of particular note, is that the University's financial policy of restricting borrowing only to finance capital projects with a strong direct income stream to make the repayments, positions Cranfield with lower relative borrowings than the majority of the sector.

Cranfield's proportion of income from HEFCE, at 18%, is one of the lowest in the sector. Conversely its proportion of research from industry remains very high.

The outcome of the Research Assessment Exercise was pleasing and resulted in an increase of funding of £3.5 million per annum to the University. In terms of overall operations, Cranfield does not appear in all league tables produced on behalf of the sector, due to having exclusively postgraduate students. However, in those league tables where the University does appear, the performance compares very favourably.

Outlook for 2009/2010

The 2009/2010 financial year will continue to be difficult whilst both the UK and global economy remains as it is. However, continued tight control of expenditure and some positive developments as regards income, particularly long course students, gives a current expectation that the small budget surplus approved by Council in July 2009 will be achieved.

Pensions

Under Financial Reporting Standard 17 (FRS 17), where the University's share of the underlying assets and liabilities of defined benefit schemes can be identified, a net pension asset or liability is required to be included in the accounts.

CRANFIELD UNIVERSITY
OPERATING AND FINANCIAL REVIEW AND TREASURER'S REPORT
FOR THE YEAR ENDED 31ST JULY, 2009
(continued...)

Pensions *(continued...)*

As it is not possible to identify each participating institution's share of the underlying assets and liabilities of the Universities Superannuation Scheme, it is accounted for as if it is a defined contribution scheme with contributions charged as they become payable. At the last valuation as at 31st March, 2008, the assets were sufficient to cover 71% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The share of underlying assets and liabilities of the Local Government Pension Scheme (LGPS) is able to be identified as at 31st July, 2009 and there is a net pension liability of £43,619,000 (2008 - £25,398,000) applicable to the University. Details are provided in Note 29.

Trading activities of subsidiaries

The subsidiary trading companies are financially independent from the University and are administered through a holding company. In addition to these companies, there are other subsidiaries undertaking core and related activities for the University.

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.

Employee involvement

The University places considerable value on the involvement of its employees and on good communication with them. A regular official newsletter is made available to all staff and separate supplements are published when the need arises. Staff are encouraged to participate in formal and informal consultation at University and School levels, sometimes through the membership of formal committees. In addition, information for staff is included on an intranet site.

Environmental issues

The University is committed to sustainable development by integrating environmental issues into all aspects of its work and management processes. Environmental responsibilities are met through the management of the University's campuses and premises, through its dealings with client groups and trading partners, through the design and delivery of its academic, research and professional services and through its interaction with the local community.

Health and Safety

All matters relating to health and safety are addressed as a high priority. Regular health and safety audits and risk assessments are undertaken with remedial action following hazard identification.

Payment of creditors

It is the University's policy to obtain the optimum terms for all business and, thus, there is no single policy as to the terms used. In agreements negotiated with suppliers, the University endeavours to include and abide by specific payment terms in accordance with best commercial practice.

CRANFIELD UNIVERSITY
OPERATING AND FINANCIAL REVIEW AND TREASURER'S REPORT
FOR THE YEAR ENDED 31ST JULY, 2009
(continued...)

Corporate governance

The University is committed to following best practice in all aspects of corporate governance. This year's statement appears on pages 7 to 9 which reports full compliance with the Combined Code on Corporate Governance provisions relating to risk management.

Conclusion

Overall the University has achieved a satisfactory financial result for the year and given its sound financial position, it is well placed to face the challenges and opportunities that may present themselves in the future.

This result has been achieved again through the innovation, quality and dedication of staff, through a period of significant change in the University.

R I Howard, ACA
TREASURER

28th October, 2009

CRANFIELD UNIVERSITY

CORPORATE GOVERNANCE

The following statement is given to enable readers of the financial statements to obtain a better understanding of the legal structure of the University and the governance procedures applied by the University's Council.

The Charter and Statutes require the University to have a number of separate constitutional bodies. Three of these bodies, Court, Council and Senate have the primary responsibility to oversee and manage the University's activities, as follows:-

- **The Court** - is the supreme constitutional body of the University (somewhat akin to the shareholders of a large public company). It offers a means whereby the wider interests served by the University can be associated with the institution and provides a public forum where members of the Court can raise any matters about the University. The Court meets at least once in each academic year to receive the annual report and the financial statements of the University. In addition, major changes to the constitution of the University require the approval of the Court before they can be submitted to the Privy Council.

A majority of the members of the Court are from outside the University, representing designated bodies with an interest in the work of the University, including the local community, but the membership also includes representatives of the staff of the University (both academic and non-academic) and the student body.

- **The Council** - is the executive governing body and has responsibility for the ongoing strategic direction of the institution, approval of major developments and the receipt of regular reports from executive officers on the day to day operations of its business. The University has reviewed the effectiveness of Council in accordance with the Committee of University Chairmen's Governance Code of Practice and concluded that no significant structural or process changes were necessary as a result of this review.
- **The Senate** - is the academic authority of the University and draws its membership entirely from the academic staff and the students of the institution. Its role is to direct and regulate the teaching and research work of the University.

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

The University endeavours to conduct its business in accordance with the relevant parts of the Combined Code on Corporate Governance issued by the London Stock Exchange in 2003. Whilst the University, being an independent corporation incorporated by Royal Charter and having exempt charitable status, does not fall within the scope of the Combined Code, the Council is satisfied that the University has complied throughout the period with those provisions which can be applied to Universities.

The matters specially reserved to the Council for decision are defined by the Statutes of the University, the University's Financial Manual, the Financial Memorandum with the Higher Education Funding Council for England and by custom.

The Council has a majority of members from outside the University, (described as independent members), from whom its Chairman and its Deputy Chairman must be drawn. Also included in its members are representatives of the staff of the University and the student body. The composition of the Council and the procedures for appointment of members, their tenure and removal from office, are determined by the Statutes of the University.

CRANFIELD UNIVERSITY
CORPORATE GOVERNANCE
(continued ...)

The Council meets at least four times a year and has four standing Committees, Finance, Nominations, Remuneration and Audit. Each of these Committees is formally constituted with terms of reference and comprises mainly independent members of the Council.

- **The Finance Committee** - meets at least five times a year and, inter alia, recommends to the Council the University's annual revenue and capital budgets and monitors performance quarterly in relation to the approved budgets. The Committee also reviews the University's annual financial statements for reporting to the Council.
- **The Nominations Committee** - considers nominations for vacancies in the independent membership of Council under the relevant Statute and makes recommendations to the Council for such appointments.
- **The Remuneration Committee** - determines the annual remuneration of those senior staff, including the Vice-Chancellor, whose remuneration is reported in the annual financial statements.
- **The Audit Committee** - meets on at least three occasions annually to review the work of the internal and external auditors. The Committee considers detailed audit reports, together with recommendations for the improvement of the University's systems of internal control, as well as management's responses and implementation plans.

Most independent members of the Council do not receive any payment, apart from the reimbursement of expenses, for the work they undertake for the University. However, certain members are remunerated for specific responsibilities other than those of the Council membership.

The report of the Treasurer is given on pages 2 to 4 and the responsibilities of the Council are outlined on page 8. The annual financial statements are presented in a format which is in accordance with applicable Accounting Standards and the 2007 Statement of Recommended Practice - Accounting for Further and Higher Education.

The Council is also responsible for the University's internal control system and for monitoring its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve the University's overall objective and mission, as well as its annual strategic aims. It can only provide reasonable, but not absolute, assurance against any material misstatement or loss. The key features of the control system are:-

- **Risk management** – whilst it is neither possible nor desirable to eliminate risk from the University's activities, there is an ongoing process for the recognition, assessment and management of all significant opportunities and risks. This process has been in place for the year and up to the date of approval of the annual financial statements. The process is reviewed regularly by the Finance Committee on behalf of the Council and it accords with the Combined Code provisions relating to risk management. The Finance Committee reports annually to the Council on its review. Exposure and control analyses, including mitigating factors and counter measures, are prepared annually and are monitored by key performance indicators and controls. The results from these reviews inform the planning, reporting and budgetary control processes. The management of each significant risk is assigned to one or more individuals and built into personal objectives as part of the staff development and appraisal procedures, which identify training needs. Staff generally are asked to report perceived significant risks.

CRANFIELD UNIVERSITY

CORPORATE GOVERNANCE

(continued ...)

- **Control environment** – clear definitions of the responsibilities of, and the authority delegated to, heads of academic and administrative departments are established. There is a Financial Manual, detailing financial controls and procedures which is approved by the Council as well as other management policies. Compliance with the Financial Manual is a requirement included in contracts of employment. The approach to internal control is risk based and embedded in effective management systems.
- **Information and control systems** – the University has a comprehensive medium and short-term planning process, supplemented by detailed annual revenue, capital and cash flow budgets. There are 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 Council. There are regular reviews of operating results involving variance reporting and updates of estimated out-turns. In relation to academic information and control systems, the University's Senate, Teaching Committee and Faculty Boards oversee detailed processes to maintain and control the quality and standards of the University's academic work.
- **Monitoring system** – the effectiveness of the information and internal control systems and control environment are monitored by management review, the internal audit function and the Audit Committee, on behalf of the Council. As part of their audit responsibilities, the external auditors also provide reports to the Audit Committee on the operation of aspects of the University's internal control system.

On the basis of the above control system, procedures have been in place for the whole financial year to enable a full statement on internal control to be made for the year and up to the date of the approval of the Financial Statements.

CRANFIELD UNIVERSITY

RESPONSIBILITIES OF THE COUNCIL OF CRANFIELD UNIVERSITY

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

The Council 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 Statutes of the University, the 2007 Statement of Recommended Practice - Accounting for Further and Higher Education 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 Council of Cranfield University, the Council, 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 the Group and of the surplus or deficit and cash flows for that year.

In causing the financial statements to be prepared, the Council has ensured 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. The Council 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 Council has taken reasonable steps to:-

- ensure that funds from the Higher Education Funding Council for England are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Funding Council and any other conditions which the Funding Council may from time to time prescribe;
- ensure that 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 the Group and prevent and detect fraud;
- secure the economical, efficient and effective management of the University's resources and expenditure.

INDEPENDENT AUDITORS' REPORT TO THE COUNCIL OF CRANFIELD UNIVERSITY

We have audited the Group and University financial statements (the "financial statements") of Cranfield University for the year ended 31st July 2009 which comprise the Group Income and Expenditure Account, the Group and University Balance Sheets, the Group Cash Flow Statement and the Group Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and in accordance with the accounting policies set out therein.

This report is made solely to the Council, in accordance with the Charter and Statutes of the University. Our audit work has been undertaken so that we might state to the Council 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 Council, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the University Council and Auditors

The University Council's responsibilities for preparing the Operating and Financial Review and Treasurer's Report and the financial statements in accordance with the Accounts Direction issued by the Higher Education Funding Council for England, 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 8.

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. We also report to you whether in our opinion the Operating and Financial Review and Treasurer's Report is not consistent with the financial statements.

In addition we report to you if, in our opinion, 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 Operating and Financial Review and Treasurer's Report, together with 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 judgments made by the University's Council 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 the Group and the University's affairs as at 31st July 2009 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 Higher Education Funding Council for England, grants and income for specific purposes and from other restricted funds administered by the University during the year ended 31st July 2009 have been applied for the purposes for which they were received; and
- in all material respects, income during the year ended 31st July 2009 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.

MJ Rowley
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
2 Cornwall Street
Birmingham
B3 2DL

28 October, 2009

CRANFIELD UNIVERSITY
PRINCIPAL ACCOUNTING POLICIES

1. Basis of accounting and preparation

The financial statements are prepared under the historical cost convention as modified by the revaluation of endowment asset investments and land and in accordance with both the 2007 Statement of Recommended Practice - Accounting for Further and Higher Education (SORP) and applicable Accounting Standards.

2. Basis of consolidation

The consolidated financial statements include the financial statements of the University and all its subsidiaries prepared up to the end of the financial year. They do not include the financial statements of student associations as it is considered the University has limited financial interest and no control or significant influence over policy decisions.

3. 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 in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date. The resulting exchange differences are reflected in the income and expenditure account for the financial year.

4. Recognition of income

Income represents amounts invoiced for goods and services, excluding value added tax, supplied in the period and in the case of research, design and development includes the value of work carried out but not yet invoiced. In the case of grants, the value claimable at the date of the balance sheet is brought into account. All income from cash deposits and endowments including realised profits on disposal of assets, is credited to the income and expenditure account in the period in which it is earned. Income from endowments not expended in accordance with the restrictions of the endowment is transferred from the income and expenditure account to endowments.

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

5. Research and development

Expenditure on research and development is charged to the income and expenditure account in the year in which it is incurred.

CRANFIELD UNIVERSITY
PRINCIPAL ACCOUNTING POLICIES
(continued...)

6. Tangible fixed assets

(1) *Land and buildings*

Land is stated at valuation and is revalued triennially. The basis of valuation is open market value for existing use, and in the case of the technology park, open market value with vacant possession. The most recent valuation was carried out as at 31st July, 2007 by Atisreal, Chartered Surveyors. Freehold land is not depreciated as it is considered to have an indefinite useful life.

Freehold and leasehold buildings are stated at cost and depreciated over their expected useful lives or the life of the lease, whichever is shorter. Where there is a permanent reduction in value, provision is made in the financial statements.

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

(2) *Equipment*

Equipment costing less than £5,000 per individual item or group of related items is written off in the year of acquisition. All other equipment is capitalised at cost and depreciated over its expected useful life.

Where equipment is acquired with the aid of specific grants or gifts, it is capitalised and depreciated as above. The related grants or gifts are treated as deferred capital grants and released to the income and expenditure account over the expected useful life of the equipment.

(3) *Depreciation*

Depreciation is calculated on the original cost of the assets at the following rates:-

Buildings	2% - 5% per annum
Fixtures and fittings	10% per annum
Equipment	20% - 33.33 % per annum
Plant and machinery	5% - 25% per annum

7. Leases

Leasing agreements that transfer to the University substantially all the benefits and risks of ownership are considered to be finance leases. All other leases are operating leases.

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. The excess of lease payments over recorded lease obligations is treated as finance charges which is amortised over each lease term to give a constant rate of charge on the remaining balance of the obligations.

Rental costs under operating leases are charged to expenditure over the periods of the leases.

CRANFIELD UNIVERSITY
PRINCIPAL ACCOUNTING POLICIES
(continued...)

8. Investments

- (1) Endowment asset investments are included in the balance sheet at market value, with land revalued triennially. The most recent land valuation was carried out as at 31st July, 2007 by Atisreal, Chartered Surveyors.

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

- (2) Investment in subsidiaries is included in the balance sheet at cost, less any provisions for impairment.

9. Stock

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

10. Work in progress

Work in progress is stated at cost plus attributable overheads less provisions for any known or anticipated deficits and payments on account receivable.

11. Taxation status

The University is an exempt charity within the meaning of Schedule 2 of the Charities Act 1993 and as such is a charity within the meaning of the Taxes Act 1988. Accordingly, the University is potentially exempt from corporation tax or capital gains tax 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. The University's subsidiary companies are subject to corporation tax and Value Added Tax in the same way as any commercial organisation.

12. Deferred taxation

Deferred taxation is recognised as a liability or asset if transactions or events have occurred by the balance sheet date that give rise to an obligation to pay more taxation, 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 are not discounted.

13. Maintenance of premises

The cost of all maintenance is charged to the income and expenditure account as incurred. Provisions are made for dilapidation of leasehold property where an appropriate obligation exists.

CRANFIELD UNIVERSITY
PRINCIPAL ACCOUNTING POLICIES
(continued...)

14. Pension schemes

The two principal pension schemes of the University's employees are the Universities Superannuation Scheme (USS) and the Local Government Pension Scheme (LGPS) administered by Bedfordshire County Council.

Details of the schemes are included in Note 29. For defined benefit schemes, pension costs are assessed on the latest actuarial valuations of the schemes and are accounted for on the basis of charging the cost of providing pensions over the period during which the University benefits from the employees' services. As it is not possible to identify each participating institution's share of the underlying assets and liabilities of the Universities Superannuation Scheme (USS), which is a defined benefit scheme, contributions to the scheme are accounted for as if it were a defined contribution scheme. For defined contribution schemes, the employers' contributions are charged as they become payable.

15. Provisions

Provisions are recognised when the University has a present legal or constructive obligation as a result of a past event and 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.

CRANFIELD UNIVERSITY
CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31ST JULY, 2009

	Notes	2009 £'000	2008 £'000
Income			
Funding Council grants	1	29,051	27,185
Tuition fees and education contracts	2	61,001	59,679
Research grants and contracts		45,408	43,939
Other income	3	21,625	20,688
Endowment and investment income	4	453	1,382
Total income		157,538	152,873
Expenditure			
Staff costs	5	78,324	75,859
Other operating expenses	6	68,483	67,557
Depreciation	7	9,743	8,036
Interest payable	8	2,291	1,411
Total expenditure		158,841	152,863
(Deficit)/surplus after depreciation of assets and before tax		(1,303)	10
Loss on disposal of assets		(14)	(39)
Deficit after depreciation and disposal of assets before tax		(1,317)	(29)
Taxation	9	-	-
Deficit after depreciation and disposal of assets and tax		(1,317)	(29)
Transfer from accumulated income within endowments		1,353	1,548
Surplus for the year retained within general reserves		36	1,519

The consolidated income and expenditure account relates wholly to continuing operations. The gain for the year attributable to the University is £189,000 (2008 - gain £1,294,000).

The notes on pages 21 to 40 form part of these accounts.

CRANFIELD UNIVERSITY

STATEMENT OF CONSOLIDATED TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31ST JULY, 2009

		2009	2008
	Notes	£'000	£'000
Surplus for the year retained in general reserves		36	1,519
Transfer from accumulated income within endowments		(1,353)	(1,548)
		<hr/>	<hr/>
Deficit after depreciation and disposal of assets and tax		(1,317)	(29)
Actuarial loss recognised	29	(17,525)	(6,008)
Revaluation of endowment asset investments:	19	(148)	(131)
Transfer from endowments to deferred capital grants	19	(47)	(6,216)
New endowments	19	511	308
		<hr/>	<hr/>
Total recognised losses relating to the period		(18,526)	(12,076)
		<hr/>	<hr/>
Reconciliation			
Opening reserves and endowments		76,614	88,690
Total recognised losses for the year		(18,526)	(12,076)
		<hr/>	<hr/>
Closing reserves and endowments		58,088	76,614
		<hr/>	<hr/>

STATEMENT OF HISTORICAL COST SURPLUS AND DEFICITS

FOR THE YEAR ENDED 31ST JULY, 2009

		2009	2008
	Notes	£'000	£'000
Deficit after depreciation and disposal of assets before tax		(1,317)	(29)
		<hr/>	<hr/>
Historical cost deficit for the year before tax		(1,317)	(29)
		<hr/>	<hr/>
Historical cost deficit for the year after tax		(1,317)	(29)
		<hr/>	<hr/>
Historical cost surplus after tax retained within general reserves		36	1,519
		<hr/>	<hr/>

The notes on pages 21 to 40 form part of these accounts.

CRANFIELD UNIVERSITY
BALANCE SHEETS AT 31ST JULY, 2009

	Notes	CONSOLIDATED		UNIVERSITY	
		2009	2008	2009	2008
		£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets	10	171,019	168,025	168,612	165,712
Investments	11	-	78	-	-
Total Fixed Assets		<u>171,019</u>	<u>168,103</u>	<u>168,612</u>	<u>165,712</u>
Endowment assets	12	<u>5,161</u>	<u>6,199</u>	<u>6,589</u>	<u>7,627</u>
Current assets					
Stock		170	213	99	119
Debtors	14	36,502	34,267	34,135	30,301
Cash at bank and in hand		24,862	13,463	21,829	9,603
Total current assets		<u>61,534</u>	<u>47,943</u>	<u>56,063</u>	<u>40,023</u>
Creditors: amounts falling due within one year	15	<u>(59,824)</u>	<u>(45,928)</u>	<u>(55,281)</u>	<u>(39,092)</u>
Net current assets		<u>1,710</u>	<u>2,015</u>	<u>782</u>	<u>931</u>
Total assets less current liabilities		<u>177,890</u>	<u>176,317</u>	<u>175,983</u>	<u>174,270</u>
Creditors: amounts falling due after more than one year	16	<u>(22,526)</u>	<u>(18,507)</u>	<u>(22,526)</u>	<u>(18,507)</u>
Provisions for liabilities and charges	17	<u>(261)</u>	<u>(455)</u>	<u>(220)</u>	<u>(427)</u>
Net assets excluding FRS17 pension liability		<u>155,103</u>	<u>157,355</u>	<u>153,237</u>	<u>155,336</u>
Pension liability	22	<u>(43,619)</u>	<u>(25,398)</u>	<u>(43,619)</u>	<u>(25,398)</u>
Net assets including FRS17 pension liability		<u>111,484</u>	<u>131,957</u>	<u>109,618</u>	<u>129,938</u>
Financed by:-					
Deferred capital grants	18	<u>53,396</u>	<u>55,343</u>	<u>53,396</u>	<u>55,343</u>
Endowments					
Expendable	19	<u>6,589</u>	<u>7,627</u>	<u>6,589</u>	<u>7,627</u>
Reserves					
Income and expenditure reserve excluding pension reserve	21	<u>42,504</u>	<u>41,771</u>	<u>40,638</u>	<u>39,752</u>
Pension reserve	22	<u>(43,619)</u>	<u>(25,398)</u>	<u>(43,619)</u>	<u>(25,398)</u>
Income and expenditure account including pension reserve		<u>(1,115)</u>	<u>16,373</u>	<u>(2,981)</u>	<u>14,354</u>
Revaluation reserve	20	<u>52,614</u>	<u>52,614</u>	<u>52,614</u>	<u>52,614</u>
		<u>51,499</u>	<u>68,987</u>	<u>49,633</u>	<u>66,968</u>
Total funds		<u>111,484</u>	<u>131,957</u>	<u>109,618</u>	<u>129,938</u>

The financial statements on pages 13 to 40 were approved by the Council on 28th October, 2009 and signed on its behalf by:-

R I HOWARD ACA
TREASURER

PROFESSOR SIR JOHN O'REILLY FREng
VICE-CHANCELLOR

P J ASPINALL ACA
DIRECTOR OF FINANCE

The notes on pages 21 to 40 form part of these accounts.

CRANFIELD UNIVERSITY
STATEMENT OF CONSOLIDATED CASH FLOWS
FOR THE YEAR ENDED 31ST JULY, 2009

		2009	2008
	Notes	£'000	£'000
Net cash inflow from operating activities	25	10,584	8,203
Returns on investments and servicing of finance			
Interest received		331	939
Interest paid		(947)	(920)
Endowment income	19	122	443
Net cash inflow from returns on investments and servicing of finance		(494)	462
Taxation			
UK corporation tax paid		-	-
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(12,923)	(26,385)
Purchase of investments		-	(25)
Endowment asset investments disposed (net)		1,354	1,548
		(11,569)	(24,862)
Proceeds of disposal of tangible fixed assets		5	8
Deferred capital grants received		8,621	12,361
Endowments received		511	308
Net cash outflow from capital expenditure and financial investment		(2,432)	(12,185)
Net cash inflow/(outflow) before use of liquid resources and financing		7,658	(3,520)
Financing			
New loans/leases	26	5,014	10,030
Loans and finance leases repaid	26	(1,459)	(1,107)
Increase in cash in the year	27	11,213	5,403

The notes on pages 21 to 40 form part of these accounts.

CRANFIELD UNIVERSITY
 NOTES TO THE ACCOUNTS
 FOR THE YEAR ENDED 31ST JULY, 2009

	CONSOLIDATED	
	2009	2008
	£'000	£'000
1. Funding Council grants		
Recurrent grant	22,787	22,035
Special initiatives	2,481	1,904
Deferred capital grants released		
Buildings (<i>Note 18</i>)	727	729
Equipment (<i>Note 18</i>)	3,056	2,517
	29,051	27,185
Grants are receivable from the Higher Education Funding Council for England. In addition to the above, grants were received for capital purposes of £7,372,000 (2008 - £4,724,000).		
2. Tuition fees and education contracts		
Long course fees	22,468	20,312
Professional development courses	21,660	24,932
Teaching contract	16,873	14,435
	61,001	59,679
3. Other income		
Residences and conference centres	9,463	9,809
Rents from tenant organisations	909	857
Deferred capital grants released		
Buildings (<i>Note 18</i>)	632	189
Equipment (<i>Note 18</i>)	738	696
Miscellaneous	9,883	9,137
	21,625	20,688
4. Endowment and investment income		
Income from restricted expendable endowments (<i>Note 19</i>)	122	443
Interest on bank deposits	331	939
	453	1,382

CRANFIELD UNIVERSITY
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2009
(continued...)

		CONSOLIDATED	
		2009	2008
		£'000	£'000
5.	Staff		
	a. Staff costs		
	Wages and salaries	65,388	62,483
	Social security costs	5,758	5,679
	Other pension costs	7,178	7,697
		78,324	75,859
	 Emoluments of Vice-Chancellor	 251	 227

The emoluments of the Vice-Chancellor are shown on the same basis as for higher paid staff. The University's pension contributions to the Universities Superannuation Scheme are paid at the same rates for the Vice-Chancellor as for other academic staff and amounted to £31,000 (2008 - £29,000).

	b. The average number of employees during the year, expressed as full-time equivalents, was as follows:-	Number	Number
	Academic	432	404
	Research	249	248
	Technical	187	192
	Administrative	266	270
	Other, including clerical and manual	730	736
		1,864	1,850

	c. Remuneration of other higher paid staff, excluding employer's pension contributions, were as follows:-		
	£100,000 - £109,999	12	11
	£110,000 - £119,999	5	-
	£120,000 - £129,999	-	4
	£130,000 - £139,999	1	4
	£140,000 - £149,999	5	1
	£150,000 - £159,999	1	1
	£160,000 - £169,999	2	1
	£180,000 - £189,999	1	-
	£190,000 - £199,999	1	-
	£250,000 - £259,999	-	1

CRANFIELD UNIVERSITY
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2009
(continued...)

		CONSOLIDATED	
		2009	2008
		£'000	£'000
6. Other operating expenses			
	Other operating amounts charged include:-		
	Equipment expensed	3,501	2,877
	Staff restructuring costs	325	93
	Foreign exchange loss	592	1,213
	Auditors' remuneration:-		
	- external audit	117	112
	- other services including tax	104	47
		3,529	4,342
	Included in the above are audit fees in respect of the University only of £67,000 (2008 - £66,000)		
7. Depreciation			
	The depreciation charge has been funded by:-		
	Deferred capital grants released	5,153	4,131
	General income	4,590	3,905
		9,743	8,036
8. Interest payable			
	Interest on overdrafts repayable within five years	4	-
	Interest on long term loans repayable wholly or partly in more than five years	815	1,076
	Finance leases	4	6
	Pension finance costs (Note 29)	1,468	329
		2,291	1,411
9. Taxation			
	Corporation tax charged/(credited) in the year:-		
	UK corporation tax at 21% (2008 - 20.333%)	-	-
	Prior years	-	-
		-	-
		-	-

The tax assessed for the year is lower than the standard rate of corporation tax in the UK. The differences are explained below:

CRANFIELD UNIVERSITY
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2009
(continued...)

	CONSOLIDATED	
	2009	2008
	£'000	£'000
9. Taxation <i>(continued ...)</i>		
Surplus on ordinary activities before taxation	36	1,519
Tax on surplus on ordinary activities multiplied by the lower rate of corporation tax in the UK of 21% (2008 - 20.333%)	8	309
Factors affecting charge:		
University surplus/deficit exempt from corporation tax	(40)	(263)
Other permanent differences	32	(46)
Corporation tax charged in the year	-	-

There are no significant unprovided amounts in respect of deferred taxation (2008 - £Nil).

	Land & Buildings			Fixtures, Plant & Machinery		Total
	Freehold	Leasehold	Equipment			£'000
	£'000	£'000	£'000	£'000		£'000
10. Tangible assets						
<i>a. Consolidated</i>						
Cost/valuation						
At beginning of year	158,688	1,444	28,018	48,418		236,568
Additions	8,667	-	1,858	2,231		12,756
Disposals	-	-	(1,504)	(294)		(1,798)
At end of year	114,741	1,444	28,372	50,355		194,912
Cost	114,741	1,444	28,372	50,355		194,912
Valuation	52,614	-	-	-		52,614
Depreciation						
At beginning of year	23,131	1,444	21,599	22,369		68,543
Charge for year	2,548	-	2,782	4,413		9,743
Disposals	-	-	(1,492)	(287)		(1,779)
At end of year	25,679	1,444	22,889	26,495		76,507
Net book amount						
At end of year	141,676	-	5,483	23,860		171,019
At beginning of year	135,557	-	6,419	26,049		168,025

CRANFIELD UNIVERSITY
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2009
(continued...)

	Land & Buildings		Equipment	Fixtures, Plant & Machinery	Total
	Freehold	Leasehold			
	£'000	£'000			
10. Tangible assets <i>(continued ...)</i>					
<i>b. University</i>					
Cost/valuation					
At beginning of year	158,349	1,444	27,653	44,814	232,260
Additions	8,667	-	1,850	1,649	12,166
Disposals	-	-	(1,497)	(291)	(1,788)
At end of year	<u>114,402</u>	<u>1,444</u>	<u>28,006</u>	<u>46,172</u>	<u>190,024</u>
Cost	114,402	1,444	28,006	46,172	190,024
Valuation	52,614	-	-	-	52,614
Depreciation					
At beginning of year	22,921	1,444	21,354	20,829	66,548
Charge for year	2,522	-	2,728	3,999	9,249
Disposals	-	-	(1,486)	(285)	(1,771)
At end of year	<u>25,443</u>	<u>1,444</u>	<u>22,596</u>	<u>24,543</u>	<u>74,026</u>
Net book amount					
At end of year	<u>141,573</u>	<u>-</u>	<u>5,410</u>	<u>21,629</u>	<u>168,612</u>
At beginning of year	<u>135,428</u>	<u>-</u>	<u>6,299</u>	<u>23,985</u>	<u>165,712</u>

The net book amounts of tangible fixed assets include £45,000 (2008 - £59,000) in respect of assets held under finance leases in the consolidated and University accounts respectively. The related depreciation charges for the year was £14,000 (2008 - £27,000). At 31st July, 2009 buildings, fixtures and plant included £8,178,000 (2008 - £6,624,000) in respect of assets under construction in both the consolidated and University accounts. The book value of Funding Council assets are disclosed in Note 18.

CRANFIELD UNIVERSITY
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2009
(continued...)

	CONSOLIDATED		UNIVERSITY	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
11. Fixed asset investments				
At beginning of year	78	53	-	-
Additions	-	25	-	-
Impairment of investments	(78)			
At end of year	<u>-</u>	<u>78</u>	<u>-</u>	<u>-</u>

This investment represents 28.1% of the issued share capital in Water Innovate Limited. The company has not been treated as an associate as the University does not exercise significant influence on the company's operations.

	CONSOLIDATED	UNIVERSITY
	£'000	£'000
12. Endowment assets		
At beginning of year	6,199	7,627
Additions	511	511
Disposals	(1,401)	(1,401)
	(890)	(890)
Revaluation	(148)	(148)
At end of year	<u>5,161</u>	<u>6,589</u>
Endowment assets:-		
Equities (<i>listed</i>)	1,360	1,360
Equities (<i>unlisted</i>)	42	42
Investments in subsidiaries (<i>Note 13</i>)	-	1,428
Land	230	230
Cash at bank and in hand including short term deposits	3,529	3,529
	<u>5,161</u>	<u>6,589</u>

The University Balance Sheet on Page 17 shows Endowment assets equal to Endowments in accordance with the 2007 Statement of Recommended Practice - Accounting for Further and Higher Education. On consolidation it is necessary to remove from Endowment assets, the investments in subsidiaries costs of £1,428,000.

	UNIVERSITY	
	2009	2008
	£'000	£'000
13. Investment in subsidiaries		
At beginning and end of year	<u>1,428</u>	<u>1,428</u>

CRANFIELD UNIVERSITY
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2009
(continued...)

13. **Investment in subsidiaries** *(continued ...)*

At 31st July, 2009 the group's principal subsidiaries, all of which were wholly owned and registered in England and Wales, comprised:-

COMPANY	NATURE OF BUSINESS
Cranfield Ventures Limited	Holding company
Cranfield Enterprises Limited	Holds investments in spin-out companies
Silsoe Ventures Limited	Develop and market software
Sudbury House Hotel Limited	Provision of hotel and conference services
CIT Holdings Limited	Holding company
Cranfield Aerospace Limited	Aerospace research and development
Cranfield Conference Centre Limited	Provision of conference and accommodation services
Cranfield Holdings (Wessex) Limited	Provision of books and services
Cranfield Innovative Manufacturing Limited	Consultancy and development programmes in manufacturing
Cranfield Impact Centre Limited	Design of crash safety equipment and data recording systems
Cranfield Management Development Limited	Provision of executive development programmes
Cranfield Engineering Innovations Limited	Provision of electronic driver risk assessments

	CONSOLIDATED		UNIVERSITY	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
14. Debtors				
Work in progress	10,398	11,650	9,880	10,692
Trade debtors	23,612	21,005	19,299	14,784
Prepayments and accrued income	2,482	1,611	2,245	1,441
Other taxes	10	1	-	-
Amounts receivable from subsidiary undertakings	-	-	2,711	3,384
	<hr/>	<hr/>	<hr/>	<hr/>
	36,502	34,267	34,135	30,301
	<hr/>	<hr/>	<hr/>	<hr/>

Included in amounts receivable from subsidiary undertakings is £1,856,000 (2008 - £1,587,000) which is recoverable after more than one year.

CRANFIELD UNIVERSITY
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2009
(continued...)

	CONSOLIDATED		UNIVERSITY	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
14. Debtors <i>(continued ...)</i>				
Work in progress comprises:-				
Costs incurred to date				
less foreseeable losses	63,717	69,387	59,615	65,530
Less: progress payments	(53,319)	(57,737)	(49,735)	(54,838)
	10,398	11,650	9,880	10,692
	10,398	11,650	9,880	10,692
15. Creditors: amounts falling due within one year				
Bank overdraft	48	18	-	-
Bank loans	1,619	1,245	1,619	1,245
Finance lease obligations	27	27	27	27
Amounts owed to subsidiary undertakings	-	-	63	144
Trade creditors and accruals	23,252	16,700	20,073	12,923
Social security costs and other taxes	2,651	2,862	2,191	2,107
Deposits and income in advance	32,227	25,076	31,308	22,646
	59,824	45,928	55,281	39,092
	59,824	45,928	55,281	39,092
16. Creditors: amounts falling due after more than one year				
Bank loans	22,508	18,475	22,508	18,475
Finance lease obligations	18	32	18	32
	22,526	18,507	22,526	18,507
	22,526	18,507	22,526	18,507
a. <i>Bank loans</i>				
Bank loans are repayable:-				
Within one year	1,619	1,245	1,619	1,245
Between one and two years	1,648	1,276	1,648	1,276
Between two to five years	4,076	3,485	4,076	3,485
After five years	16,784	13,714	16,784	13,714
	24,127	19,720	24,127	19,720
	24,127	19,720	24,127	19,720

CRANFIELD UNIVERSITY
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2009
(continued...)

	CONSOLIDATED		UNIVERSITY	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
16. Creditors: amounts falling due after more than one year <i>(continued ...)</i>				

b. Finance leases

The net finance lease obligations to which the University is committed are:-

Within one year	27	27	27	27
Within two to five years	18	32	18	32
	45	59	45	59

The Group had the following bank loans at 31st July 2009 :-

	Interest Rate	Loan Type	Security	Final Repayment	Loan Outstanding £'000
1.	Euro base + 0.18%	Floating	None	15th August 2027	8,755
2.	Sterling base + 0.18%	Floating	None	31st July 2027	11,615
3.	Euro base + 0.75%	Floating	Land and buildings	14th March 2012	449
4.	8.71%	Fixed	Land and buildings	14th March 2022	2,790
5.	8.48%	Fixed	Land and buildings	14th March 2012	518
					24,127

	Staff restructuring	Other	Total
	£'000	£'000	£'000
17. Provisions for liabilities and charges			

a. Consolidated

At beginning of year	427	28	455
Utilised	(156)	(4)	(160)
(Credited)/charged to income and expenditure account	(51)	17	(34)
At end of year	220	41	261

CRANFIELD UNIVERSITY
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2009
(continued...)

	Staff restructuring	Total
	£'000	£'000
17. Provisions for liabilities and charges		
<i>(continued ...)</i>		
b. <i>University</i>		
At beginning of year	427	427
Utilised	(156)	(156)
Credited to income and expenditure account	(51)	(51)
At end of year	220	220

Staff restructuring will be utilised during the next financial year and relates to the relocation of Silsoe activities to Cranfield. Other relates to a warranty provision.

	General	Funding Council	Total
	£'000	£'000	£'000
18. Deferred capital grants			
<i>Consolidated and University</i>			
At beginning of year			
Buildings	18,482	19,959	38,441
Equipment	2,516	14,386	16,902
	20,998	34,345	55,343
Transfer from endowments			
Buildings	47	-	47
Equipment	-	-	-
Cash received			
Buildings	1,804	919	2,723
Equipment	93	343	436
Released to income and expenditure account			
Buildings	(632)	(727)	(1,359)
Equipment	(738)	(3,056)	(3,794)
At end of year	21,572	31,824	53,396
Buildings	19,701	20,151	39,852
Equipment	1,871	11,673	13,544
	21,572	31,824	53,396

CRANFIELD UNIVERSITY
 NOTES TO THE ACCOUNTS
 FOR THE YEAR ENDED 31ST JULY, 2009

CONSOLIDATED AND UNIVERSITY			
	Restricted Expendable	2009 Total	2008 Total
	£'000	£'000	£'000
19. Endowments			
At beginning of year			
Capital	5,806	5,806	6,650
Accumulated income	1,821	1,821	8,564
	7,627	7,627	15,214
New endowments	511	511	308
Investment income	122	122	443
Expenditure	(1,476)	(1,476)	(1,991)
Transfer to deferred capital grants	(47)	(47)	(6,216)
	(1,401)	(1,401)	(7,764)
Decrease in market value of investments	(148)	(148)	(131)
At end of year	6,589	6,589	7,627
Represented by:			
Capital	5,827	5,827	5,806
Accumulated income	762	762	1,821
	6,589	6,589	7,627

The University has identified the capital value of endowments funds from historical records, where they are available. In relation to the Appeal to Industry Fund, the University has followed the British Universities Finance Directors Group (BUFDG) Guidance Note and adopted the value of the Fund at 31st July, 1998 as the basis of the assumed capital value at 1st August, 2006.

CONSOLIDATED AND UNIVERSITY			
£'000			
	CONSOLIDATED		UNIVERSITY
	£'000		£'000
20. Revaluation reserve			
At beginning and end of year		52,614	
21. Income and expenditure reserve (excluding pension reserve)			
At beginning of year	41,771		39,752
Surplus retained for the year	36		189
Transfer from pension reserve	697		697
At end of year	42,504		40,638

CRANFIELD UNIVERSITY
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2009
(continued...)

	CONSOLIDATED AND UNIVERSITY	
	2009	2008
	£'000	£'000
22. Pension reserve		
Movement in deficit during the year:		
Deficit in scheme at beginning of the year	(25,398)	(18,948)
Movement in year:		
Current service cost	(1,542)	(1,881)
Contributions	2,397	2,658
Past service cost	(32)	(700)
Curtailment cost	(52)	(190)
Other finance charge	(1,468)	(329)
Actuarial loss	(17,524)	(6,008)
Deficit in scheme at end of the year	(43,619)	(25,398)

The pension reserve represents the University's share of the deficit in the Bedfordshire County Council Local Government Pension Scheme as detailed in Note 29 (Page 35).

	CONSOLIDATED		UNIVERSITY	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
23. Lease obligations				
Commitments under operating leases				
At 31st July, 2009 there were annual commitments under non-cancellable operating leases expiring as follows:-				
Land and buildings				
Within one year	8	-	8	-
Between two and five years	-	20	-	20
In more than five years	720	704	720	704
	728	724	728	724
Other				
Within one year	23	17	15	4
Between two and five years	194	179	52	47
In more than five years	19	19	19	19
	236	215	86	70

CRANFIELD UNIVERSITY
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2009
(continued...)

	CONSOLIDATED		UNIVERSITY	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
24. Capital commitments				
a. Capital expenditure contracted but not provided in the accounts	5,409	427	5,409	277
b. Capital expenditure authorised but not contracted	7,297	12,174	7,297	11,839

	CONSOLIDATED	
	2009	2008
	£'000	£'000
25. Reconciliation of operating deficit before taxation to net cash inflow from operating activities		
Operating deficit before taxation	(1,317)	(29)
Endowment and investment income	(453)	(1,382)
Interest payable	2,291	1,411
Other pension costs (FRS17 adjustment)	(771)	(113)
Depreciation charge	9,743	8,036
Deferred capital grants released	(5,153)	(4,131)
Deficit on disposal of tangible fixed assets	14	39
Foreign exchange loss	592	1,213
Impairment of investments	78	-
Movement in working capital		
Stock	43	(27)
Work in progress	1,252	(2,225)
Debtors	(3,488)	(3,067)
Creditors	6,211	3,457
Deposits and income in advance	1,736	5,870
Provisions	(194)	(849)
	5,560	3,159
Net cash inflow from operating activities	10,584	8,203

CRANFIELD UNIVERSITY
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2009
(continued...)

	CONSOLIDATED	
	2009	2008
	£'000	£'000
26. Analysis of changes in loan and finance leases during the year		
At beginning of year	19,779	9,511
New leases/loans	5,014	10,030
Capital repayments	(1,459)	(1,107)
Foreign exchange loss	838	1,345
At end of year	24,172	19,779

	CONSOLIDATED	
	2009	2008
	£'000	£'000
27. Reconciliation of net cash flow to movement in net funds		
Increase in cash at bank and in hand	11,243	5,287
(Increase)/decrease in bank overdraft	(30)	116
Increase in cash	11,213	5,403
Increase in loans and finance leases	(3,555)	(8,923)
Change in net debt	7,658	(3,520)
Net funds at beginning of year	(6,334)	(1,552)
Foreign exchange loss	(682)	(1,262)
Net debt at end of year	642	(6,334)

CRANFIELD UNIVERSITY
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2009
(continued...)

28. Analysis of changes in net funds

	At beginning of year	Cash Flows	Other movements	At end of year
	£'000	£'000	£'000	£'000
Cash at bank and in hand including short term deposits	13,463	11,243	156	24,862
Bank overdraft	(18)	(30)	-	(48)
	<u>13,445</u>	<u>11,213</u>	<u>156</u>	<u>24,814</u>
Loans and finance leases within one year	(1,272)	(374)	-	(1,646)
Loans and finance leases after one year	(18,507)	(3,181)	(838)	(22,526)
	<u>(6,334)</u>	<u>7,658</u>	<u>(682)</u>	<u>642</u>

29. Pensions

The two pension schemes for the University's staff are the Universities Superannuation Scheme (USS) and the Local Government Pension Scheme (LGPS) administered by Bedfordshire County Council. The assets of the USS scheme are held in a separate trustee-administered fund and a Pension Fund Investment Advisory Panel is responsible for the investment arrangements of the assets of the LGPS scheme. Both schemes are defined benefit schemes, which are externally funded, valued every three years by actuaries using the projected unit method and are contracted out of the State Earnings Related Pensions Scheme. In the intervening years, the actuaries review the progress of the schemes. USS provides benefits based on final pensionable salary for academic and related employees of all universities in the United Kingdom and some other employers. LGPS provides similar benefits for other staff of the University. Pension costs are assessed, in accordance with the advice of the actuary, based on the latest actuarial valuation of the schemes and are accounted for on the basis of charging the cost of providing pensions over the period during which the University benefits from the employees' services.

CRANFIELD UNIVERSITY
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2009
(continued...)

29. **Pensions** *(continued...)*

USS

It is not possible to identify each participating institution's share of the underlying assets and liabilities of the scheme and hence contributions to the scheme are accounted for as if the scheme was a defined contribution scheme. The cost recognised within the surplus or deficit for the year in the income and expenditure account is equal to the contributions payable to the scheme for the year. The latest actuarial valuation of the scheme was as at 31st March, 2008. The assumptions which had the most significant effect on the result of the valuation were 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 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 4.4% per annum and salary increases 4.3% per annum. The institution contribution rate required for future service benefits alone at the date of valuation was 14% of salaries and it was agreed that the institution contribution rate would be increased to 16% of salaries with effect from 1st October, 2009. The next formal actuarial valuation is due as at 31st March, 2011 when the rates will be reviewed. Surpluses or deficits that arise at future valuations may impact on the University's future contribution commitment.

The assumptions in relation to future service liabilities and other data which have the most significant effect on the determination of the contribution levels are as follows: -

Latest actuarial valuations	31st March, 2008
Investment returns per annum	4.4%
Salary scale increases per annum	4.3%
Market value of assets at date of last valuation	£28,843 million
Proportion of members' accrued benefits covered by the actuarial value of the assets	71%

LGPS

The rate of the University's employer's contributions for LGPS is determined by the actuaries and increased to 14% of pensionable salaries from 12.3% with effect from 1st April, 2005. Employee rates for LGPS are statutorily prescribed. Variations from regular cost are spread over the expected average remaining working lifetime of members of the scheme after making allowances for future withdrawals.

CRANFIELD UNIVERSITY
 NOTES TO THE ACCOUNTS
 FOR THE YEAR ENDED 31ST JULY, 2009
 (continued...)

29. Pensions (continued ...)

LGPS (continued ...)

The figures disclosed below estimated by the actuary as at 31st July, 2009 have been derived by suitable approximation methods from the full actuarial valuation as at 31st March, 2007. Surpluses or deficits that arise may impact on the University's future contribution commitment.

The major assumptions used by the actuary as at 31st July, 2009 are as follows:-

	2009 %	2008 %	2007 %
Salary scale increases per annum	5.2	5.3	4.8
Pension increases per annum	3.7	3.8	3.3
Discount rate per annum	6.0	6.7	5.8
Inflation assumption per annum	3.7	3.8	3.3
Members opting for enhanced commutation	50.0	50.0	50.0

The assumed life expectations on retirement at age 65 are:-

	2009	2008
Retiring today		
Males	19.6	19.6
Females	22.5	22.5
Retiring in 25 years		
Males	20.7	20.7
Females	23.6	23.6

The estimated University share of the assets in the scheme and the expected rates of return were:-

	2009		2008		2007	
	Long term return expected %	Assets £'000	Long term return expected %	Assets £'000	Long term return expected %	Assets £'000
Equities	7.3	27,223	7.8	35,736	8.0	39,809
Property	5.3	2,816	5.7	4,823	6.0	6,114
Bonds	5.3	10,795	5.7	9,768	5.2	9,013
Cash	4.3	6,102	4.8	1,582	5.1	1,934
	<hr/> 6.3 <hr/>	<hr/> 46,936 <hr/>	<hr/> 7.1 <hr/>	<hr/> 51,909 <hr/>	<hr/> 7.2 <hr/>	<hr/> 56,870 <hr/>

There is no provision for unitising the assets of a Fund under LGPS. The asset of the scheme, as a whole, are allocated to participating bodies on a consistent and reasonable basis.

CRANFIELD UNIVERSITY
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2009
(continued...)

29. Pensions *(continued ...)*

The University's share of the underlying assets and liabilities are as follows:-

	2009	2008	2007
	£'000	£'000	£'000
Market value of assets	46,936	51,909	56,870
Present value of liabilities	(90,555)	(77,307)	(75,818)
Deficit – net pension liability	<u>(43,619)</u>	<u>(25,398)</u>	<u>(18,948)</u>

	2009	2008
	£'000	£'000
Analysis of the total operating charge:-		
Current service cost	1,542	1,881
Loss due to curtailments	52	190
Past service cost	32	700
Total operating charge	<u>1,626</u>	<u>2,771</u>

Analysis of the amount charged to interest payable:-		
Expected return on pension scheme assets	(3,696)	(4,138)
Interest on pension scheme liabilities	5,164	4,467
Pension finance costs	<u>1,468</u>	<u>329</u>
Total income and expenditure account charge	<u>3,094</u>	<u>3,100</u>

CRANFIELD UNIVERSITY
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2009
(continued...)

29. Pensions *(continued ...)*

	2009	2008
	£'000	£'000
Analysis of amount recognised in statement of total recognised gains and losses:-		
Actual return less expected return on pension scheme assets	(17,524)	(6,008)
Experience gains and losses arising on the scheme liabilities	-	-
Change in financial and demographic assumptions underlying the scheme liabilities	-	-
	(17,524)	(6,008)
Analysis of movements in the present value of the scheme liabilities:-		
At beginning of year	77,307	75,818
Current service cost	1,542	1,881
Interest cost	5,164	4,467
Contributions by members	730	735
Actuarial losses/(gains)	8,564	(3,632)
Past service costs	32	700
Losses on curtailments	52	190
Estimated underfunded benefits paid	(18)	(23)
Estimated benefits paid	(2,818)	(2,829)
	90,555	77,307
Analysis of movement in the market value of the scheme assets:-		
At beginning of year	51,909	56,870
Expected return on assets	3,696	4,138
Contributions by members	730	735
Contributions by the employer	2,379	2,635
Contributions in respect of unfunded benefits	18	23
Actuarial losses	(8,960)	(9,640)
Estimated unfunded benefits paid	(18)	(23)
Estimated benefits paid	(2,818)	(2,829)
	46,936	51,909

CRANFIELD UNIVERSITY
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2009
(continued...)

29. **Pensions** *(continued ...)*

	2009	2008	2007	2006	2005
Details of experience gains and losses for the year:					
(Loss)/gain on scheme assets:					
Amount (£'000)	(8,960)	(9,640)	1,368	1,891	4,539
Percentage of scheme assets	(19.1%)	(18.6%)	2.4%	3.7%	10.0%
Experience gain/(loss) on scheme liabilities:					
Amount (£'000)	46	1,892	42	42	(2,041)
Percentage of the present value of the scheme liabilities	0.1%	3.6%	0.1%	0.1%	(2.9%)
Total (loss)/gain recognised in the statement of total recognised gains and losses:					
Amount (£'000)	(17,524)	(5,137)	6,118	(720)	(4,303)
Percentage of the present value of scheme liabilities	(19.4%)	(6.6%)	8.1%	(0.9%)	(6.1%)

In addition to the main schemes described above, some of the subsidiaries operate their own pension schemes, details of which can be found in the individual company accounts.

	CONSOLIDATED	
	2009	2008
	£'000	£'000
30. Access funds		
Funding Council grants	39	62
Disbursed to students	(15)	(56)
	<hr/>	<hr/>
Balance unspent at end of year	24	6
	<hr/>	<hr/>

Funding Council grants are available solely for students: the University acts only as paying agent. The grants and related disbursements are therefore excluded from the income and expenditure account.

31. **Related party transactions**

The University has taken advantage of the exemption of Financial Reporting Standard 8 (Revised) "Related party transactions" not to disclose transactions between the University and its wholly owned subsidiary undertakings.

Due to the nature of the University's operations and the composition of the Council, it is inevitable that transactions will take place from time to time with organisations in which a Council member may have an interest. All transactions involving organisations in which a member of the Council has an interest are conducted at arm's length and in accordance with the University's Financial Manual and normal procurement procedures.