

CRANFIELD UNIVERSITY

FINANCIAL STATEMENTS

for the year ended 31st July, 2013

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CRANFIELD UNIVERSITY
OPERATING AND FINANCIAL REVIEW
FOR THE YEAR ENDED 31ST JULY, 2013

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 Act 2011.

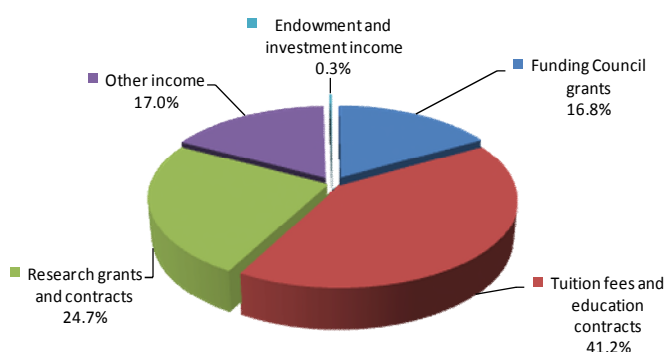
The financial statements comprise the consolidated results of the University and its subsidiaries. Subsidiary companies undertake activities which, for legal and commercial reasons, are more appropriately channelled through a limited company and include the development of activities emanating from Cranfield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

Results for the year and position at year end

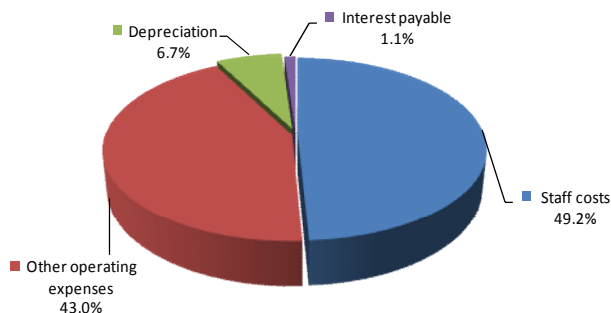
The consolidated results for the year ended 31st July, 2013 are summarised below:-

	2013	2012
	£'000	£'000
Income	162,224	166,224
Expenditure	(162,609)	(165,663)
(Deficit) / surplus for year retained in general reserves	<u>(385)</u>	<u>561</u>

INCOME 2013



EXPENDITURE 2013



CRANFIELD UNIVERSITY
OPERATING AND FINANCIAL REVIEW
FOR THE YEAR ENDED 31ST JULY, 2013
(continued...)

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

Income was 2.4% lower compared to the previous year. Although funding council grants and research fell in the year, tuition fees and other income both grew. The deficit for the year retained in general reserves was £385,000 (2012 surplus - £561,000). This result was after charging staff restructuring costs of £1.3m, the savings from which will impact future years.

Capital expenditure in the year amounted to £6,924,000 (2012 - £9,728,000). This includes a number of infrastructure projects on the Cranfield campus. Also in the year, Cranfield sold the property and business of Sudbury House Hotel as detailed in note 31.

The statement of consolidated cash flow shows an increase in cash of £9,699,000. Net cash inflows from operating activities were £4,710,000 as shown in Note 25.

Consolidated reserves and endowments increased by £4,072,000 (2012 – decrease by £7,516,000) as explained in the statement of total recognised gains and losses on page 21. This includes a decrease of £2,597,000 relating to the pension loss on the Bedfordshire County Council pension fund as shown in Note 29.

Principal risks and uncertainties

The University receives a smaller proportion of its income from HEFCE, which was 16.8% for the 2012/13 year, than the majority of the sector. This reflects the distinctive mission of Cranfield as a wholly postgraduate University. However, it also receives a significant amount of income from other organisations that are directly or indirectly impacted by the general state of public finances and the economy.

As with other Higher Education Institutions, Cranfield is vulnerable to decisions made by HEFCE, Research Councils and other Government bodies. In particular, Cranfield continues to rely heavily on the 'institution-specific funding' it receives from HEFCE. It was, therefore, particularly pleasing to have successfully secured this funding in the year till 31st July 2016. There does, however, remain uncertainty beyond 2016 of this funding. The funding for postgraduates and their access to funding sources to finance their studies continues to be of a concern and innovative solutions will be needed by both the university and the sector more generally, to ensure we continue to educate a diverse range of UK postgraduates for the benefit of our economy.

The University is 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.

CRANFIELD UNIVERSITY
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FOR THE YEAR ENDED 31ST JULY, 2013
(continued...)

Key Performance Indicators (KPI's):-

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

	Cranfield Actual 2013	Cranfield Actual 2012	Mean Average HEFCE funded HEI* Forecast 2013
Income (reduction) / growth	(2.4%)	(1.8%)	3.5%
(Deficit)/surplus for year as a % of total income	(0.2%)	0.3%	2.7%
Staff costs before exceptional costs as a % of total income	48.8%	47.9%	53.2%
Cash flow from operating activities as a % of total income	2.9%	4.9%	6.4%
Net liquidity as number of days expenditure	76	53	118
External borrowings as a % of total income	11.6%	11.3%	25.9%
Discretionary reserves (excluding FRS17) as a % of total income	43.0%	41.7%	58.8%

*Source: HEFCE Sept 2013

The table above reflects the position that, despite a very challenging year in terms of income generation and bottom line performance, 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 significantly lower relative borrowings than the majority of the sector.

Outlook for 2013/2014

The 2013/2014 financial year will continue to be difficult whilst both the UK and global economy remain as they are. However, continued tight control of expenditure means that it is the current expectation that the budgeted surplus of £1.1 million approved by Council in July 2013 will be achieved, provided income levels can be maintained.

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
FOR THE YEAR ENDED 31ST JULY, 2013
(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, 2011, the assets were sufficient to cover 92% of the benefits which had accrued to members after allowing for expected future increases in earnings measured on a 'technical provisions' basis.

The share of underlying assets and liabilities of the Local Government Pension Scheme (LGPS) is able to be identified as at 31st July, 2013 and there is a net pension liability of £43,029,000 (2012 - £40,181,000) applicable to the University. Details are provided in Note 29.

Trading activities of subsidiaries

The venture companies are financially independent from the University and are administered through Cranfield Ventures Ltd. In addition to these companies, there are other subsidiaries undertaking core and related activities for the University. The Sudbury House Hotel operation was sold to a third party on 31 May, 2013 as detailed in Note 31.

Public Benefit report

The University is an exempt charity under the terms of the Charities Act 2011. The objects of the University are to:

- advance, disseminate and apply learning, knowledge and understanding with particular emphasis on the disciplines of the Sciences, Technology, Engineering and Management; and
- promote and encourage the transformation and application of that wisdom, knowledge and learning for the benefit of industry, the public services, and individuals and for the public benefit.

In reviewing the University's activities, Council has had due regard to the Charity Commission's guidance on the reporting of public benefit as amended in December 2011. Of the specific examples of charitable activities highlighted in section 3 of the 2011 Act, Cranfield makes a significant contribution to the majority of them. These include:-

- the advancement of education
- the prevention or relief of poverty
- the advancement of health or the saving of lives
- the advancement of citizenship or community development
- the advancement of the arts, culture, heritage or science
- the advancement of human rights, conflict resolution or reconciliation or the promotion of religious or racial harmony or equality and diversity
- the advancement of environmental protection or improvement
- the promotion of the efficiency of the armed forces of the Crown, or of the efficiency of the police, fire and rescue services or ambulance services.

The University's website and publications, such as Cranfield's corporate brochure, provide further details of these activities.

Public Benefit report (continued...)

Cranfield's students are drawn from over one hundred countries. As a research-intensive institution, the University has a commitment to widening participation for postgraduates; in particular the recruitment of:

- older/experienced 'return to study' applicants
- less conventionally qualified but experienced applicants, and
- those improving their skills by studying with Cranfield flexibly whilst in employment.

The University provides a wide range of scholarships and bursaries to enable participation by those students who would not otherwise be able to afford to study at 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 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.

Carbon Management Plan

The University has a target to reduce its Carbon emissions by 50% by 2020 compared with a 2005 baseline. From 2005 Carbon emissions were growing; however since the implementation of the plan in 2009 emissions have generally reduced and are now 8% lower than the 2005 level. This year, however, there was an increase in emissions due to the exceptionally cold winter and spring. Our carbon footprint has been restated for all years in order to account for material changes to the conversion factors provided by DEFRA for company reporting purposes.

Year	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Tonnes CO ₂	17,700	17,700	19,300	19,000	17,300	16,400	14,900	16,200

The emissions reported above include electricity, heating, process fuels and on site vehicle fuels for the whole University estate but excluding Shrivenham Campus. Reporting years are from August to July. Other transport emissions and emissions associated with waste and water are not included at present although there are plans to include these within the footprint for future reports. Further information on the Carbon Management Plan can be found on the University website.

Health and Safety

The University is committed to providing a safe and healthy environment by taking effective means to manage our risks and protect people from being harmed. There is a process of continuous improvement in the management of health and safety in all areas of work and study. 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.

Corporate governance

The University is committed to following best practice in all aspects of corporate governance. This year's statement appears on pages 8 to 10 which reports full compliance with the UK Corporate Governance Code provisions relating to risk management.

Conclusion

Despite a difficult year for income generation, the University's overall financial position means it is soundly placed to face the challenges and opportunities that will present themselves in the future.

C P Fairweather MA FCA
Chair of Finance Committee

17th October, 2013

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.

In March 2013, Her Majesty The Queen in Council approved revisions to the University's Charter and Statutes. The primary impact of these revisions on governance was to make the University Council the unambiguous governing body for the University, in line with the governance guidelines of the Higher Education Funding Council for England. Following the approval of the Charter and Statutes, Council approved a revised set of Ordinances and Senate approved new Regulations; together, the Charter, Statutes, Ordinances and regulations make up the University Laws.

Council's functions, as articulated in the Charter, are to: be ultimately responsible for the affairs of the University; determine the strategic direction of the University; ensure the effective management and control of the University's affairs, property and finances; determine the structure, staffing and overall composition of the University; appoint the Pro-Chancellor; and appoint and dismiss the Vice-Chancellor.

The principal academic and administrative officer of the University is the Chief Executive and 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 accountable 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 UK Corporate Governance Code 2010 issued by the Financial Reporting Council. Whilst the University, being an independent corporation incorporated by Royal Charter and having exempt charitable status, does not fall within the scope of the 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 University Laws and by custom in line with the Financial Memorandum with the Higher Education Funding Council for England.

The Council has a majority of members from outside the University, (described as independent members), from whom the Chairman and Deputy Chairman must be drawn. Also included in its membership are staff of the University and a member nominated by 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.

- **Finance Committee** - meets at least four 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.
- **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.
- **Remuneration Committee** - determines the annual remuneration of the Vice-Chancellor and such other senior members of staff as decided by Council.
- **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, governance, risk management and value for money, 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 Chair of Finance Committee is given on pages 2 to 7 and the responsibilities of the Council are outlined on page 11. 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 UK Corporate Governance 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

The Council is the supreme governing body of the University. Its principal responsibilities are based on the Model Statement taken from the Committee of University Chairs' Guide for members of Higher Education Governing Bodies, adapted to reflect the powers and responsibilities that Council derives from the University Laws. These responsibilities are to:

- approve the mission and strategic vision of the University, long-term strategic and business plans including key performance indicators, and to ensure that these meet the interests of stakeholders;
- appoint, on the recommendation of a Joint Appointing Committee of Council and Senate, the Vice-Chancellor as Chief Executive of the University. To establish the conditions of appointment and the arrangements for monitoring his/her performance;
- be responsible for the removal of the Vice-Chancellor for good cause in accordance with the University Laws;
- delegate authority to the Vice-Chancellor for the academic, corporate, financial, estate and personnel management of the institution;
- establish and keep under regular review the policies, procedures and limits within such management functions as will be undertaken by and under the authority of the Vice-Chancellor;
- ensure the establishment and monitoring of systems of control and accountability, including financial and operational controls and risk assessment, and procedures for handling internal grievances and for managing conflicts of interest;
- ensure that processes are in place to monitor and evaluate the performance and effectiveness of Cranfield University against the plans and approved key performance indicators, which will, where possible and appropriate, be benchmarked against other comparable institutions;
- establish processes to monitor and evaluate the performance and effectiveness of the Council and the wider governance of the University;
- conduct its business in accordance with best practice in higher education corporate governance and with the principles of public life drawn up by the Committee on Standards in Public Life;
- safeguard the good name and values of the institution;
- appoint a Secretary to Council, on the recommendation of a Joint Appointing Committee of Council and Senate;
- be the employing authority for all staff in the University and to be responsible for ensuring the establishment of a human resources strategy;
- be the principal financial and business authority of the University, to ensure that proper books of account are kept, to approve the annual budget and financial statements, and to have overall responsibility for the University's assets, property and estate;
- be the University's legal authority and, as such, to ensure that systems are in place for meeting all the University's legal obligations, including those arising from contracts and other legal commitments made in the University's name;

RESPONSIBILITIES OF THE COUNCIL OF CRANFIELD UNIVERSITY

(continued ...)

- make such provision as it thinks fit for the general welfare of students, in consultation with Senate;
- act as trustee for any property, legacy, endowment, bequest or gift in support of the work and welfare of the University; and
- ensure that the University's Laws are followed at all times and that appropriate advice is available to enable this to happen.

Members of Council

The following members served throughout the period from 1st August 2012 to 17th October 2013 unless otherwise stated:-

Name	Position	Period
Dame Deirdre Hutton*	Pro-Chancellor & Chair of Council	from 25 October 2012
Mr Gordon Page*	Pro-Chancellor & Chair of Council	until 24 October 2012
Baroness Young of Old Scone*	Chancellor	
Professor Sir John O'Reilly *	Vice-Chancellor	until 31 January 2013
Professor Clifford Friend		
Mr Paul Fairweather	Chair of Finance Committee	
Dr Andreas Raffel	Deputy Chair of Council	
Ms Rachel Abercrombie		
Mr Habeeb Ajimotokan		from 1 May 2013
Professor Jackie Akhavan		
Mrs Alison Amatsah		until 30 September 2013
Dr Tracey Bailey		
Mr Michael Barstow		until 31 May 2013
Mr John Cridland		
Mr Robin Howard*	Treasurer	until 1 November 2012
Mr Dougie Hunter		
Major General (Retd) David Jenkins	Chair of Audit Committee	
Professor Joe Lunec		until 30 September 2013
Mrs Moni Mannings		from 1 June 2013
Mr Ian Mather		until 31 March 2013
Mr Stephen Odell		
Mr Atma Prakash		until 30 April 2013
Mrs Louise Redmond		
Dr Matthew Russell		
Professor Lynette Ryals*	Pro-Vice-Chancellor	until 30 September 2013
Dr Frances Saunders		
Professor Mark Savill		until 30 September 2013
Professor Tom Stephenson		until 30 September 2013
Mr Philip Young		until 31 May 2013

*Ex-officio

From 1st February 2013 to 31st July, 2013 Professor Clifford Friend served as Acting Vice-Chancellor. On 1st August, 2013 Professor Sir Peter Gregson was appointed Chief Executive and Vice-Chancellor and therefore became an ex-officio member of Council from that date.

RESPONSIBILITIES OF THE COUNCIL OF CRANFIELD UNIVERSITY

(continued ...)

The Council is required to present audited financial statements for each financial year and 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, 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 2013 which comprise the Consolidated Income and Expenditure Account, the Consolidated and University Balance Sheets, the Consolidated Cash Flow Statement and the Statement of Consolidated Total Recognised Gains and Losses, the Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

As explained more fully in the Responsibilities of the Council of Cranfield University's Statement set out on page 11 the Council is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion, on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the University's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Council; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Operating and Financial Review and Treasurer's Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the affairs of the Group and University as at 31st July 2013 and of the Group's income and expenditure, recognised gains and losses and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Statement of Recommended Practice - Accounting for Further and Higher Education;

Opinion on other matters prescribed in the HEFCE Audit Code of Practice issued under the Further and Higher Education Act 1992

In our opinion, in all material respects:

- funds from whatever source administered by the University for specific purposes have been properly applied to those purposes;
- income has been applied in accordance with the University's Statutes; and

- funds provided by HEFCE have been applied in accordance with the Financial Memorandum and any other terms and conditions attached to them.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matter where the HEFCE Audit Code of Practice issued under the Further and Higher Education Act 1992 requires us to report to you if, in our opinion:

- the statement of internal control included as part of the Corporate Governance Statement is inconsistent with our knowledge of the University and group.

A Argyle (Senior Partner)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

17th October, 2013

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, 2013 by Gerald Eve LLP. Freehold land is not depreciated as it is considered to have an indefinite useful life. Where land is held for resale and a conditional sale agreement is in place at the year end the land is revalued to the anticipated net proceeds and retained in fixed assets.

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. If a building is sold prior to the full release of the deferred capital grant, and no repayment is required to the grant funder, the residual value of the grant is transferred to the income and expenditure reserve as a recognised gain through the statement of consolidated total recognised gains and losses.

(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. If equipment is sold prior to the full release of the deferred capital grant, and no repayment is required to the grant funder, the residual value of the grant is transferred to the income and expenditure reserve as a recognised gain through the statement of consolidated total recognised gains and losses.

(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

CRANFIELD UNIVERSITY
PRINCIPAL ACCOUNTING POLICIES
(continued...)

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.

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, 2013 by Gerald Eve LLP.

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 3 of the Charities Act 2011 and as such is a charity within the meaning of Para 1 of Schedule 6 of the Finance Act 2010. 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.

CRANFIELD UNIVERSITY

PRINCIPAL ACCOUNTING POLICIES

(continued...)

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.

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 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.

16. Going concern

The University considers that it has sufficient financial resources and is confident that its future income streams will maintain these resources. Council believe that the University is well placed to effectively manage its business risks, despite the current uncertain economic situation.

Council have a reasonable expectation that the University has adequate resources to continue operating in existence for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the financial statements.

CRANFIELD UNIVERSITY
CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31ST JULY, 2013

		2013	2012
	Notes	£'000	£'000
Income			
Funding Council grants	1	27,260	28,107
Tuition fees and education contracts	2	66,833	64,973
Research grants and contracts		40,105	47,423
Other income	3	27,532	25,470
Endowment and investment income	4	494	251
Total income		<u>162,224</u>	<u>166,224</u>
Expenditure			
Staff costs	5	80,526	80,631
Other operating expenses	6	70,339	73,447
Depreciation	7	10,939	10,225
Interest payable	8	1,928	1,702
Total expenditure		<u>163,732</u>	<u>166,005</u>
(Deficit) / surplus after depreciation of assets and before tax		(1,508)	219
Profit / (loss) on disposal of assets	31	416	(28)
(Deficit) / surplus after depreciation and disposal of assets before tax		(1,092)	191
Taxation	9	-	-
(Deficit) / surplus after depreciation and disposal of assets and tax		(1,092)	191
Transfer from accumulated income within endowments		707	370
(Deficit) / surplus for the year retained within general reserves		<u>(385)</u>	<u>561</u>

The consolidated income and expenditure account relates to continuing operations. The deficit for the year attributable to the University is £152,000 (2012 – surplus £759,000).

The notes on pages 24 to 44 form part of these financial statements.

CRANFIELD UNIVERSITY

STATEMENT OF CONSOLIDATED TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31ST JULY, 2013

		2013	2012
	Notes	£'000	£'000
(Deficit) / surplus for the year retained in general reserves		(385)	561
Transfer from accumulated income within endowments		(707)	(370)
		<hr/>	<hr/>
(Deficit) / surplus after depreciation and disposal of assets and tax		(1,092)	191
Actuarial loss recognised	29	(2,597)	(9,765)
Revaluation of endowment asset investments:	19	218	(41)
New endowments	19	367	279
Land revaluation	20	7,176	-
Transfer from deferred capital grant		-	1,820
		<hr/>	<hr/>
Total recognised (losses) / gains relating to the period		4,072	(7,516)
		<hr/>	<hr/>
Reconciliation			
Opening reserves and endowments		66,220	73,736
Total recognised gains / (losses) for the year		4,072	(7,516)
		<hr/>	<hr/>
Closing reserves and endowments		70,292	66,220
		<hr/>	<hr/>

STATEMENT OF CONSOLIDATED HISTORICAL COST SURPLUS AND DEFICITS

FOR THE YEAR ENDED 31ST JULY, 2013

		2013	2012
	Notes	£'000	£'000
(Deficit) / surplus after depreciation and disposal of assets before tax		(1,092)	191
		<hr/>	<hr/>
Historical cost (deficit) / surplus for the year before tax		(1,092)	191
		<hr/>	<hr/>
Historical cost (deficit) / surplus for the year after tax		(1,092)	191
		<hr/>	<hr/>
Historical cost (deficit) / surplus after tax retained within general reserves		(385)	561
		<hr/>	<hr/>

The notes on pages 24 to 44 form part of these financial statements.

CRANFIELD UNIVERSITY
BALANCE SHEETS AT 31ST JULY, 2013

	Notes	CONSOLIDATED		UNIVERSITY	
		2013 £'000	2012 £'000	2013 £'000	2012 £'000
Fixed assets					
Intangible assets	10	29	42	-	-
Tangible assets	11	160,440	158,255	152,880	151,040
Investments	13	-	-	3,758	3,758
Total Fixed Assets		160,469	158,297	156,638	154,798
Endowment assets	12	5,795	5,917	7,223	7,345
Current assets					
Stock		242	229	180	153
Debtors	14	32,158	46,449	30,564	44,520
Cash at bank and in hand		34,036	24,295	31,833	22,167
Total current assets		66,436	70,973	62,577	66,840
Creditors: amounts falling due within one year	15	(49,927)	(53,136)	(45,061)	(48,339)
Net current assets		16,509	17,837	17,516	18,501
Total assets less current liabilities		182,773	182,051	181,377	180,644
Creditors: amounts falling due after more than one year	16	(17,360)	(17,486)	(17,360)	(17,486)
Provisions for liabilities and charges	17	(1,244)	(1,969)	(1,014)	(1,961)
Net assets excluding FRS17 pension liability		164,169	162,596	163,003	161,197
Pension liability	22	(43,029)	(40,181)	(43,029)	(40,181)
Net assets including FRS17 pension liability		121,140	122,415	119,974	121,016
Financed by:-					
Deferred capital grants	18	50,848	56,195	50,848	56,195
Endowments					
Expendable	19	7,223	7,345	7,223	7,345
Reserves					
Income and expenditure reserve excluding pension reserve	21	62,591	61,975	61,425	60,576
Pension reserve	22	(43,029)	(40,181)	(43,029)	(40,181)
Income and expenditure account including pension reserve		19,562	21,794	18,396	20,395
Revaluation reserve	20	43,507	37,081	43,507	37,081
		63,069	58,875	61,903	57,476
Total funds		121,140	122,415	119,974	121,016

The financial statements on pages 16 to 44 were approved by the Council on 17th October, 2013 and signed on its behalf by:-

C P FAIRWEATHER MA FCA
TREASURER

PROFESSOR SIR PETER GREGSON FREng MRIA
CHIEF EXECUTIVE & VICE-CHANCELLOR

P J ASPINALL ACA
GROUP DIRECTOR OF FINANCE & RESOURCES

The notes on pages 24 to 44 form part of these accounts.

CRANFIELD UNIVERSITY
STATEMENT OF CONSOLIDATED CASH FLOWS
FOR THE YEAR ENDED 31ST JULY, 2013

		2013	2012
	Notes	£'000	£'000
Net cash inflow from operating activities	25	4,710	8,153
Returns on investments and servicing of finance			
Interest received		74	196
Interest paid		(306)	(428)
Endowment income	19	111	55
Net cash outflow from returns on investments and servicing of finance		(121)	(177)
Taxation			
UK corporation tax paid		-	-
Capital expenditure and financial investment			
Purchase of fixed assets		(7,902)	(8,770)
Endowment asset investments disposed (net)		707	370
		(7,195)	(8,400)
Proceeds of disposal of tangible fixed assets		12,225	9,226
Proceeds of disposal of businesses	31	450	-
Deferred capital grants received		-	-
Endowments received		367	279
Net cash inflow from capital expenditure and financial investment		5,847	1,105
Net cash inflow before use of liquid resources and financing		10,436	9,081
Financing			
New loans / leases	26	639	-
Loans and finance leases repaid	26	(1,376)	(1,665)
Increase in cash in the year	27	9,699	7,416

The notes on pages 24 to 44 form part of these financial statements.

CRANFIELD UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST JULY, 2013

	CONSOLIDATED	
	2013	2012
	£'000	£'000
1. Funding Council grants		
Recurrent grant	20,587	21,243
Special initiatives	2,878	2,946
Deferred capital grants released		
Buildings (<i>Note 18</i>)	734	779
Equipment (<i>Note 18</i>)	3,061	3,139
	<hr/>	<hr/>
	27,260	28,107
	<hr/>	<hr/>
Grants are receivable from the Higher Education Funding Council for England. In addition to the above, grants were received for capital purposes of £1,996,000 (2012 - £1,947,000).		
2. Tuition fees and education contracts		
Long course fees	32,373	28,923
Professional development courses	19,472	20,321
Teaching contract	14,988	15,729
	<hr/>	<hr/>
	66,833	64,973
	<hr/>	<hr/>
3. Other income		
Residences and conference centres	10,474	10,523
Rents from tenant organisations	1,173	1,111
Deferred capital grants released		
Buildings (<i>Note 18</i>)	826	814
Equipment (<i>Note 18</i>)	726	710
Other	14,333	12,312
	<hr/>	<hr/>
	27,532	25,470
	<hr/>	<hr/>
4. Endowment and investment income		
Income from restricted expendable endowments (<i>Note 19</i>)	111	55
Interest on bank deposits	383	196
	<hr/>	<hr/>
	494	251
	<hr/>	<hr/>

CRANFIELD UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST JULY, 2013

(continued...)

	CONSOLIDATED	
	2013	2012
	£'000	£'000
5. Staff		
a. Staff costs		
Wages and salaries	64,521	64,838
Social security costs	5,624	5,633
Other pension costs	9,060	9,108
	79,205	79,579
Exceptional staff restructuring costs	1,321	1,052
	80,526	80,631
Emoluments paid for being the Acting Vice-Chancellor (Prof C Friend)	31	-
Emoluments paid to the former Vice-Chancellor (Prof Sir J O'Reilly)	220	274

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 £14,000 (2012 - £34,000).

b. The average number of employees during the year, expressed as full-time equivalents, was as follows:-	Number	Number
Academic	421	426
Research	256	270
Technical	192	185
Administrative and manual	891	896
	1,760	1,777
c. Remuneration of other higher paid staff, excluding employer's pension contributions, were as follows:-		
£100,000 - £109,999	13	9
£110,000 - £119,999	9	10
£120,000 - £129,999	3	3
£130,000 - £139,999	4	3
£140,000 - £149,999	1	1
£150,000 - £159,999	-	2
£190,000 - £199,999	1	-
£210,000 - £219,999	1	-
£230,000 - £239,999	-	1

CRANFIELD UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST JULY, 2013

(continued...)

	CONSOLIDATED	
	2013	2012
	£'000	£'000
6. Other operating expenses		
Other operating amounts charged include:-		
Equipment expensed	2,595	3,913
Unrealised exchange loss/(gain) on Euro loan	842	(834)
Auditors' remuneration:-		
- external audit	127	122
- other services including tax	62	91
Council members' expenses	3	4
	_____	_____
Included in the above are audit fees in respect of the University only of £78,000 (2012 - £71,000)		
Council members' expenses represent re-imburement of amounts incurred in attending University meetings. No Council member received any payment for their role as a trustee. Dawson Howard International, a partnership in which Mr R Howard has an interest, provided consultancy services in the year and was paid, including expenses, £9,703 (2012 - £35,288).		
7. Depreciation		
The depreciation charge has been funded by:-		
Deferred capital grants released	5,347	5,442
General income	5,592	4,783
	_____	_____
	10,939	10,225
	_____	_____
8. Interest payable		
Interest on long term loans repayable wholly or partly in more than five years	286	387
Pension finance costs (Note 29)	1,642	1,315
	_____	_____
	1,928	1,702
	_____	_____
9. Taxation		
Corporation tax charged / (credited) in the year:-		
UK corporation tax at 23.67% (2012 – 20.67%)	-	-
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 FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST JULY, 2013

(continued...)

9. Taxation (continued ...)	CONSOLIDATED	
	2013	2012
	£'000	£'000
(Deficit) / surplus on ordinary activities before taxation	(385)	561
Tax on surplus on ordinary activities multiplied by the lower rate of corporation tax in the UK of 23.67% (2012 – 20.67%)	-	116
Factors affecting charge:		
University surplus exempt from corporation tax	-	(157)
Other permanent differences	-	41
Corporation tax charged in the year	-	-

There are no significant unprovided amounts in respect of deferred taxation (2012 - £Nil).

10. Intangible Assets – Consolidated

	£'000
Patent Applications:	
At beginning of year	42
Additions	2
Amortisation	(15)
At end of year	29

11. Tangible assets	Land & Buildings			Fixtures, Plant & Machinery	Total
	Freehold	Leasehold	Equipment		
	£'000	£'000	£'000	£'000	£'000
a. Consolidated					
Cost/valuation					
At beginning of year	155,772	1,444	36,196	62,429	255,841
Additions	(25)	-	1,944	5,005	6,924
Revaluation	6,426	-	-	-	6,426
Disposals	(2,844)	-	(922)	(312)	(4,078)
At end of year	159,329	1,444	37,218	67,122	265,113
Cost	115,822	1,444	37,218	67,122	221,606
Valuation	43,507	-	-	-	43,507
Depreciation					
At beginning of year	33,232	1,444	27,885	35,025	97,586
Charge for year	2,769	-	3,034	5,136	10,939
Disposals	(2,717)	-	(893)	(242)	(3,852)
At end of year	33,284	1,444	30,026	39,919	104,673
Net book amount					
At end of year	126,045	-	7,192	27,203	160,440
At beginning of year	122,540	-	8,311	27,404	158,255

CRANFIELD UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST JULY, 2013

(continued...)

	Land & Buildings		Equipment	Fixtures, Plant & Machinery	Total
	Freehold	Leasehold			
	£'000	£'000			
11. Tangible assets (continued ...)					
<i>b. University</i>					
Cost/valuation					
At beginning of year	149,542	1,444	35,841	56,498	243,325
Additions	(25)	-	1,852	3,899	5,726
Revaluation	6,426	-	-	-	6,426
Disposals	(2,663)	-	(917)	(83)	(3,663)
At end of year	153,280	1,444	36,776	60,314	251,814
Cost	109,773	1,444	36,776	60,314	208,307
Valuation	43,507	-	-	-	43,507
Depreciation					
At beginning of year	31,390	1,444	27,576	31,875	92,285
Charge for year	2,636	-	3,011	4,509	10,156
Disposals	(2,536)	-	(888)	(83)	(3,507)
At end of year	31,490	1,444	29,699	36,301	98,934
Net book amount					
At end of year	121,790	-	7,077	24,013	152,880
At beginning of year	118,152	-	8,265	24,623	151,040

The net book amounts of tangible fixed assets include £2,000 (2012 - £5,000) in respect of assets held under finance leases in the consolidated and University accounts respectively. The related depreciation charge for the year was £3,000 (2012 - £3,000). At 31st July, 2013 buildings, fixtures and plant included £1,647,000 (2012 - £2,483,000) in respect of assets under construction in the consolidated accounts. In the University assets under construction amounted to £1,462,000 (2012 - £2,302,000). The book value of Funding Council assets are disclosed in Note 18.

CRANFIELD UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST JULY, 2013

(continued...)

	CONSOLIDATED	UNIVERSITY
	£'000	£'000
12. Endowment assets		
At beginning of year	5,917	7,345
Additions	478	478
Disposals	(818)	(818)
	(340)	(340)
Revaluation	218	218
At end of year	5,795	7,223
Endowment assets:-		
Equities and other listed securities	1,957	1,957
Equities (<i>unlisted</i>)	42	42
Investments in subsidiaries	-	1,428
Land	381	381
Cash at bank and in hand including short term deposits	3,415	3,415
	5,795	7,223

The University Balance Sheet on Page 22 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	
	2013	2012
	£'000	£'000
13. Investment in subsidiaries		
At beginning of year	3,758	3,758
Additions	-	-
At end of year	3,758	3,758

CRANFIELD UNIVERSITY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST JULY, 2013**

(continued...)

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

At 31st July, 2013 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
Novaswift Ventures Limited (formerly Sudbury House Hotel Limited)	Provision of hotel and conference services until 31 May 2013 when the core business was sold.
CIT Holdings Limited	Holding company
Cranfield Aerospace Limited	Aerospace research and development
Cranfield Conference Centre Limited	Provision of conference and accommodation services
Cranfield Quality Services Limited	Provision of staff
Cranfield Regatta Limited	Organisation of an annual sailing event
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	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
14. Debtors				
Work in progress	9,974	10,681	9,241	10,167
Trade debtors	19,079	20,824	14,690	15,632
Prepayments and accrued income	3,092	14,928	2,769	14,488
Other taxes	13	16	-	-
Amounts receivable from subsidiary undertakings	-	-	3,864	4,233
	32,158	46,449	30,564	44,520

Included in amounts receivable from subsidiary undertakings is £2,082,000 (2012 - £1,686,000) which is recoverable after more than one year.

CRANFIELD UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST JULY, 2013

(continued...)

	CONSOLIDATED		UNIVERSITY	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
14. Debtors (continued ...)				
Work in progress comprises:-				
Costs incurred to date less foreseeable losses	66,025	68,336	59,590	64,098
Less: progress payments	(56,051)	(57,655)	(50,349)	(53,931)
	<u>9,974</u>	<u>10,681</u>	<u>9,241</u>	<u>10,167</u>
15. Creditors: amounts falling due within one year				
Bank loans	1,497	1,265	1,497	1,265
Finance lease obligations	2	3	2	3
Amounts owed to subsidiary undertakings	-	-	241	219
Trade creditors and accruals	14,193	18,405	11,664	15,489
Social security costs and other taxes	3,555	3,291	3,064	2,810
Deposits and income in advance	30,680	30,172	28,593	28,553
	<u>49,927</u>	<u>53,136</u>	<u>45,061</u>	<u>48,339</u>
16. Creditors: amounts falling due after more than one year				
Bank loans	17,360	17,483	17,360	17,483
Finance lease obligations	-	3	-	3
	<u>17,360</u>	<u>17,486</u>	<u>17,360</u>	<u>17,486</u>
a. <i>Bank loans</i>				
Bank loans are repayable:-				
Within one year	1,497	1,265	1,497	1,265
Between one and two years	1,501	1,279	1,501	1,279
Between two to five years	4,341	3,884	4,341	3,884
After five years	11,518	12,320	11,518	12,320
	<u>18,857</u>	<u>18,748</u>	<u>18,857</u>	<u>18,748</u>

CRANFIELD UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST JULY, 2013
(continued...)

	CONSOLIDATED		UNIVERSITY	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
16. Creditors: amounts falling due after more than one year <i>(continued ...)</i>				
<i>b. Finance leases</i>				
The net finance lease obligations to which the University is committed are:-				
Within one year	2	3	2	3
Within two to five years	-	3	-	3
	2	6	2	6

The Group had the following bank loans at 31st July, 2013:-

Interest Rate	Loan Type	Security	Final Repayment	Loan Outstanding £'000
1. Euro base + 0.18%	Floating(Euros)	None	15th August, 2027	7,015
2. Sterling base + 0.18%	Floating	None	31st July, 2027	9,034
3. 8.71%	Fixed	Land and buildings	14th March, 2022	2,216
4. Interest Free	Salix Fixed	None	1st September, 2014	33
5. Interest Free	Salix Fixed	None	1st September, 2016	559
				18,857

	Staff restructuring	Other	Total
	£'000	£'000	£'000
17. Provisions for liabilities and charges			
<i>a. Consolidated</i>			
At beginning of year	1,075	894	1,969
Utilised	(1,075)	(420)	(1,495)
Charged to income and expenditure account	732	38	770
At end of year	732	512	1,244

CRANFIELD UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST JULY, 2013
(continued...)

	Staff restructuring	Other	Total
	£'000	£'000	£'000
17. Provisions for liabilities and charges (continued ...)			
b. University			
At beginning of year	1,075	886	1,961
Utilised	(1,075)	(420)	(1,495)
Charged to income and expenditure account	547	1	548
At end of year	547	467	1,014

Staff restructuring will be utilised during the next financial year and relates to the re-organisation of activities within the School of Management and Cranfield Health. Other relates to a warranty provision and costs related to legal compliance and their associated legal costs.

	General	Funding Council	Total
	£'000	£'000	£'000
18. Deferred capital grants			
<i>Consolidated and University</i>			
At beginning of year			
Buildings	14,051	23,143	37,194
Equipment	4,006	14,995	19,001
	18,057	38,138	56,195
Cash receivable			
Buildings	-	-	-
Equipment	-	-	-
Released to income and expenditure account			
Buildings	(826)	(734)	(1,560)
Equipment	(726)	(3,061)	(3,787)
At end of year	16,505	34,343	50,848
Buildings	13,225	22,409	35,634
Equipment	3,280	11,934	15,214
	16,505	34,343	50,848

CRANFIELD UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST JULY, 2013
(continued...)

	CONSOLIDATED AND UNIVERSITY		
	Restricted Expendable	2013 Total	2012 Total
	£'000	£'000	£'000
19. Endowments			
At beginning of year			
Capital	6,614	6,614	6,764
Accumulated income	731	731	713
	7,345	7,345	7,477
New endowments	367	367	279
Investment income	111	111	55
Expenditure	(818)	(818)	(425)
	(707)	(707)	(370)
Increase in market value of investments	218	218	(41)
	7,223	7,223	7,345
Represented by:			
Capital	6,427	6,427	6,614
Accumulated income	796	796	731
	7,223	7,223	7,345

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 of year		37,081
Transfer to income and expenditure reserve on asset disposal		(750)
Land revaluation		7,176
		43,507
At end of year		43,507
21. Income and expenditure reserve (excluding pension reserve)		
At beginning of year	61,975	60,576
Deficit for the year	(385)	(152)
Transfer from revaluation reserve	750	750
Transfer from pension reserve	251	251
	62,591	61,425
At end of year	62,591	61,425

CRANFIELD UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST JULY, 2013
(continued...)

	CONSOLIDATED AND UNIVERSITY	
	2013	2012
	£'000	£'000
22. Pension reserve		
Movement in deficit during the year:		
Deficit in scheme at beginning of the year	(40,181)	(30,754)
Movement in year:		
Current service cost	(1,832)	(1,564)
Contributions	3,288	3,217
Past service cost	-	-
Curtailment cost	(65)	-
Other finance charge	(1,642)	(1,315)
Actuarial loss	(2,597)	(9,765)
Deficit in scheme at end of year	(43,029)	(40,181)

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 41).

	CONSOLIDATED		UNIVERSITY	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
23. Lease obligations				
Commitments under operating leases				
At 31st July, 2013 there were annual commitments under non-cancellable operating leases expiring as follows:-				
Land and buildings				
Within one year	-	-	-	-
Between two and five years	554	28	554	28
In more than five years	235	758	235	758
	<u>789</u>	<u>786</u>	<u>789</u>	<u>786</u>
Other				
Within one year	34	137	-	2
Between two and five years	67	72	-	19
In more than five years	-	-	-	-
	<u>101</u>	<u>209</u>	<u>-</u>	<u>21</u>

CRANFIELD UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST JULY, 2013

(continued...)

	CONSOLIDATED		UNIVERSITY	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
24. Capital commitments				
a. Capital expenditure contracted but not provided in the accounts	1,248	1,630	1,248	1,406
b. Capital expenditure authorised but not contracted	4,665	2,192	4,665	1,683

	CONSOLIDATED	
	2013	2012
	£'000	£'000
25. Reconciliation of operating (deficit) / surplus before taxation to net cash inflow from operating activities		
Operating (deficit) / surplus before taxation	(1,092)	191
Endowment and investment income	(494)	(251)
Interest payable	1,928	1,702
Other pension costs (FRS17 adjustment)	(1,391)	(1,653)
Depreciation charge	10,939	10,225
Deferred capital grants released	(5,347)	(5,442)
(Surplus) / deficit on disposal of tangible fixed assets	(416)	28
Foreign exchange loss / (gain)	886	(353)
Impairment of tangible fixed assets	15	-
Movement in working capital		
Stock	(13)	(21)
Work in progress	707	1,287
Debtors	2,309	(2,724)
Creditors	(3,104)	1,258
Deposits and income in advance	508	4,203
Provisions	(725)	(297)
	(318)	3,706
Net cash inflow from operating activities	4,710	8,153

CRANFIELD UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST JULY, 2013
(continued...)

	CONSOLIDATED	
	2013	2012
	£'000	£'000
26. Analysis of changes in loan and finance leases during the year		
At beginning of year	18,754	21,253
New leases/loans	639	-
Capital repayments	(1,376)	(1,665)
Foreign exchange loss/(gain)	842	(834)
At end of year	<u>18,859</u>	<u>18,754</u>

	CONSOLIDATED	
	2013	2012
	£'000	£'000
27. Reconciliation of net cash flow to movement in net funds		
Increase in cash at bank and in hand	9,699	7,398
Decrease in bank overdraft	-	18
Increase in cash	9,699	7,416
Decrease in loans and finance leases	737	1,665
Change in net funds	<u>10,436</u>	<u>9,081</u>
Net funds / (debt) at beginning of year	5,541	(3,936)
Foreign exchange (loss) / gain	(800)	396
Net funds at end of year	<u>15,177</u>	<u>5,541</u>

CRANFIELD UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST JULY, 2013

(continued...)

28. Analysis of changes in net funds / (debt)

	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	24,295	9,699	42	34,036
Bank overdraft	-	-	-	-
	<u>24,295</u>	<u>9,699</u>	<u>42</u>	<u>34,036</u>
Loans and finance leases within one year	(1,268)	(231)	-	(1,499)
Loans and finance leases after one year	(17,486)	968	(842)	(17,360)
	<u>5,541</u>	<u>10,436</u>	<u>(800)</u>	<u>15,177</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 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. 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.

Since October 2011 USS has provided two schemes. The first for staff who were USS members at 30th September, 2011, whose benefits are based on final pensionable salary, the second for entrants after that date (other than in some specific, limited circumstances) whose benefits are provided on a career re-valued basis.

LGPS provides similar benefits for other staff of the University, based on their final salary.

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 FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST JULY, 2013

(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, 2011. 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 4.4% per annum. The institution contribution rate required for future service benefits alone at the date of valuation was 16% of salaries. The next formal actuarial valuation is due as at 31st March, 2014 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, 2011
Investment returns per annum	4.4%
Salary scale increases per annum	4.4%
Market value of assets at date of last valuation	£32,433.5 million
Proportion of members' accrued benefits covered by the actuarial value of the assets (technical provisions basis)	92%
Proportion of members' accrued benefits covered by the actuarial value of the assets (historic gilts basis)	68%

LGPS

The rate of the University's employer's contributions for LGPS is determined by the actuaries and increased to 17% of pensionable salaries with effect from 1st October, 2009. 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 FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST JULY, 2013

(continued...)

29. Pensions (continued ...)

LGPS (continued ...)

The figures disclosed below estimated by the actuary as at 31st July, 2013 have been derived by suitable approximation methods from the full actuarial valuation as at 31st March, 2010. 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, 2013 are as follows:-

	2013 %	2012 %	2011 %
Salary scale increases per annum	5.1	3.9	3.9
Pension increases per annum	2.8	2.0	2.7
Discount rate per annum	4.6	4.3	5.3
Members opting for enhanced commutation pre 2008 service	50.0	50.0	50.0
Members opting for enhanced commutation post 2008 service	75.0	75.0	75.0

The assumed life expectations on retirement at age 65 (in years) are:-

	2013	2012
Retiring today		
Males	21.6	21.6
Females	23.2	23.2
Retiring in 25 years		
Males	23.6	23.6
Females	25.6	25.6

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

	2013		2012		2011	
	Long term return expected %	Assets £'000	Long term return expected %	Assets £'000	Long term return expected %	Assets £'000
Equities	6.4	44,795	5.5	29,007	7.0	28,298
Property	4.6	5,119	3.7	5,021	5.1	4,898
Bonds	3.9	12,159	3.5	9,483	4.6	14,149
Cash	3.4	1,920	2.8	12,273	4.0	7,075
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	5.7	63,993	4.4	55,784	5.8	54,420
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

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

CRANFIELD UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST JULY, 2013
(continued...)

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

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

	2013	2012	2011
	£'000	£'000	£'000
Market value of assets	63,993	55,784	54,420
Present value of liabilities	(107,022)	(95,965)	(85,174)
Deficit – net pension liability	<u>(43,029)</u>	<u>(40,181)</u>	<u>(30,754)</u>

	2013	2012
	£'000	£'000
Analysis of the total operating charge:-		
Current service cost	1,832	1,564
Loss due to curtailments	65	-
Past service cost	-	-
Total operating charge	<u>1,897</u>	<u>1,564</u>

Analysis of the amount charged to interest payable:-		
Expected return on pension scheme assets	(2,461)	(3,152)
Interest on pension scheme liabilities	4,103	4,467
Pension finance costs	<u>1,642</u>	<u>1,315</u>
Total income and expenditure account charge	<u>3,539</u>	<u>2,879</u>

CRANFIELD UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST JULY, 2013
(continued...)

29. Pensions *(continued ...)*

	2013	2012
	£'000	£'000
Analysis of amount recognised in statement of total recognised gains and losses:-		
Actual return less expected return on pension scheme assets	(2,597)	(9,765)
Experience gains and losses arising on the scheme liabilities	-	-
Change in financial and demographic assumptions underlying the scheme liabilities	-	-
	(2,597)	(9,765)
Analysis of movements in the present value of the scheme liabilities:-		
At beginning of year	95,965	85,174
Current service cost	1,832	1,564
Interest cost	4,103	4,467
Contributions by members	601	620
Actuarial losses	8,051	8,139
Past service (gains) / costs	-	-
Losses on curtailments	65	-
Estimated underfunded benefits paid	-	-
Estimated benefits paid	(3,595)	(3,999)
	107,022	95,965
Analysis of movement in the market value of the scheme assets:-		
At beginning of year	55,784	54,420
Expected return on assets	2,461	3,152
Contributions by members	601	620
Contributions by the employer	3,288	3,217
Contributions in respect of unfunded benefits	-	-
Actuarial (losses) / gains	5,454	(1,626)
Estimated unfunded benefits paid	-	-
Estimated benefits paid	(3,595)	(3,999)
	63,993	55,784

CRANFIELD UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST JULY, 2013

(continued...)

29. Pensions (continued ...)

	2013	2012	2011	2010	2009
Details of experience gains and losses for the year:					
Gain / (loss) on scheme assets:					
Amount (£'000)	5,454	(1,626)	(1,423)	3,059	(8,960)
Percentage of scheme assets	8.5%	(2.9%)	(2.6%)	5.8%	(19.1%)
Experience (loss) / gain on scheme liabilities:					
Amount (£'000)	(108)	(1,325)	10,030	(7)	46
Percentage of the present value of the scheme liabilities	(0.1%)	(1.4%)	11.8%	0.0%	0.1%
Total (loss) / gain recognised in the statement of total recognised gains and losses:					
Amount (£'000)	(2,597)	(9,765)	11,708	3,783	(17,524)
Percentage of the present value of scheme liabilities	(2.4%)	(10.2%)	13.7%	4.0%	(19.4%)

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.

30. Access funds

	CONSOLIDATED	
	2013	2012
	£'000	£'000
Funding Council grants	34	43
Disbursed to students	(21)	(27)
Balance unspent at end of year	13	16

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. Profit / (loss) on the disposal of assets

	CONSOLIDATED	
	2013	2012
	£'000	£'000
Profit on the disposal of the business of Sudbury House Hotel	397	-
Profit / (loss) on the disposal of tangible fixed assets	19	(28)
	416	(28)

On the 31st May, 2013 the business of Novaswift Ventures Limited (formerly Sudbury House Hotel Limited) was sold to a third party for £450,000 in an arm's length transaction. Total proceeds, including the sale of the University owned property was £1.4million. As a result of this sale, there is a warranty of £300,000 given to the purchaser that expires two years from the date of sale. The University does not believe that this potential contingent liability will crystallise.

CRANFIELD UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST JULY, 2013
(continued...)

32. **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.