

Consolidated financial statements

Year ended 31 July 2013

Falmouth University
(formerly University College Falmouth)

Board of Governors (at date of signing)

Chairman	Mr J Williams
Vice-Chancellor & Chief Executive	Professor A Carlisle
Audit Committee Chair	Mr T Van Oss
Independent Governors	Dame Lynne Brindley
	Mr M Carne
	Mr P Gibby
	Ms C Kelemen OBE
	Mr B Louveaux
	Mr H Milton
	Dame Janet Ritterman

Academic Board Representative	Mr J Unwin
Professional Services Staff Representative	Mr P Rice
Students' Union President - Falmouth	Ms I O'Regan

Other Officers

Deputy Vice-Chancellor	Professor G Smith
Pro Vice-Chancellor (Research & Innovation)	Professor P Moore
Director of Finance & Resources	Mr P Cox
Registrar & Secretary to the Board	Mr A Schorah

Registered Office Address

Falmouth Campus
Woodlane
Falmouth
TR11 4RH

Bankers

Barclays Bank plc
4th Floor
Bridgewater House
Counterslip
Finzels Reach
BRISTOL BS1 6BX

External Auditor

KPMG LLP
Plym House, 3 Longbridge Road
PLYMOUTH PL6 8LT

Internal Auditor

Uniac
4th Floor St James' Building
Oxford Street
MANCHESTER M1 6FQ

**Falmouth University
Consolidated Financial Statements
for the year ended 31 July 2013**

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Falmouth University

Joint Statement by the Chairman of the Board of Governors and Vice-Chancellor & Chief Executive

For over 110 years, Falmouth University (Falmouth) has been a dynamic centre for creative learning and innovation. The Strategic Plan 2012-2017 is an ambitious growth plan, which presents a vision that will enable Falmouth to build on this legacy and achieve its goal to be one of the top five specialist creative universities in the world by 2017.

This plan sets out three goals as follows:

	Goal	Status
1	University Title by 2014	Achieved (ahead of schedule)
2	Research Degree Awarding Powers by 2016	In progress (ahead of schedule)
3	International top 5 specialist arts university status by 2017	In progress (on target)

As you will read below and in the Operating and Financial Review the University has made credible progress against its targets in a challenging economic environment. At a time when grant income is reducing and other grant opportunities become more and more competitive there remains much to be done but the progress made in the past year has seen growth in student numbers and investment in activity and facilities aimed at providing the best student experience possible.

University Title

It is pleasing to report that in December 2012, the Privy Council granted the full University title following the successful application and demonstration that Falmouth University was a mature higher education institution, with sufficient students and the requisite standards of quality and financial sustainability, to justify the award of University title.

The inauguration of Falmouth University was marked by a succession of events in May 2013, raising awareness of the University, the extent and quality of its work and the importance of the creative industries to Cornwall's development. The events were well attended by leading figures from the education, cultural & creative sectors, business, public sector, civic, religious and ceremonial functions and the media.

Speaking at the inauguration celebration, Sir Alan Langlands (then Chief Executive of HEFCE) said: "The energy, creativity and professionalism of the students at the University is obvious to everyone here... students make universities, and Falmouth's mission to 'give creative minds inspiring futures' will be its hallmark." He also said: "The UK has the largest creative industries sector in Europe and it is here and in similar economies around the world that the artists, designers, performers, writers and media experts from the University will find their place and make their mark."

The University received many letters and other expressions of thanks and appreciation, which go some way to demonstrate that the aims were comprehensively met. As well as thoroughly enjoying the events, guests understood the importance of the achievement of University Title:

Colonel Edward Bolitho OBE, Lord Lieutenant of Cornwall

Yesterday was a triumphant day for Falmouth University and a really important day for Cornwall too. The work that you and your staff, and your predecessor have undertaken with such skill over many years has paid off in spades and it is outstanding now that we have our own Cornish University... May Falmouth University go from strength to strength and continue to play a major role in Cornwall's development.

Falmouth University

Joint Statement by the Chairman of the Board of Governors and Vice-Chancellor & Chief Executive

Thelma Sorensen OBE Chair, Cornwall Business Partnership

It was an absolute privilege to have been invited to join you and I cannot begin to tell you what a sense of pride I feel at being able to write to you at Falmouth University. Our ambitions for Cornwall are beginning to come to pass.

Gavin Poole, LEP Board Member and Partner, Foot Anstey LLP

What a great moment in history for Cornwall! The significance for the County should not be underplayed.

Kim Conchie, Director, Cornwall Chamber of Commerce

A truly special occasion for Cornwall. As a Falmothian I felt very honoured and excited to be part of it. Thank you to all concerned.

The relationships and goodwill built at the Inauguration events will be developed by more strategic meetings and events with external partners in 2013/14.

Research Degree Awarding Powers (RDAPs) by 2016

The University is on track to submit its application for RDAPs in April 2014, which on a typical assessment timescale would lead to confirmation of RDAPs in mid to late 2015. The University's agreement with University of the Arts London (UAL) includes the option to immediately transfer all research students to Falmouth, and award all research degrees directly from the date of RDAPs confirmation, following agreement with existing students.

The process of developing the RDAP application has served as a vehicle for developing Falmouth's research environment more generally, maximising any synergy with other funding and assessment frameworks. This development has, however, come with the need for targeted investment which has impacted on the financial results for the year.

The distinct benefits to Falmouth of holding RDAPs are:

- **Enhancing the reputation of the University** and its research environment, by holding degree awarding powers from undergraduate study through to doctoral study, and validating the quality of the University's research environment;
- **A stronger research identity** for Falmouth's staff and students;
- **Independence and flexibility in provision:** enabling a focus on practice, new programmes and modes of study; this includes honorary research degrees;
- **Lower costs**, through the removal of the management fee to UAL and Plymouth University, and lower travel costs for students and UAL representatives;
- **Process efficiency:** layers of committees and interpretations are removed from decision making processes.

The Quality Assurance Agency has been informed of the University's plan and has acknowledged the University's intention to submit the application in April 2014.

The University has secured support for the application from the current research degree validators, namely Professor Mick Fuller (Plymouth University, Head of the Graduate School) and Professors Helen Thomas and Oriana Baddeley (UAL, Chair of Research Degrees Sub-Committee, and members of the application team from when UAL made their application for RDAP respectively). Professor Baddeley was also recently appointed to the REF2014 assessment panel for art and design. The University has also secured the services of two respected external assessors to assist with the application: Emeritus Professors Chesters (Hull) and Timms (Bath).

Falmouth University

Joint Statement by the Chairman of the Board of Governors and Vice-Chancellor & Chief Executive (continued)

International top 5 specialist arts university status by 2017

Falmouth is scoping potential international comparators and partners, both at 'whole institution' level and at departmental level, and has produced a long-list of HEIs and departments for potential partnerships. Various sources of intelligence are being scrutinised in order to gain an overview of the reputation and relative standing of international higher education institutions, including global university rankings such as the Times Higher and QS tables, country-specific rankings, and membership of international 'mission groups' relevant to the creative arts, e.g. The European League of Institutes of the Arts.

The University is also scrutinising other measures, including accreditation from internationally recognised bodies, the subject and sector expertise of its own staff and their professional networks, and evidence of measures which inform UK rankings, for example application to acceptance ratio, student to staff ratio, and student satisfaction surveys such as the International Student Barometer (ISB).

Falmouth participates in the ISB, the world's largest on-going survey of international students' satisfaction with university life, with over 160,000 students from 193 institutions in 14 countries participating. It is used as the official measure of international student opinion by the UK government and funding bodies. Results are published biannually and are compared against comparator groups, national and international benchmarks. The ISB results from Autumn 2012 show that Falmouth is ranked number 1 in the UK and number 2 globally for overall international student satisfaction.

Falmouth University's Strategy is clearly organised around the delivery of its 5 Objectives. These objectives inform all its business planning and development processes and are underpinned by a number of 'Measures of Success'.

Objective 1: To expand and diversify what we do

Like other universities with a similar range of provision, the number of applications fell compared with the previous year's pre-higher-fee peak and the national average for overall student applications. In spite of this, the University enrolled more students than ever with new courses being introduced as we continue to expand our portfolio across all the creative disciplines. Developed with relevant industry partners the subjects offered are in high demand by businesses across the creative industries. Against a target for full-time home/EU enrolled students of 3,829 the University achieved 3,571 and against a target for part-time home/EU enrolled students of 173 the University achieved 185.

Objective 2: To produce satisfied graduates who get great jobs

Additional initiatives to attain consistently high levels of student satisfaction remain a high priority as does producing highly employable entrepreneurial graduates. Results for the National Student Survey achieved an overall satisfaction score of 79% against a target of 80%. Our staff continue to evolve the way they teach and support students. The innovative approach to practice-based learning means that students graduate with the skills necessary to secure jobs and careers in the creative sector. National surveys show that Falmouth has a higher than average number of graduates who set up their own businesses and five times the national average of self-employed graduates. Falmouth alumni also achieve prominent positions in global companies, from Saatchi & Saatchi to Nike to Warner Brothers. Artistic success also remains high too and for a second time another Falmouth alumni has been shortlisted for the prestigious 2013 Turner Prize.

Falmouth University

Joint Statement by the Chairman of the Board of Governors and Vice-Chancellor & Chief Executive
(continued)

Objective 3: To be celebrated for our research and innovation

Research and innovation opportunities continue to be developed through the Academy for Innovation & Research (AIR) and new contracts for individual and collaborative research have been secured which will flow through in years to come. With a target of research and innovation income as a proportion of total income set at 5% the University achieved a figure of 5.5%. The AIR Sandpit and Studio have attracted hundreds of new businesses to the University, which in turn has led to a wide range of new research projects and collaborations, many of which are supported by externally funded PhD Research Studentships. At the same time AIR has been the home of a number of test-bed incubation projects e.g. the BT Superfast Labs designed to stimulate innovation in relation to Superfast Broadband.

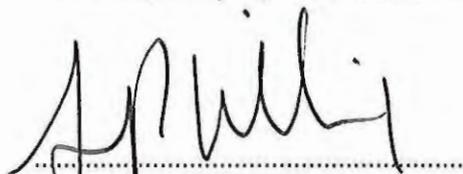
Objective 4: To help grow Cornwall

Falmouth is now recognised as a leading player in the innovation landscape in Cornwall, which has been achieved both by the visibility AIR gives the University, but also through the part we have played at a policy and strategic level in partnership with Cornwall & Isles of Scilly Local Enterprise Partnership (LEP) and Cornwall Council's Department of Economic Development. One of the Post 2014 economic growth priorities for the region is to attract and retain more graduate talent for Cornwall's benefit. In this context, Falmouth has recently been successful in securing support from ERDF Convergence to run (from May 2014) an innovative pilot graduate entrepreneurship programme – Alacrity Falmouth – here in Falmouth supported by major industry experts, mentors and investors. Targets for businesses assisted (114) and new jobs created in Cornwall (176) were both marginally exceeded at 119 and 179 respectively.

Objective 5: To be internationally significant

Falmouth currently has students from over forty countries and in the past year considerable effort has been put into developing our feeder schools and colleges in key markets such as China and Norway and enrolled 160 international students against a target of 208. New partnership agreements are also being developed with likeminded international Universities, which will lead to a variety of international opportunities ranging from staff and student exchange, to articulation (2+2), as well as direct progression onto Falmouth awards. Falmouth's success in the International Student Barometer (IBS) is also testament to the quality of the international student experience at Falmouth. Although international partnership by its very nature involves time before students progress to Falmouth, we are confident that these new initiatives coupled with our IBS results will bring regular streams of international students to study in Falmouth in the near future.

The senior team and Board of Governors believe that the quality of staff across academic departments and professional services provide an excellent student experience, and would like to record their thanks to all staff over the past year for their contributions towards Falmouth's successes, and progress towards full delivery of the Strategic Plan.



James Williams
Chairman, Board of Governors



Professor Anne Carlisle
Vice-Chancellor & Chief Executive

**Falmouth University
Operating and Financial Review**

Operating and financial review

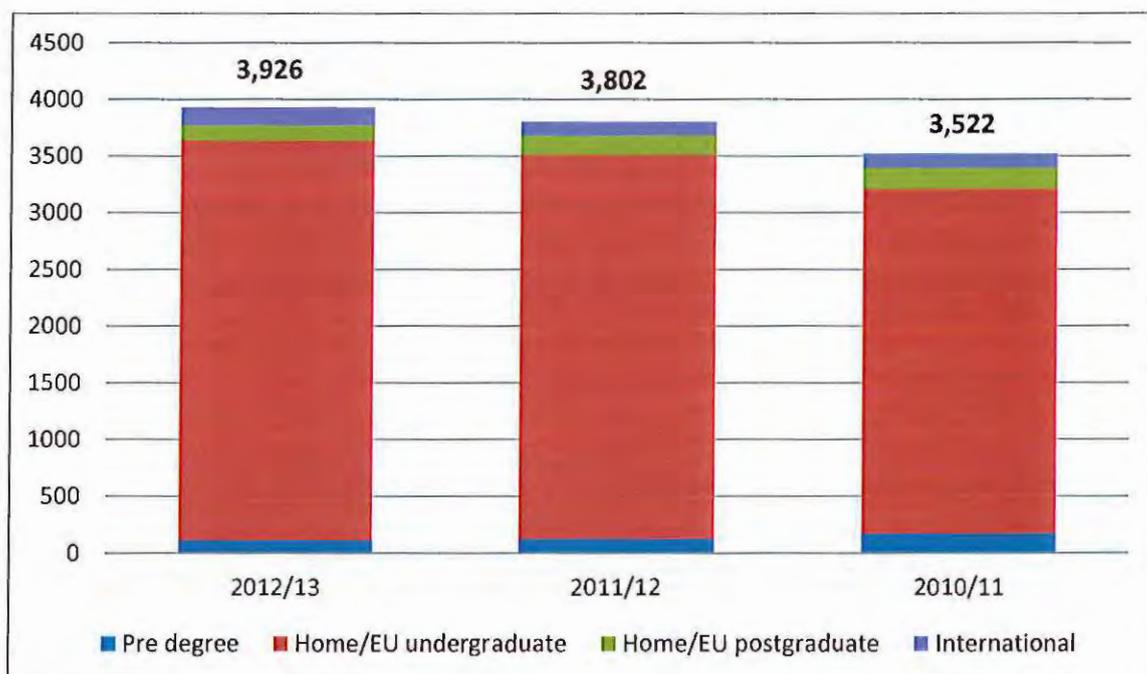
1. Overview

1.1 The financial strategy aims to deliver financial sustainability through four strands of activity:

- Significant growth in teaching, research and innovation activities
- Diversification of income sources and activities
- Effective partnerships
- Sustainable estates and facilities investment planning

The past year has seen progress in all of these areas.

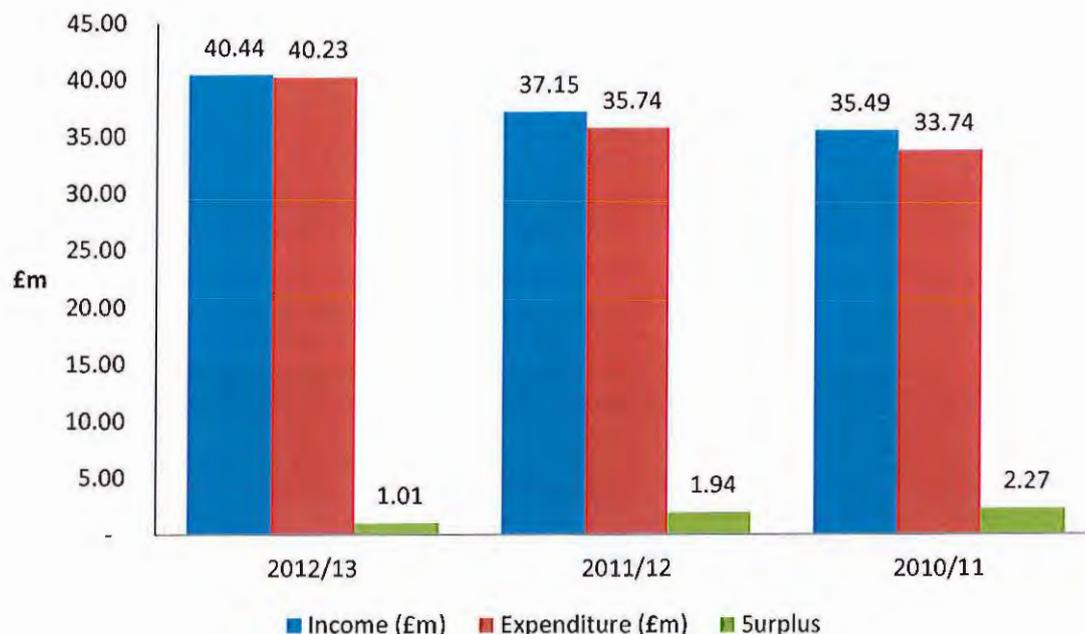
1.2 Falmouth registered a 3% year on year increase in student numbers in 2012/13 made up as shown below.



1.3 Financial highlights include:

	2012/13 £(000)	2011/12 £(000)	2010/11 £(000)
Income (excluding share of joint venture)	40,439	37,151	35,492
Expenditure	(40,233)	(35,740)	(33,744)
Historic cost Surplus (page 28)	1,008	1,940	2,270
Net assets	99,755	101,247	86,033
Cash at bank and in hand	5,928	8,803	9,266

Falmouth University
Operating and Financial Review (continued)



1.4 These results are shown against key financial performance indicators below:

KPI	Actual	Target
Historical cost surplus (as a % of income)	2.5%	5.9% or higher
Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA)	£1.5m	n/a
Current ratio	1.64	1.37 or better
Gearing ratio (measured as Annualised Service Cost)	4.5%	6.0% or lower
General reserves (excluding pension) as % of income	33.0%	31.0% or above

- 1.5 EBITDA was introduced as a key financial measure during the year to show more overtly how much cash is generated by the University for future investment. With capital grants being reduced the Governors agreed that it would help monitoring to see clearly the cash position. The equivalent figure for the prior year was £2m.
- 1.6 The accounts show a year of modest but continued student number growth of 3% year on year and a more significant growth in student fee/grant income of around 9%, as the £9,000 fee environment begins to impact. Against this the total cost base increased year on year by some 12%, slightly higher than the growth in income. This reflects the decisions made before the start of and during the year to make earlier than anticipated investments into initiatives to further enhance the student experience and academic infrastructure, a necessary intervention in light of the new increasingly competitive HE environment.
- 1.7 As a result Falmouth returned a historical cost surplus of 2.5% which was below its target but is in line with the strategy of investing in the student experience ahead of new course portfolio developments in 2013 and 2014 and in anticipation of student number growth over the next two to three years. In addition, Falmouth continues to

Falmouth University
Operating and Financial Review (continued)

invest in research activity and applying for Research Degree Awarding Powers (RDAP) as well as Business and enterprise related course provision and partnerships.

2. University Title and specialist institution status

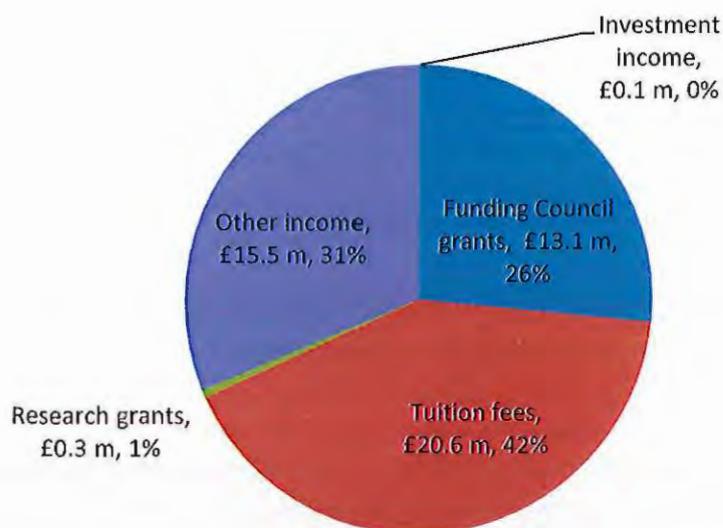
2.1 In December 2012, full University title was granted by the Privy Council. This new title is being promoted as part of a rebranding exercise to capitalise on the new status which should increase the profile and the international significance of Falmouth University.

2.2 It can also be noted that, during the year, the University successfully applied to HEFCE for the continuation of its Institutional Specific Targeted Allocation. This grant funding recognises the unique portfolio, methods of teaching delivery and public benefit that the University brings to Cornwall and further afield. The value of this support amounts to approximately £1.4m per annum.

3. Financial analysis

3.1 Income

Total income of £49.6m (including share of joint venture) has increased by 11.7% (£5.2m) during the year due to student numbers paying fees at the new higher rate of £9,000 for a full-time undergraduate course. This more than offsets the fall in grants receivable from the Funding Council and reflects a shift in the amount of income received direct from students.



3.1.1 Funding body grants (see note 2)

With the exception of income for business engagement (HEIF) and grants for the Foundation Studies course, the University saw a reduction in all aspects of recurrent funding of £4.2m to £13.1m. This was expected and is in line with the experience across the public sector as the previous block grant system is replaced by tuition fees from students.

3.1.2 Tuition fees and contracts (see note 3)

Fee income from students increased by over £7.2m primarily reflecting student number growth and the new higher fee regime. It also includes higher international numbers and a disclosure change for research students funded through funded stipends and bursaries.

3.1.3 Research grants and contracts (see note 4)

Research grant income is in line with the previous year at £0.3m. This reflects a good result in view of the increasing competition across the research community. Plans for future growth remain embedded in the Strategic Plan as the University moves towards its application for Research Degree Awarding Powers.

Falmouth University
Operating and Financial Review (continued)

3.1.4 Other income (including share of joint venture) (see note 5)

Other income rose by over £2m primarily due to the increase in Falmouth's share of income from the joint venture, Falmouth Exeter Plus (FX Plus). This follows higher income from trading operations and additional income for estates services provided to the two institutions.

3.1.5 Endowment and investment income (see note 6)

Continued low rates of interest offered by the banks mean that, whilst interest received is higher than the prior year, the rate of return remains small at 0.53% based on average cash balances of £6m.

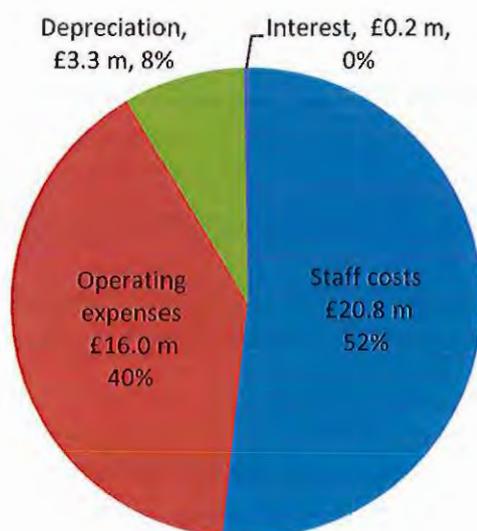
3.2 Joint venture – Falmouth Exeter Plus Group (FX Plus)

FX Plus achieved an historical surplus of just under £0.4m before exceptional costs which was lower than the previous year due to a higher number of voids in the residences. This was a known risk with new capacity having been constructed in advance of student growth and will not be an issue for future years as demand grows in line with overall student numbers.

The final historical cost deficit of £58,000 follows a FRS17 pension adjustment required due to the transfer of over 130 academic and student services staff from the University to the joint venture which took place on 1 April 2013. This transfer was made as the final stage of completion of the process of setting up FX Plus as the shared services joint venture vehicle with the University of Exeter, a process which began in 2004/05.

3.3 Staff costs and other operating expenses

Total costs of £40.2m have risen by 12.6% (£4.5m) largely driven by the overall growth in activity but also reflected enhanced investment in the student experience and front-line services and upfront investment in new portfolio areas and certain divestment costs incurred.



3.3.1 Staff costs (see note 7)

Staff costs have risen by 6.7% (£1.3m) before an exceptional pension credit of £324k, compared with a 9.7% increase in net income. The majority of this increase is due to extra staff required as a result of the 3% growth in student numbers and the nationally agreed pay increase of 1%. In addition to this there has been focussed investment in support of Falmouth's Strategic Plan in areas such as portfolio development, Research and RDAP and Business-related courses.

Falmouth University
Operating and Financial Review (continued)

3.3.2 Other operating expenses (see note 8)

Non staffing costs rose by 20.5% (£2.7m) as a result of Falmouth's increased investment in the student experience. In particular significant increases were seen in teaching materials and expenses (19%), library and learning resource costs (69%), IT support (43%), student support (61%) and estates and utilities (17%).

4. Balance sheet movements

4.1 Net assets for the University fell slightly to £100m due to a fall in the value of the investment in FX Plus (following the transfer of staff and related pension deficit), a lower current asset position and an increase in the pension deficit.

4.2 Tangible assets rose during the year following the completion of the Exchange (a new shared learning space on the Penryn campus), the acquisition of new property on the Falmouth campus and costs incurred on improving facilities across both campuses including initial design fees for an extension to the Fox complex of buildings.

4.3 At the year end, general reserves had grown to £13.3m before pension reserve as a result of the surplus for the year.

4.4 Cash flow and investment performance

4.4.1 The cash flow for the University shows that cash continues to be generated from operating activities which have been invested in new equipment and facilities aimed primarily at teaching operations. With the fall in capital grant income, the University has invested over £3m of its own cash in acquiring and improving the estate with an overall decrease in cash in the year of £2.7m as a result.

4.4.2 Cash holdings and investments at the year end amounted to £5.9m including £0.8m held on behalf of the joint venture.

4.4.3 The current ratio of 1.64 is higher than forecast and compares well with the sector average.

4.5 Long term borrowing

4.5.1 The University has long term bank borrowings of only £0.6m. In addition to this it can be noted that guarantees are provided to FX Plus on 50% of its loan finances which were taken out to fund student residences and therefore have a separate income stream. The value of this guarantee is £28.5m being half of the loan value outstanding at the year end.

4.5.2 The University has complied with all bank covenants relating to the loan from Lloyds Bank plc and the FX Plus loans from Lloyds Bank plc and Barclays Bank.

5. Estates and capital developments

5.1 In August 2012, the University took possession of The Exchange building on the Penryn campus. This building provides additional space for the learning resource centre together with shared (with University of Exeter (UoE)) lecture theatre and seminar rooms.

5.2 Other major developments include the purchase of a property adjacent to the Falmouth campus, a residential building called 'Belmont', which was converted over the summer 2013 into teaching accommodation. The building and grounds adjoin the eastern boundary of the campus and provide space for expansion and future relocation of courses currently located in remote annexes.

Falmouth University
Operating and Financial Review (continued)

- 5.3 Planning permission was granted during the year for an extension to Fox 4, a teaching block at the lower end of the Falmouth campus, to accommodate the University's Graphic Design students in a single, upgraded and dedicated facility. The BA(Hons) Graphic Design course is one of the institution's flagship courses and this investment is important in providing facilities that students expect from a world-leading course.
- 5.4 Continued investment in new equipment in order to keep high-end technical facilities up to date and works on improving various student facing facilities, including a substantial investment in the Falmouth campus refectory and studios, has also been undertaken during the year.
- 6. Stakeholder involvement (students and staff)**
- 6.1 Falmouth's success can only be delivered through the skills and commitment of its staff.
- 6.2 Staff costs represent over half of the annual expenditure and pay and pension costs need to be managed within a tight financial envelope without losing the necessary skills and goodwill of all staff. Close working relationships are maintained with trade unions to help this process which has helped staff and the University through a number of departmental restructures during the year.
- 6.3 Transformational change continues to be a major theme as Falmouth responds to challenges and seeks to take advantage of opportunities as these present themselves. Maintaining staff engagement in an increasingly demanding HE environment is Falmouth's greatest people challenge. Success depends on the involvement of its staff through effective 2-way communication and involvement processes, and in providing staff with the tools they need to operate effectively in the new environment through staff development and training.
- 6.4 Line managers have a key role to play in helping staff to navigate through turbulent times and Falmouth will be investing in leadership and management development to support this over the coming year. Falmouth will also be undertaking a staff engagement survey early in 2014 in order to have information upon which to plan effective interventions aimed at improving staff satisfaction and involvement.
- 7. Environmental issues**
- 7.1 The University is committed to environmental sustainability which is managed primarily through a comprehensive Carbon Management Plan that has been completed jointly with the University of Exeter in March 2010 and is reviewed annually. Reducing the carbon footprint per square metre of University buildings is a dominating theme in all estates developments and has been supported through further investment and successful bids for SALIX, SEELS and the Revolving Green Fund.
- 7.2 In addition, all new buildings and construction works are cognisant of environmental requirements and are designed to at least BREAM 'Very Good' standards.
- 7.3 A comprehensive environmental sustainability plan is managed by FX Plus on behalf of the University which includes energy and water management, procurement, transport, biodiversity, waste and recycling and information technology. As part of the carbon management plan, Falmouth has a target of 51.4kg Co2e per m² of floor area by 2019/20, against a base of 93.4kg Co2e per m² in 2005/06 which equates to a reduction of 45%.
- 7.4 Absolute carbon emissions per m² of GIA (Gross Internal Area) rose by 1.3% in 2012/13 compared to the previous year and was against a target which was looking for a reduction. Whilst disappointing, this increase was not unexpected due to the handover to the estate of three new academic buildings and an additional 224 bedroom residential development.

Falmouth University
Operating and Financial Review (continued)

Commissioning of the complex systems in these new builds, combined with a far colder than average winter (the number of cold weather days for the South West region during winter 2012/13 was almost 15% higher than the 20 year average, and 20% higher than the previous 2011/12 winter) have both contributed towards this slight increase in carbon emissions. The University remains on target to achieve its stated carbon reduction by 2020.

- 7.5 2012/13 saw the adoption and roll-out of the first Penryn Campus Waste and Resources Management Plan, along with the provision of new recycling facilities and infrastructure. FX Plus also received national recognition for best practice in sustainable transport provision, having been nominated as best newcomer in this year's Green Gown Awards.
- 7.6 New projects for 2013/14 include the roll-out of Falmouth's new Sustainable Food Strategy, developing an IT carbon footprint, and working closely with the student union (FXU) helping to deliver their recent successful £100,000 NUS Green Fund bid which is aimed at facilitating behavioural change in staff and students.
8. **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. The University has a dedicated Health and Safety Adviser who leads on all areas of health and safety and provides regular training across the institution.
9. **Corporate Social Responsibility**
- 9.1 On behalf of the partner universities, FX Plus works with parish, town and county councillors, and other agencies to encourage the permanent residents of Falmouth and Penryn to view the impact of Falmouth University and the University of Exeter in a positive way, and to resolve community-related issues.
- 9.2 Students are also encouraged to contribute to the cultural, social and economic well-being of the area, including a number of community safety partnerships including a Taxi Marshal scheme that encourages people to leave Falmouth town centre safely and a Safe Space, which provides help for those who need it late at night. Safe Space attracts a high number of student volunteers. Students also play an active role in Street Watch, which involves patrolling areas of Falmouth to help tackle low-level crime and anti-social behaviour.
- 9.3 In 2012/13, 441 students took part in FXU Community Action volunteering opportunities, from beach cleans and conservation work to marine rescue and moorland management, raising £12,745 for local charities and learning valuable life skills.
- 9.4 FXU and Penryn Town Council also staged Penryn Green Fields this year, which was well-supported by students and local people alike. FXU's annual Tremough Community Games also encouraged local families and students to integrate through sport, and relationships between FXU societies, The Sports Centre, Penryn College and local clubs are well-developed.
- 9.5 A community issues phone line enables local residents to register complaints about university-related issues. FX Plus's Living Support and Accommodation teams advise students on all aspects of good neighbourliness and have a robust process for dealing with anti-social behaviour in consultation with Falmouth's HE partners and a range of external agencies.
- 9.6 A Town & Gown Committee provides opportunities for councillors and the University to discuss issues of common interest. Seagull-proof waste-disposal bags and skips to minimise litter and unwanted items in residential streets are hot topics this year.

Falmouth University
Operating and Financial Review (continued)

10. **Progress against the Strategic Plan**
- 10.1 The Strategic Plan contains five aims which provide the focus for decision making in the University and which are referred to in the Joint Statement by the Chairman of the Board of Governors and Vice-Chancellor and Chief Executive.
11. **Risk management**
- 11.1 The University has an established and rigorous approach to risk management. Key risks currently being monitored include:
- 11.1.1 Failure to recruit to student targets, for Home, European Union (EU) and international students
- 11.1.2 Failure to deliver alternative modes of delivery, including part time, distance learning and continuing professional development, to support expansion plans
- 11.1.3 Failure to deliver a high quality student experience across the University
- 11.2 Reports on recent activity and actions planned are reviewed by the Board on a regular basis to ensure that 'red' risks are being actively managed and to highlight any new risks that have arisen. These are assigned to senior team members and are linked to the institution's measures of success.
12. **Financial sustainability**
- 12.1 In accordance with the latest requirements from HEFCE a new statement on financial sustainability is required to be submitted together with the Annual Accountability Return. This requirement has been informed by the work of the Financial Sustainability Strategy Group and requires all institutions to assess their long term sustainability in terms that are relevant to each individual university whilst providing some comparability for certain key financial metrics.
- 12.2 Key financial indicators have been part of the University's planning for some time. The latest forecasts showing that the majority of financial KPIs improve over time with significant levels of cash generated by the end of the forecast period.
- 12.3 The HEFCE return draws on measures that are pertinent for individual institutions under five set headings and allows some degree of flexibility in the figures returned. For Falmouth, the majority of its selected measures have been drawn from existing measures that are reported either through the regular 'measures of success' reported to Management Board or through existing financial KPIs reported to Governors.

Area to be reported	Falmouth's selected KPI
1 Teaching, learning and the student experience	Student recruitment/student retention NSS results
2 Research outputs and sustainability	Growth in total R&I income Research recognised as 3* and above
3 Financial performance and sustainability	EBITDA
4 Financial health	Surplus generation Liquidity Gearing/Annualised Servicing Cost (ASC)
5 Other areas deemed appropriate by the institution	Cost of space per sq.m. Earned income generation

Falmouth University
Operating and Financial Review (continued)

- 12.4 In addition to this the University draws heavily on costing information based on the same data used to submit the annual TRAC Return. This monitoring and reporting will now form part of the new sustainability assurance assessment. In fact TRAC data was used to inform not only the initial decision to charge higher fees (Falmouth being already a £9k institution) but also to support the recent application to retain its Institutional Specific Targeted Allocation.
- 12.5 The Strategic Plan sets 20 'measures of success' which are regularly monitored and Falmouth continues to review comparative levels of expenditure on Professional Services recognising that it is less able to benefit from economies of scale. HESA data is regularly used to benchmark and inform the budgetary process.
- 12.6 The continued generation of surpluses has been a key driver in setting the forecasts over the period. As external sources of capital funding reduce (both HEFCE and EU-backed grants are expected to stop), the University needs to generate cash to invest in new and replacement facilities. Surplus levels in line with sector norms have been agreed in line with the financial strategy at between 4% and 7% over the period to fund investment in quality facilities over the long term of 4-5% per annum and one-off investment in exceptional activity required in the short term.
13. **Disclosure of information to auditors**
The Governors who held office at the date of approval of the financial statements confirm that, so far as they are each aware, there is no relevant audit information of which the University's auditors are unaware; and each Governor has taken all the steps that he/she ought to have taken as a Governor to make himself/herself aware of any relevant audit information and to establish that the University's auditors are aware of that information.
14. **Conclusion**
- 14.1 The past year has seen the University generate an adequate surplus in a year of tremendous change particularly in relation to student demand and internal restructuring to meet the challenges of the future. With significant investment having been made during the year in student support, facilities, research activities and portfolio enhancements, the University is well placed for the future. With another year of investment to come, increased annual surpluses thereafter are projected and will be applied to invest further in delivering Falmouth's Strategic Plan.
- 14.2 Net assets stand at almost £100m which compares favourably against competitors of similar size and reflect the level of investment in facilities and estates over recent years. These facilities provide an extremely strong base for the benefit of staff and students, allowing them to learn and carry out research in an industry standard and truly creative environment.

Signed:


.....
Peter Cox
Director of Finance & Resources

22 November 2013

**Falmouth University
Public Benefit Statement**

Falmouth University is an exempt charity under the terms of the Charities Act 2011.

In setting and reviewing Falmouth's objectives and activities, the Board has had due regard to the Charity Commission's guidance on the reporting of public benefit and particularly to its supplementary public benefit guidance on the advancement of education.

Aims and Objectives

The University was set up as a Higher Education Corporation on 1 April 1989. The overall aims of Falmouth are those set out in the Education Reform Act 1988. These include powers 'to provide higher education', 'to provide further education' and 'to carry out research and to publish the results of the research'.

The vision for the organisation as set out in the Strategic Plan is

"To be a world class university that gives creative minds inspiring futures."

In support of this, the financial strategy requires a financially sustainable business model by:

- Step growth in teaching, research and innovation activities
- Diversification of income sources and activities
- Effective partnerships
- Sustainable investment planning

The Strategic Plan outlines five key objectives to help Falmouth achieve its goals:

- To expand and diversify what we do
- To produce satisfied graduates who get great jobs
- To be celebrated for our research and innovation
- To help grow Cornwall
- To be internationally significant

Equality & Diversity (E&D)

Falmouth wholly embraces equality for its students within diverse educational culture. A recognition of those who share 'protected characteristics' is especially important for any higher education institution from both an educational and social perspective toward enhancing the learning experience for all. Falmouth is committed to providing a welcoming environment which promotes equality of access, celebrates diversity and creates an atmosphere of dignity and respect for its staff, students and others associated with the institution. Falmouth is fully committed to the adoption of the principle outlined in the Equality Act 2010 and recognises equality of access for all students, especially those who declare an illness or impairment and regard themselves as disabled, under the legal definition, in order that they can take a full part in all aspects of University life. Falmouth will actively support greater integration and engagement with its international, part-time and minority ethnic students into the larger student population. It is committed to promoting integration based on trust, mutual respect, understanding and appreciation of the contributions provided by individuals and groups toward the fostering of a cohesive learning and teaching community.

The E&D Committee met quarterly during the year and a comprehensive E&D Annual Report has been produced looking back at its achievements during 2012/13. This provided analysis of student and staff profiles by gender, age, ethnicity and disability, baseline data that informed short, medium and long-range targets for improving staff and student diversity. These are:

- Implementation of a Single Equality Framework in line with Falmouth's Specific Duties under the Public Sector Equality Duty within the Equality Act.
- Ensure all policies, activities and function are first filtered through an Equality Analysis to ensure equality considerations and access is embedded throughout processes.
- Introduction of mandatory online staff training which will look at individual rights of staff, students and others connected with Falmouth and also look at responsibilities.

**University College Falmouth
Public Benefit Statement (continued)**

- Implement a stakeholder consultation structure which will assist Falmouth to meet its legislative targets by consulting with 'experts by experience'.
- Increasing the diversity of Falmouth staff by encouraging applications from under-represented population.
- Increasing the numbers of students recruited from non-traditional backgrounds in Cornwall.
- Continue to implement compact agreements with schools and colleges.

Annual Report Highlights:

- Overall progress against the student diversity profile targets
- The implementation of a central fund for Reasonable Adjustments
- E&D considerations embedded into design and build of the European Regional Development Fund (ERDF) projects.

Falmouth engages with the ERDF cross-cutting theme of Equality and Diversity for all its major development projects, resulting in considerable improvement in its engagement with inclusive design and accessibility.

Community engagement

Falmouth continues to work in partnership with Cornwall Council and the Town Councils of Falmouth and Penryn. From discussions about student housing and planning policy to the student volunteering scheme run through the student union, FXU, Falmouth is determined to foster positive relations between town and gown.

Falmouth has been an active member of the Penryn Pathways community group, working with the local Schools, Town Council, Youth Group and Arts Alive to promote and develop creative activity in the community.

Falmouth delivers dozens of community facing workshops and activities throughout the year; from working with the public to make withy lanterns for City of Lights parades to hosting conferences for local charities like the WILD Young Parents groups.

Falmouth is committed through its Access Agreement to produce a generation of students who are socially engaged practitioners and it is working through curriculum linked projects with its local communities, such as 3D and Interior design students working with primary school pupils to redesign the entrance area of their school, or Graphics students developing logos for newly formed educational cooperatives.

Falmouth is playing a key role in the regeneration of the town's economy by participating in the town's Business Improvement District scheme which aims to market the town as a destination for visitors and businesses alike. In addition, a new initiative to promote both campuses was launched during the year under the banner 'One University Two Great Campuses'. This initiative has involved members of staff, students and representatives from the local community to consider and discuss issues such as art in the community, transport and signage to the campuses.

Falmouth, UoE and the FX Plus Group have established a community engagement plan and employed a Public Engagement Manager who is responsible for communicating with local stakeholders and resolving problems.

Student Admissions and Widening Participation

During 2012/13 Falmouth continued to invest and support Widening Participation activities. It signed off a new Widening Participation Supporting Plan, covering the student lifecycle and including community outreach and activity and the Plan will form the core of its Widening Participation Strategic Statement requirements. Its approved Access Agreement for 12/13 saw huge investment in its Outreach staffing and outputs and this will continue through its approved Agreements for 13/14 and 14/15. All the Agreements set out a more targeted, bursary provision which will complement its

**Falmouth University
Public Benefit Statement (continued)**

work to ensure progress against its stretching targets for student recruitment from three of its most under represented students groups; Black and Minority Ethnic Heritage, Low Participation Neighbourhoods and Disabled Students.

	Current position 2012/13	Short-Term (2011)	Medium-Term (2015)	Long-Term (2020)
Low Participation Neighbourhoods	8.3%	10%	12%	15%
Black & Minority Ethnic Heritage	4.2%	6%	8%	10%
Disability other than dyslexia	9%	8%	10%	12%

It is investing in a new Customer Relationship Management (CRM) system to better track engagement with the University and to ensure it is better able to effectively monitor the impact of its outreach and recruitment activity across the institution.

In addition it has renewed its dedication to increasing applications from young people who have spent time in care and ensuring they have bespoke support whilst they are enrolled. This is proven through its Buttle UK Quality Mark being renewed. It also formally approved and launched Falmouth's inaugural school partnership scheme. Three tiers of agreements are on offer:

- Recognition Agreements, which formalise existing arrangements with community and school groups.
- Compact Agreements, which develop a customised set of activities for targeted pupils leading to the offer of interview on their chosen course.
- Progression Agreement, which takes the compact a step further to the guarantee of an offer of a place subject to fulfilment of the agreement.

These agreements will raise the aspirations, awareness and achievement of local young and mature potential students and will support the institution in fulfilling some of the broader non-recruitment aims of widening participation. In total it has one progression, six compact and eight recognition agreements in place with the scheme continuing to expand.

It supported several local community organisations to engage in arts based festivals, activities and workshops. For example it allocated significant funding to the Kernow Education Arts Partnership and co-deliver conferences across the art, design & performance curriculum for teachers across Cornwall. It also invested in The Old Press Gallery in St Austell providing support for an educational space within the gallery and funding workshops for local young unemployed people and young parents.

Bursaries

As part of its obligations under the Access Agreement, Falmouth wishes to offer assistance to students who may not have sufficient financial resources to support their studies in higher education. The Institution has closely examined its student demographic and has focused its bursary allocation on both targeted support and a range of outreach projects. Falmouth believes that for those students in the lowest income bracket, the main barriers to HE are not only financial but also include knowledge of opportunities and limited aspirations. As such, funds are redirected for outreach and raising aspirations in addition to those monies allocated to direct student support. Falmouth has appointed highly trained and dedicated staff to administer bursaries, in addition to the Access to Learning Fund, providing a coherent and simple process for all students in need of financial support. Whilst being responsible for managing these funds, the Bursary Adviser also contributes to Open Days and Marketing events in order to best raise awareness of financial support to prospective and

Falmouth University
Public Benefit Statement (continued)

current students. In 2012/13, Falmouth expended £1.4m in bursaries, in addition to approximately £104,000 in Access to Learning Fund awards and £120,000 support for students accessing full Diagnostic Assessments for Disabled Student Allowance.

Falmouth is aware that all potential students need to be able to access clear and accurate information about the financial support available to them. This includes both the institutional support and other external sources of financial support for which they may be eligible. To address this need, Falmouth publishes its 'Money Matters' guide and a range of funding guides, covering all student groups, in both paper and electronic format. These are published on the website, together with a 'bursary calculator' tool, to help students estimate the amount of support to which they would be entitled. Falmouth works with its undergraduate students and local 6th Formers to ensure these guides are presented in accessible language and contain the information that they require.

Other public benefit activities

Along with 28 other HEIs, Falmouth participated in the 2011 Environmental and Social Responsibility benchmarking exercise run by Universities that Count.

As a major partner in Design of the Times (DoTT) Cornwall, students and staff have engaged in numerous community-based co-design projects with aims that include promoting social inclusion and community partnership working.

Falmouth's Equality Engagement and Development Manager recently became an "ambassador" for the National Coordinating Centre for Public Engagement (NCCPE). In August 2010 Falmouth signed the NCCPE Manifesto, committing to focus on contributing to positive social change and the "public good". Activity in this area addresses social inclusion and community cohesion, with clear connections to equality outcomes.

Falmouth students continue to work with a range of community organisations, either as volunteers (through the Student Union Community Action group), or within their studies. In 2012/13 these included the Diversifest, Boot Up (an off-site outdoor learning project for children in care), singing workshops for young parents and working one to one with young offenders.

Falmouth University Corporate Governance

Corporate Governance

Falmouth is committed to exhibiting best practice in all aspects of corporate governance. This summary describes the manner in which Falmouth has applied the principles set out in the Governance Code of Practice adopted by the Committee of University Chairmen and set out in its "Guide for Members of Higher Education Governing Bodies in the UK".

Falmouth's Board of Governors (the Board) comprises independent, co-opted, staff and student members and the Vice-Chancellor & Chief Executive, all appointed under the Instrument and Articles of Government. The majority of Governors are independent non-executive members and the role of the Chair is separate from the role of the Vice-Chancellor & Chief Executive.

The matters specifically reserved for decisions by the Board are set out in the Articles of Government, Falmouth's Financial Regulations and the Financial Memorandum with the Higher Education Funding Council for England (HEFCE). Minor amendments to the Articles of Government were endorsed by the Board at its July 2012 meeting in preparation for the grant of University title, following Falmouth's application to the department of Business, Innovation and Skills (BIS) in the summer 2012. The Board has responsibility, inter alia, for confirming Falmouth's strategic direction, its educational character and mission, the effective and efficient use of resources, and for safeguarding its assets. The Board approves all major developments and receives regular reports from Executive Officers on operational matters and the business of its subsidiary and related companies. The Board's operating practices comply with the provisions of the Committee of University Chairs' 'Guide for Members of Higher Education Governing Bodies in the UK'.

The Board approved the recommendations from its governance review sub-committee at its November 2012 meeting. The recommendations reflect the Board's commitment to greater efficiency and effectiveness in support of Falmouth's strategic ambitions and the need to be able to respond to an increasingly competitive global market for higher education. New governance arrangements were effective from 1 August 2013. They include reducing the size of the Board (but remaining within the requirements of the Instrument of Government) and the number of sub-committees. The Audit, Remuneration, and Nominations Committees will continue under new arrangements. The Finance and HR committees met for their final meetings in the summer term 2013. Their work has been incorporated as part of Board business. To accommodate the changes, the number of Board meetings in the annual cycle has been increased from four to six.

The Board and its sub-committees (Finance, HR, Audit, Nominations, and Remuneration) each met at least three times in the year (with the exception of Nominations and Remuneration, which has one formally scheduled meeting annually). The membership of the Board's sub-committees is drawn from the Board's Independent members and the Vice-Chancellor & Chief Executive. Sub-committees have the authority to draw on external advisers as and when appropriate. Following good practice the Audit Committee activated its right to co-opt a member who was appointed from 1 August 2013.

Nominations for Board vacancies are managed and considered by the Nominations Committee, prior to appointment by the full Board. Nominations for new members of the Board are considered by the Nominations Committee against a matrix of experience and expertise (which is regularly reviewed). This ensures that the Board maintains the balance of experience and expertise necessary to meet its current and future responsibilities and obligations. Appointments to the Board are limited to a maximum of two four-year terms for Independent members and two two-year terms for other categories of membership (with the exception of the Vice-Chancellor & Chief Executive).

All members of the Board and Executive Officers are required to disclose any related party transactions and disclose any interests on Falmouth's Register of Interests, which is updated annually and held by the Secretary to the Board. A Gift and Hospitality Register is also held by the Secretary.

Falmouth University
Corporate Governance (continued)

The Finance Committee recommended to the Board revenue and capital budgets and monitored performance in relation to the approved budgets. It also monitored development projects and related strategies on behalf of the Board. The Committee reviewed the financial statements and approved financial policies and recommended their approval to the Board. Under new governance arrangements (see above) this work will in future be undertaken by the Board.

The Audit Committee considers the audit findings of the external auditors and internal audit reports and recommendations for the improvement of Falmouth's system of internal control and operations with respect to value for money. The external and internal auditors attend meetings at which their reports are discussed. The committee also plays a key role in monitoring and reporting to the full Board on the Risk Management Strategy (see below) and reviews new and revised financial regulations. Whilst Executive Officers attend meetings of the Audit Committee as necessary, they are not members of the Committee and once a year the Committee meets the external and internal auditors in private session for independent discussions. Annually the Audit Committee reports to the full Board on their work and their assessment of internal control.

The Board nominates Falmouth's three Directors, from its senior management Directorate, to the Board of FX Plus (previously named Tremough Campus Services Group) and its subsidiary company Tremough Development Vehicle (TDV). The Falmouth Board and its sub-committees receive regular reports on the performance and internal control arrangements of these joint venture companies.

Falmouth's Directorate meets every three weeks to advise the Vice-Chancellor & Chief Executive and oversee the management of academic and operational areas. The Management Board considers risk as part of its formal agenda on a quarterly cycle. Falmouth's Strategic Analyst is responsible for providing support to the Management Board on risk management and Key Performance Indicators (KPIs). This dedicated professional support has proved to be essential to support strategic decision making and planning processes.

The main Board has approved a process for determining and reviewing high level KPIs consistent with its responsibility to monitor Falmouth's performance against plans and approved KPIs which, where possible and appropriate, are benchmarked against other institutions. Falmouth submitted its new Strategic Plan to HEFCE in July 2012. The Plan is outcomes focused and incorporates 'measures of success' and targets. KPIs are aligned to these measures and targets are monitored by the Audit Committee and the main Board. The measures of success will be subject to review by the Board in November 2013.

Statement of internal control

As the governing body of Falmouth, the Board has responsibility for maintaining a sound system of internal control that supports the achievement of policies, aims and objectives, while safeguarding public and other funds and assets for which it is responsible, in accordance with the responsibilities assigned to the governing body in the Instrument and Articles of Government and the Financial Memorandum with HEFCE.

The Board's review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the institution who have responsibility for the development and maintenance of the internal control framework, and by comments made by the external auditors in their management letter and other reports.

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

Falmouth University
Corporate Governance (continued)

The system of internal control is based on an on-going process designed to identify on a systematic basis the principal risks to the achievement of policies, aims and objectives, measures of success and targets; to evaluate the nature and extent of those risks; and to manage them efficiently, effectively and economically. Falmouth contracts out its internal audit service, which operates to standards defined in the HEFCE Audit Code of Practice. The internal auditors, whose work is determined by Falmouth's risk priorities, submit regular reports to the Audit Committee which include their independent opinion on the adequacy and effectiveness of the system of internal control, together with recommendations for improvement.

Over the course of the last year the following specific actions have been undertaken to consolidate the risk management work within Falmouth:

- The Audit Committee reviewed progress on risk management at its meetings during the year.

Following receipt of the internal auditors' opinion, it reported at the year end to the Board on the effectiveness of the risk management policy. The Audit Committee also received the annual internal audit report for Falmouth Exeter Plus (previously Tremough Campus Services), the joint venture company with the University of Exeter (UoE).

The Internal Auditors' programme of work concentrated on high level strategic risks identified by Falmouth in relation to its Strategic Objectives. This assisted the Audit Committee in focusing their attention and discussions on the critical issues and it received assurances on them as appropriate.

- The Management Board met on a quarterly basis to review institutional risk in relation to Falmouth's Strategic Plan, using the Strategic Plan's measures and sub-measures of success as key performance indicators and key risk indicators in relation to each strategic risk. Falmouth's Strategic Analyst supports the risk work within the University.
- Sub-committees of Management Board and the Academic Board review their own risk registers quarterly, and the Chairs of those sub-committees use these risk registers to feed into the University's risk management process.
- All new significant proposals and projects are subject to a risk assessment.

The Board of Governors is of the view that there is an on-going process for identifying, evaluating and managing Falmouth's significant risks, that it has been in place for the year ended 31 July 2013 and up to the date of approval of the annual report and accounts, that it is regularly reviewed by the Audit Committee on behalf of the Board and that it accords with the control guidance for Directors in the Combined Code as deemed appropriate for higher education.

The Board recognises that risk management must involve continuous improvement. Over the coming year the following additional activities are planned to build upon existing practice:

- 1 Further work to ensure that departmental, project and sub-committee risk registers are used regularly to inform and refine the University's strategic risk register.
- 2 The Strategic Analyst will continue to support risk management and KPI reporting and communication, with a particular emphasis on delivering the objectives in the Strategic Plan. This will help to raise the importance of risk management. This is especially important at a time of economic uncertainty.

**Falmouth University
Corporate Governance (continued)**

Membership of the Board of Governors serving during 2012/13

	Date of appointment	Term of office	Expiry of term	Status of appointment	Committees served
Mr James Williams	01.09.04	2 nd term	31.08.15	Independent Member	Board of Governors (Chair); Remuneration Committee (Chair); Nominations Committee (Chair); Finance Committee; HR Committee
Dame Lynne Brindley	01.09.11	1 st term	31.08.15	Independent Member	Audit Committee
Mr Bryan Coode	01.09.04	2 nd term	31.08.12	Independent Member	Audit Committee
Mr Ray Dillon	01.09.08	2 nd term	31.07.13	Independent Member	Finance Committee
Mrs Lucy Dorrien-Smith	01.09.08	2 nd term	31.07.13	Independent Member	HR Committee
Ms Arlene Fullerton	01.09.04	2 nd term	31.08.12	Independent Member	Audit Committee; Nominations Committee
Mr Howard Jacobs	01.09.05	2 nd term	31.07.13	Independent Member	HR Committee (Chair); Remuneration Committee
Dame Mary Keegan	01.09.07	2 nd term	31.12.12	Independent Member	Audit Committee (Chair); Remuneration Committee
Ms Carleen Kelemen OBE	01.04.12	1 st term	31.03.16	Independent Member	Nominations Committee
Mr John Lilley	01.09.06	2 nd term	31.07.13	Independent Member	HR Committee
Dr Pat McGovern	01.09.08	2 nd term	31.08.12	Co-opted Member	
Mr Howard Milton	01.08.12	1 st term	31.07.16	Independent Member	Audit Committee
Dame Janet Ritterman	06.04.08	2 nd term	31.07.16	Independent Member	Nominations Committee; Remuneration Committee; Audit Committee
Mr Tony Stuart	01.09.09	1 st term	31.07.13	Independent Member	Audit Committee (Chair)
Mr Tom Van Oss	22.07.07	2 nd term	31.07.15	Independent Member	Finance Committee (Chair); Remuneration Committee; Audit Committee (Chair)
Prof. Anne Carlisle	01.09.09	n/a	n/a	Vice Chancellor & Chief Executive	Remuneration Committee; Nominations Committee; HR Committee; Finance Committee
Mrs Johanna Smith	01.09.10	3 years	31.07.13	Staff Governor	
Mr Richard Sneesby	01.09.10	2 years	31.12.12	Staff Governor	
Mr Jon Unwin	01.08.12	2 years	31.07.14	Academic Board Representative	
Mr S Pearson	01.08.12	1 year	31.07.13	Student Governor	

In attendance

Mr Peter Cox	Director of Finance & Resources	Audit Committee; Finance Committee; Board of Governors
Mr Antony Schorah	Secretary and Registrar to the Board of Governors	Secretary to: Board of Governors; HR; Nominations; Audit; Finance Committees
Prof Geoff Smith	Deputy Vice Chancellor	Board of Governors ; Nominations Committee
Dr Andrew Upton	Pro Vice Chancellor (Learning & Teaching)	Board of Governors
Prof Philip Moore	Pro Vice Chancellor (Research & Innovation)	Board of Governors

**Statement of responsibilities of the
Board of Governors of
Falmouth University**

Statement of responsibilities of the Board of Governors

In accordance with the Education Reform Act 1988, the Board of Governors of Falmouth University is responsible for the administration and management of the affairs of the University including ensuring an effective system of internal control and is required to present audited financial statements for each financial year.

The Board of Governors is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the University and enable it to ensure that the financial statements are prepared in accordance with the Education Reform Act 1988, the 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 HEFCE and the University, the Board of Governors, 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 Group and of the surplus or deficit and cash flows for that year.

In preparing those financial statements, the Board of Governors is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that Falmouth will continue in operation. The Board of Governors 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 maintenance and integrity of the University's website is the responsibility of the Board of Governors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Board of Governors has taken reasonable steps to:

- ensure that funds from the Higher Education Funding Council for England, (HEFCE) are used only for the purposes for which they have been given and are in accordance with the Financial Memorandum with HEFCE and any other conditions which HEFCE may from time to time prescribe;
- ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- safeguard the assets of the University and to prevent and detect frauds and other irregularities;
- secure the economical, efficient and effective management of the University's resources and expenditure.

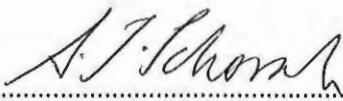
**Statement of responsibilities of the
Board of Governors of
Falmouth University**

The key elements of the University's system of internal financial control, which is designed to discharge the responsibilities set out above, include the following:

- clear definitions of the responsibilities of, and the authority delegated to, heads of academic and administrative departments.
- a comprehensive medium and short-term planning process, supported by detailed annual income, expenditure, capital and cash flow budgets.
- 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 Board of Governors.
- comprehensive financial regulations, detailing financial controls and procedures, approved by the Audit and Finance Committees.
- robust systems for the monitoring of actual income and expenditure against budgets.
- a professional Internal Audit team whose annual programme is approved by the Audit Committee and endorsed by the Board of Governors and whose head provides the Board of Governors with a report on internal audit activity within the University and an opinion on the adequacy and effectiveness of its system of internal control, including internal financial control.

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

Signed:


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A S Schorah
Registrar & Secretary to the Board of Governors

22 November 2013

**Independent auditor's report to the
Board of Governors of
Falmouth University**

We have audited the group and University financial statements (the "financial statements") of Falmouth University for the year ended 31 July 2013 which comprise the Consolidated Income and Expenditure Account, Note of Historical Cost Surpluses and Deficits, Statement of Consolidated Total Recognised Gains and Losses, Consolidated Balance Sheet, Balance Sheet, Consolidated Cash Flow Statement, Statement of Principal Accounting Policies and 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 Board of Governors of Falmouth University ("Board"), in accordance with the Charters and Statutes of the institution. Our audit work has been undertaken so that we might state to the Board those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Board for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Board and auditor

As explained more fully in the Responsibilities of the Board of Governors of the University Statement set out on pages 22 and 23. The Board 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 University's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the financial statements 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 31 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.

**Independent auditor's report to the
Board of Governors of
Falmouth University (continued)**

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.



Emma Holiday
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Plym House
Plymouth
PL6 8LT

27/11 November 2013

Falmouth University
Consolidated Income and Expenditure account
for the year ended 31 July 2013

	Note	Year to 31/7/13 £ (000)	Year to 31/7/12 £ (000)
Income			
Funding body grants	2	13,132	17,316
Tuition fees and education contracts	3	20,623	13,389
Research grants and contracts	4	275	267
Other income (including share of joint venture)	5	15,485	13,326
Endowment and investment income	6	47	59
Total income		<u>49,562</u>	<u>44,357</u>
Less: share of income from joint venture	13	(9,123)	(7,206)
Net income		<u>40,439</u>	<u>37,151</u>
Expenditure			
Staff costs	7	20,762	19,463
Other operating expenses	8	16,021	13,292
Depreciation	11	3,303	2,974
Interest and other finance costs	9	147	11
		<u>40,233</u>	<u>35,740</u>
Surplus after depreciation of fixed assets at valuation and before tax		206	1,411
Share of operating (losses)/profits in joint venture	13	(58)	219
Surplus before profit on disposal of assets		148	1,630
Profit on disposal of assets		-	2
Exceptional FRS17 reorganisation net gain *	7	<u>324</u>	<u>-</u>
Surplus on continuing operations after depreciation of assets at valuation, disposal of assets and before and after tax		<u>472</u>	<u>1,632</u>

All income relates to continuing operations.

The notes on pages 30 to 52 form an integral part of the financial statements.

* The Exceptional FRS17 reorganisation net gain relates to a net pension asset arising from the transfer of 88 out of 129 Academic and Student Services staff, who were members of the LGPS, from Falmouth to FX Plus as detailed in note 7.

Falmouth University
Note of historical cost surpluses and deficits and
Statement of total recognised gains and losses
for the year ended 31 July 2013

Note of consolidated historical cost surpluses and deficits for the year ended 31 July 2013

	Year to 31/7/13 £ (000)	Year to 31/7/12 £ (000)
Surplus on continuing operations after taxation	472	1,632
Difference between historical cost depreciation and the actual charge for the year calculated on the revalued amount	<u>536</u>	<u>308</u>
Historical cost surplus for the year before and after taxation	<u>1,008</u>	<u>1,940</u>

Statement of consolidated total recognised gains and losses for the year ended 31 July 2013

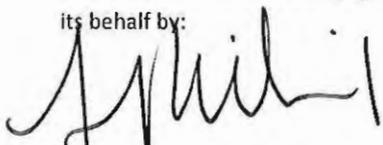
	Year to 31/7/13 £ (000)	Year to 31/7/12 £ (000)
Surplus on continuing operations after taxation	472	1,632
Revaluation surplus	-	9,643
Share of unrealised surplus on revaluation of properties held by joint venture	-	1,737
Movement on endowment assets (see note 14)	(4)	(5)
Actuarial loss in respect of pension scheme	(203)	(1,888)
Share of joint venture actuarial loss in respect of pension scheme	<u>(219)</u>	<u>(163)</u>
Total recognised gains since last report	<u>46</u>	<u>10,956</u>
Reconciliation		
Opening reserves and endowments		38,194
Total recognised gains for the year		<u>46</u>
Closing reserves and endowments		<u>38,240</u>

Falmouth University
Balance Sheets
as at 31 July 2013

	Note	Group		University	
		2013 £ (000)	2012 £ (000)	2013 £ (000)	2012 £ (000)
Fixed Assets					
Benefit arising from the acquisition of Dartington College of Arts	12	(14)	(20)	(14)	(20)
Tangible assets	11	98,511	97,010	98,488	96,981
Investment in subsidiary undertakings	13	-	-	1	1
Interest in joint venture					
Share of gross assets		35,221	36,744	-	-
Share of gross liabilities		(31,815)	(33,063)	-	-
Interest in joint venture	13	3,406	3,681	-	-
		101,903	100,671	98,475	96,962
Endowment Assets	14	33	37	33	37
		101,936	100,708	98,508	96,999
Current Assets					
Stock		33	28	33	28
Debtors	15	3,241	4,810	3,250	4,851
Cash at bank and in hand		5,928	8,803	5,910	8,756
		9,202	13,641	9,193	13,635
Less: Creditors - amounts falling due within one year	16	(5,613)	(7,441)	(5,605)	(7,438)
Net current assets		3,589	6,200	3,588	6,197
Total assets less current liabilities		105,525	106,908	102,096	103,196
Less: Creditors - amounts falling due after more than one year	17	(546)	(611)	(546)	(611)
Less: Provisions for liabilities	18	(777)	(774)	(777)	(774)
Net assets excluding pension liability		104,202	105,523	100,773	101,811
Net pension liability		(4,447)	(4,276)	(4,447)	(4,276)
Net assets including pension liability		99,755	101,247	96,326	97,535
Deferred capital grants	19	61,515	63,053	61,515	63,053
Endowment funds	14	33	37	33	37
Reserves					
Income and expenditure account excluding pension reserve		13,333	12,576	14,472	13,519
Pension reserve		(4,447)	(4,276)	(4,447)	(4,276)
Income and expenditure account including pension reserve	21	8,886	8,300	10,025	9,243
Revaluation reserve	20	29,321	29,857	24,753	25,202
Total funds		99,755	101,247	96,326	97,535

The notes on pages 30 to 52 form an integral part of the financial statements.

The financial statements on pages 26 to 52 were approved by the Board of Governors on 22 November 2013 and signed on its behalf by:


James Williams
Chair of Governors


Professor Anne Carlisle
Vice Chancellor & Chief Executive Officer

Falmouth University
Consolidated cash flow statement
for the year ended 31 July 2013

	Year to 31/7/13 £ (000)	Year to 31/7/12 £ (000)
Net cash inflow from operating activities (see note 22)	324	439
Returns on investments and servicing of finance		
Interest received	47	39
Other interest paid	<u>(19)</u>	<u>(11)</u>
Net cash inflow from returns on investments and servicing of finance	28	28
Capital expenditure and financial investment		
Payments to acquire tangible assets	(5,739)	(7,643)
Receipts from sale of tangible assets	1	24
Deferred capital grants received	<u>2,686</u>	<u>6,682</u>
Net cash outflow from capital expenditure	(3,052)	(937)
Net cash outflow before financing	<u>(2,700)</u>	<u>(470)</u>
Financing		
Bank loan repayments in year	<u>(64)</u>	<u>(70)</u>
Net cash outflow from financing	<u>(64)</u>	<u>(70)</u>
Decrease in cash in the year (see note 23)	<u><u>(2,764)</u></u>	<u><u>(540)</u></u>
Reconciliation of net cashflow to movement in net funds		
Decrease in cash in the year	(2,764)	(540)
Cash outflow from bank loan repayment	<u>64</u>	<u>70</u>
Movement in net funds in the period	<u>(2,700)</u>	<u>(470)</u>
Net funds at 1 August	<u>8,016</u>	<u>8,486</u>
Net funds at 31 July	<u>5,316</u>	<u>8,016</u>

Falmouth University
Notes to the consolidated financial statements
for the year ended 31 July 2013

1 Principal accounting policies

Basis of preparation

These financial statements have been prepared in accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2007 and in accordance with applicable Accounting Standards.

The Board, through the Finance Committee, has reviewed the University's accounting policies and estimation techniques, as required in FRS18 Accounting Policies, and they consider that they are the most appropriate for the Group.

Going concern

The University and Group have made surpluses for both the current and the prior years, and have net assets.

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

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

Basis of accounting

The financial statements are prepared under the historical cost convention modified by the revaluation of certain fixed assets.

Basis of consolidation

The consolidated financial statements include the University and its subsidiary company, Falmouth Enterprises Limited. However, the Income and Expenditure account of the University alone is not materially different to the consolidated position because the subsidiary is significantly smaller than the University itself. In accordance with FRS 2 a separate income and expenditure account for the University is not therefore disclosed within the Group Accounts.

The 50% holding in the FX Plus Group represents an interest on a long-term basis which is jointly controlled with another party. As such the arrangement is treated as a joint venture and is accounted for using the gross equity method.

The University's policy is to consolidate the Students' Union only if its operations are material and if the University, at such time, is exercising significant influence on Union policy. Should the operation expand and become material it is likely that it would be more autonomous and independent of the University. The University does not currently consolidate the Students' Union on the basis that it does not exercise control.

Intra-group sales and profits are eliminated fully on consolidation.

Recognition of income

Income from grants and other services rendered is included to the extent of the completion of the service concerned. This is generally equivalent to the sum of the relevant expenditure incurred during the year and any related contributions towards overhead costs. All income from short-term deposits is credited to the Income and Expenditure account in the period in which it is earned.

Falmouth University
Notes to the consolidated financial statements
for the year ended 31 July 2013 (continued)

Fee income is stated gross and credited to the Income and Expenditure account over the period in which students are studying. Where the amount of the tuition fee is reduced, by a discount for prompt payment, income receivable is shown net of the discount. Bursaries and scholarships are accounted for gross as expenditure and not deducted from income.

Recurrent grants and non-recurrent revenue grants from Funding Bodies are recognised in the period in which they are receivable.

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

Repairs and maintenance

The University has a five-year rolling long-term maintenance plan, which forms the basis of the on-going maintenance of the estate. Expenditure on long term maintenance which does not either enhance an asset beyond its original condition or increase its expected economic life; and expenditure on all routine corrective maintenance, is charged to the Income and Expenditure account as incurred.

Foreign Currencies

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

Agency arrangements

The University acts as an agent in the collection and payment of Access to Learning Funds (ALF). Related payments received from HEFCE and subsequent disbursements to students are excluded from the Income and Expenditure account and are shown separately in note 28, except for the 5% of the grant received which is available to the University to cover administration costs relating to the grant. The University employs a fractional member of staff dedicated to the administration of ALF applications and payments.

Intra-group transactions

Gains or losses on any intra-group transactions are eliminated in full. Amounts in relation to debts and claims between undertakings included in the consolidation are also eliminated. Balances between the institution and its joint ventures are not eliminated; unsettled normal trading transactions are included as current assets or liabilities. Any gains or losses are included in the carrying amount of assets of either entity; the part relating to the Institution's share is eliminated.

Investments

Fixed asset investments are included in the balance sheet at market value. Increases/decreases in value arising on the revaluation of fixed asset investments are carried to the revaluation reserve. Where permanent diminution in value of an asset occurs, the excess will be charged to the Income and Expenditure account to the extent it is not covered by a revaluation surplus.

Endowment asset investments are carried at market value. Such investments held at the previous year-end, and carried at market value at that date, may be sold during the year. This crystallises the value and any difference between the opening market value and the sale proceeds represents a revaluation movement. Consequently the financial statements do not distinguish between the valuation adjustment relating to sales and those relating to continuing holdings as they are together

Falmouth University
Notes to the consolidated financial statements
for the year ended 31 July 2013 (continued)

treated as changes in the value of the investment portfolio; however the value of endowment asset investments in the financial statements is currently inconsequential.

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

Financial instruments

Cash, bank and loan balances are recorded at current values. Interest earned on bank accounts and interest charged on loans are recorded as interest receivable and interest payable respectively in the period to which they relate. Bank charges are recorded as operating expenditure in the period to which they relate.

Endowment funds

Where charitable donations are to be retained for the benefit of the institution as specified by the donors, these are accounted for as endowments. There are three main types:

- a) Unrestricted permanent endowments: the donor has specified that the fund is to be permanently invested to generate an income stream for the general benefit of the institution.
- b) Restricted expendable endowments: the donor has specified a particular objective other than the purchase or construction of tangible fixed assets, and the institution can convert the donated sum into income.
- c) Restricted permanent endowments: the donor has specified that the fund is to be permanently invested to generate an income stream to be applied to a particular objective.

Pension schemes

Retirement benefits for the employees of the University are provided by the Teachers' Pension Scheme (TPS) for academic staff and by the Cornwall Council (CC) Superannuation Scheme for non-academic staff. These are defined benefit schemes which are externally funded and contracted out of the State Earnings Related Pension Scheme.

TPS is a multi-employer scheme and it is not possible to identify the University's share of the underlying assets and liabilities of the scheme. Therefore, as required by FRS 17 the contributions are charged directly to the Income and Expenditure account as if the scheme were a defined contribution scheme.

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

Enhanced Pensions

The actual cost of any enhanced on-going pension to a former member of staff is paid by the University annually. An estimate of the expected future cost of any enhancement to the on-going pension of a former member of staff is charged in full to the University's Income and Expenditure account in the year that the member of staff retires. The provision is calculated based on the total capital cost with an allowance for future investment returns in excess of inflation.

Falmouth University
Notes to the consolidated financial statements
for the year ended 31 July 2013 (continued)

The provision set up is shown in note 18 and will be released each year in line with payments made and changes in the assumptions.

Accounting for goodwill and intangible fixed assets

Goodwill arises on consolidation and is based on the difference between the fair value of the consideration given for the undertaking acquired and the fair value of its separable net assets at the date of acquisition. Goodwill is amortised over its estimated economic life. Where goodwill and intangible assets are regarded as having limited useful economic lives, they are amortised over those lives up to a maximum of 20 years. Impairment tests are carried out at the end of the first year and thereafter subject to normal periodic reviews for indications of impairment. Where there is impairment in the carrying value of goodwill, the loss is incurred in the results for the period.

Negative goodwill is separately disclosed on the face of the balance sheet in fixed assets and is released to the Income and Expenditure account. The accounting treatment is set out in the policy note on accounting for business combinations (note 12).

Tangible fixed assets

Land and buildings

Freehold land is not depreciated. Buildings are stated at cost or valuation and endowment assets are valued at market valuation on donation. Buildings and associated capital works are depreciated over their expected useful lives of 50 years (freehold) or the period of the lease (leasehold).

In accordance with FRS 15, valuations will be undertaken on land and buildings every five years. The basis of valuation will be at current depreciated replacement cost for specialised buildings and open market value for other buildings. An impairment review of a fixed asset is carried out if events or changes in circumstance indicate that the carrying amount of the fixed asset may not be recoverable.

Finance costs on associated loans from third parties that are directly attributable to the purchase of land or the construction of buildings are capitalised during the construction period but, thereafter, are not capitalised as part of the costs of those assets but are shown as interest payable.

Buildings under construction are accounted for at cost, based on the value of architects' certificates, contractor claims that are substantiated and other direct costs incurred to 31 July 2013. They are not depreciated until they are brought into use.

Where the land and buildings are acquired with the aid of specific grants they are capitalised and depreciated as above. The related grants are credited to a deferred capital grant account and are released to the Income and expenditure account over the expected useful economic life of the related asset on a basis consistent with the depreciation policy.

Fixtures, fittings & equipment

Fixtures, fittings & equipment costing over £5,000 is capitalised with all other fixtures, fittings and equipment being written off to the Income and expenditure account in the year of acquisition.

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

Computers and equipment - 4 years

Falmouth University
Notes to the consolidated financial statements
for the year ended 31 July 2013 (continued)

Motor vehicles	- 4 years
Musical instruments	- 10 years

Where the fixtures, fittings and equipment is acquired with the aid of specific grants it is capitalised and depreciated as above with the related grant being credited to a Deferred Capital grant account and released to the Income and expenditure account over the expected useful economic life of the related fixtures, fittings and equipment.

Leased assets

Costs in respect of operating leases are charged on a straight line basis over the lease term. Leasing agreements that transfer substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged to the Income and expenditure account in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease term or the useful economic lives of equivalent owned assets.

Stock

Stocks of materials for sale are valued at the lower of cost and net realisable value where cost is taken as that incurred in bringing each product to its present location and condition.

Liquid resources

Liquid resources include sums on short-term deposits with recognised banks.

Provisions, contingent liabilities and contingent assets

Provisions are recognised when the University has a present legal or constructive obligation as a result of a past event, it is probable that a transfer of economic benefit will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is discounted to present value where the time value of money is material. The discount rate used reflects current market assessments of the time value of money and reflects any risks specific to the liability.

Contingent liabilities are disclosed by way of a note, when the definition of a provision is not met and includes three scenarios: possible rather than a present obligation; a possible rather than a probable outflow of economic benefits; an inability to measure the economic outflow.

Contingent assets are disclosed by way of a note, where there is a possible, rather than present, asset arising from a past event.

Taxation status

The University is considered to pass the tests set out in paragraph 1, schedule 6, Finance Act 2010 and therefore it meets the definition of a charitable company for UK Corporation Tax purposes. Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by Chapter 3 Part 11 Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes. Subsidiary companies are liable to corporation tax.

Falmouth is partially exempt in respect of Value Added Tax (VAT), so that it can only recover a minor element of VAT charged on its inputs. Irrecoverable VAT on inputs is included in the costs

Falmouth University
Notes to the consolidated financial statements
for the year ended 31 July 2013 (continued)

of such inputs and added to the cost of tangible fixed assets as appropriate, where the inputs themselves are tangible fixed assets by nature.

2 Funding body grants	31/7/13	31/7/12
	£ (000)	£ (000)
HEFCE recurrent grant	10,275	14,495
HEFCE specific grants		
- Strategic Development Funds	437	654
- Business relations (HEIF)	489	361
HEFCE deferred capital grants released in year		
- Buildings	387	332
- Equipment	722	786
YPLA/EFA/SFA recurrent grant	822	688
	<u>13,132</u>	<u>17,316</u>
3 Tuition fees and education contracts	31/7/13	31/7/12
	£ (000)	£ (000)
Full-time students	18,744	11,895
Full-time students charged overseas fees	1,514	1,111
Part-time students	327	257
FE fees and other charges	38	126
	<u>20,623</u>	<u>13,389</u>
4 Research grants and contracts	31/7/13	31/7/12
	£ (000)	£ (000)
Other contracts	275	267
	<u>275</u>	<u>267</u>
5 Other income (including share of joint venture)	31/7/13	31/7/12
	£ (000)	£ (000)
Other income generating activities	878	763
Residences and catering operations	5,158	4,677
Other income (including European grants)	5,215	4,292
Negative goodwill released on acquisition	6	6
Recharges for the provision of combined services	2,440	1,776
Deferred capital grants	1,362	1,301
Other income (CUC pooled funds)	426	511
	<u>15,485</u>	<u>13,326</u>
6 Endowment and investment income	31/7/13	31/7/12
	£ (000)	£ (000)
Pension finance income	-	20
Bank deposit interest	47	39
	<u>47</u>	<u>59</u>

Falmouth University
Notes to the consolidated financial statements
for the year ended 31 July 2013 (continued)

7 Staff costs

	31/7/13	31/7/12
	£ (000)	£ (000)
Wages and salaries	17,274	16,210
Social security costs	1,310	1,233
Other pension costs (including FRS17 adjustments)	2,178	2,020
	20,762	19,463
Exceptional FRS17 reorganisation net gain *	(324)	-
	20,438	19,463

* The Exceptional FRS17 reorganisation net gain relates to a net pension asset arising from the transfer of 88 Academic and Student Services staff, who were members of the LGPS, from Falmouth to FX Plus on 1 April 2013. Pension assets distributed were £2,785K and liabilities extinguished were £3,109K. The total number of staff transferred was 129 of whom 88 were members of the LGPS.

	£	£
Emoluments of the Vice Chancellor & Chief Executive Officer (inclusive of all benefits)	223,417	215,242
Pension contributions	30,640	30,349
	254,057	245,591

Remuneration of higher paid staff (excluding employer's pension contributions):

£100,000 - £109,999 pa	2	1
£120,000 - £129,999 pa	1	1
£220,000 - £229,999 pa	1	1

Average staff numbers (FTEs) by major category:

Academic departments	201	185
Research & enterprise	12	20
Academic support services	79	113
Administration	98	89
Premises	17	16
Other income generation	1	1
CUC Central	5	6
	413	430

Governors acting as Trustees

No governor has received any remuneration or waived payments from the group during the year (2012: none).

The total expenses paid to or on behalf of ten governors was £3,766 (2011/12: £4,319 paid to eight governors). This represents travel and subsistence expenses incurred in attending Board, committee meetings and charity events in their official capacity.

Falmouth University
Notes to the consolidated financial statements
for the year ended 31 July 2013 (continued)

8 Other operating expenses

	31/7/13	31/7/12
	£ (000)	£ (000)
Teaching materials and expenses	2,222	1,867
Library and learning resource costs	844	500
IT support costs	682	474
Student support costs	1,728	1,068
Recruitment and restructuring costs	211	86
Research costs	858	937
Auditors remuneration - external audit fees	33	34
Auditors remuneration - internal audit fees	24	24
Auditors remuneration - non audit fees	-	4
Administrative expenses	1,976	1,566
CUC central costs	110	172
Advertising and promotional expenses	1,331	974
Examination fees	15	13
Bursaries payable	1,213	1,388
Business Relations costs	269	300
Heat, light, rates and water	1,200	992
Repairs and maintenance to premises	2,521	2,180
Inter-campus transport	178	156
Rents and property leases	51	18
Other income generation costs	555	539
	<u>16,021</u>	<u>13,292</u>

Auditors' remuneration includes the following in respect of the University:

External audit fees	33	34
Internal audit fees	24	24
	<u>24</u>	<u>24</u>

9 Interest and other finance costs

	31/7/13	31/7/12
	£ (000)	£ (000)
On bank loans not wholly repayable within five years	19	11
Pension finance costs	128	-
	<u>147</u>	<u>11</u>

Falmouth University
Notes to the consolidated financial statements
for the year ended 31 July 2013 (continued)

10 Analysis of 2012/13 expenditure by activity

	Staff costs	Other operating expenses	Depreciation	Interest payable	2012/13 Total	2011/12 Total
	£ (000)	£ (000)	£ (000)	£ (000)	£ (000)	£ (000)
Academic departments	10,749	1,798	756	-	13,303	11,932
Academic support services	2,376	2,052	394	-	4,822	4,958
Research grants & contracts	764	859	28	-	1,651	1,382
Residences and catering	219	443	-	-	662	598
Premises	502	3,945	2,027	19	6,493	5,628
Administration & central services	5,211	6,432	98	128	11,869	9,943
Other services	391	382	-	-	773	824
Other expenses (including CUC)	226	110	-	-	336	475
Sub total per I&E Account	20,438	16,021	3,303	147	39,909	35,740
Exceptional item	324	-	-	-	324	-
Total	20,762	16,021	3,303	147	40,233	35,740

The depreciation charge has been funded by:

Deferred capital grants	2,472
Revaluation reserve release	449
General income	382
	<u>3,303</u>

Falmouth University
Notes to the consolidated financial statements
for the year ended 31 July 2013 (continued)

11 Fixed asset schedule

Group	Assets in the course of construction £ (000)	Land and buildings £ (000)	Fixtures, fittings & equipment £ (000)	Total £ (000)
Cost or valuation				
B/f as at 1 August 2012	4,619	90,166	12,454	107,239
Additions	859	2,215	1,731	4,805
Transfers	(5,162)	4,880	282	-
Disposals	-	-	(39)	(39)
C/f as at 31 July 2013	<u>316</u>	<u>97,261</u>	<u>14,428</u>	<u>112,005</u>
Depreciation				
B/f as at 1 August 2012	-	-	10,229	10,229
Charge for the year	-	1,838	1,465	3,303
Depreciation on disposals	-	-	(38)	(38)
C/f as at 31 July 2013	<u>-</u>	<u>1,838</u>	<u>11,656</u>	<u>13,494</u>
Net book value				
As at 31 July 2012	<u>4,619</u>	<u>90,166</u>	<u>2,225</u>	<u>97,010</u>
As at 31 July 2013	<u>316</u>	<u>95,423</u>	<u>2,772</u>	<u>98,511</u>
University				
Cost or valuation				
B/f as at 1 August 2012	4,619	90,252	12,113	106,984
Additions	859	2,215	1,737	4,811
Transfers	(5,162)	4,880	282	-
Disposals	-	-	(39)	(39)
C/f as at 31 July 2013	<u>316</u>	<u>97,347</u>	<u>14,093</u>	<u>111,756</u>
Depreciation				
B/f as at 1 August 2012	-	-	10,003	10,003
Charge for the year	-	1,838	1,465	3,303
Depreciation on disposals	-	-	(38)	(38)
C/f as at 31 July 2013	<u>-</u>	<u>1,838</u>	<u>11,430</u>	<u>13,268</u>
Net Book Value				
As at 31 July 2012	<u>4,619</u>	<u>90,252</u>	<u>2,110</u>	<u>96,981</u>
As at 31 July 2013	<u>316</u>	<u>95,509</u>	<u>2,663</u>	<u>98,488</u>

In accordance with the University's policy to revalue assets on a regular basis, land and buildings were professionally valued on the basis of depreciated replacement cost by Alder King, Chartered Surveyors, Newham Road, Truro on 31 May 2012. Properties have been valued on the basis of depreciated replacement cost. The Board are satisfied that there have been no material changes in the market or to the properties since the date of the valuation.

The historical cost of land and buildings would show a net book value of £69m at the year end.

Falmouth University
Notes to the consolidated financial statements
for the year ended 31 July 2013 (continued)

12 Benefit arising from the acquisition of Dartington College of Arts (negative goodwill)

The University undertook a business combination with Dartington College of Arts on 6 April 2008. The business combination was treated as an acquisition and accounted for by the "acquisition method of accounting" in order to comply with the requirements of FRS 6, Acquisitions and Mergers. Fair values are attributed to the net separable assets and liabilities. The benefit, arising as a consequence of no consideration having been paid by the Institution for the net value of the assets acquired, is included in the consolidated balance sheet as a deduction from tangible and intangible assets. The fair value of the benefit is released to the Income and Expenditure account over the periods in which the non-monetary assets are recovered, whether through depreciation or disposals. The release is aligned with the corresponding depreciation charge relating to the assets, which is on a straight line basis over 10 years for instruments and two years for other assets.

Fair value	£ (000)
B/f as at 1 August 2012	(502)
Adjustment to valuation	-
C/f as at 31 July 2013	(502)
Released to Income and Expenditure account	
B/f as at 1 August 2012	482
Release for the year	6
C/f as at 31 July 2013	488
Net book value	
At 31 July 2012	(20)
At 31 July 2013	(14)

13 Investment asset and interest in joint venture

	Group		University	
	2013	2012	2013	2012
	£ (000)	£ (000)	£ (000)	£ (000)
Investment in subsidiary companies	-	-	1	1
Interest in joint venture company	-	-	-	-
	-	-	1	1

The University owns 100% of the issued share capital of Falmouth Enterprises Limited (FEL), a company registered in England and Wales with company registered number 2517317. The principal activity of FEL is the provision of services to businesses which include the use of the Media, Photography, Performance and Design Centres' facilities and staff expertise.

The University also owns 50% of Falmouth Exeter Plus (FX Plus); a company limited by guarantee which in turn owns 100% of the issued share capital (100 £1 Ordinary Shares) in the Tremough Development Vehicle Ltd (TDV). These joint venture companies with UoE have been established to provide the operational aspects (through FX Plus) and construction (through TDV) of the Penryn campus.

The objects of FX Plus are to advance the education of the public by providing and assisting in the provision of higher education facilities in Cornwall.

Falmouth University
Notes to the consolidated financial statements
for the year ended 31 July 2013 (continued)

In accordance with FRS9 Accounting for Associates and Joint Ventures, the Group is required to disclose its share of assets and liabilities in FX Plus. As at the year end these were as follows:

	2013	2012
	£ (000)	£ (000)
Share of fixed assets	32,582	32,413
Share of current assets	2,639	4,331
Share of current liabilities	(2,462)	(3,540)
Share of long-term liabilities	(28,714)	(29,321)
Share of pension liability	(639)	(202)
	<hr/> 3,406	<hr/> 3,681
Share of income	<hr/> 9,123	<hr/> 7,206
Share of (loss)/profit before tax	(58)	219
Share of tax payable	-	-
Share of (loss)/profit after tax	<hr/> (58)	<hr/> 219

Other investments of the University comprise:

Name	Company number	Shares
Atlantic Press Limited	05122849	100
Fizcast Limited	07938085	1,262

Shares in these companies were gifted to the University and no value was attributed on acquisition.

All companies are registered in England and Wales and operate in the UK.

14 Endowment assets

	Group and University	
	2013	2012
	£ (000)	£ (000)
Permanent and expendable endowments		
Balance brought forward	37	42
Bursaries awarded	(4)	(5)
Balance carried forward	<hr/> 33	<hr/> 37

Endowment assets relate to two Denis Mitchell sculptures and a Michael Finn painting donated to and held in the University at valuation and a bequest from the Ferdynand Zweig Memorial Scholarship Fund held as cash in the University's bank account.

Falmouth University
Notes to the consolidated financial statements
for the year ended 31 July 2013 (continued)

15 Debtors

	Group		University	
	2013 £ (000)	2012 £ (000)	2013 £ (000)	2012 £ (000)
Fees and charges	285	144	285	144
Trade debtors	927	854	923	840
Prepayments and accrued income	719	1,092	719	1,092
ERDF and ESF grants due	1,235	2,302	1,235	2,302
SWRDA grants due	66	441	66	441
Amounts owed by group undertakings	-	-	13	54
Sundry debtors	21	25	21	25
Bad debt reserve	(12)	(48)	(12)	(47)
	3,241	4,810	3,250	4,851

The major debtors reflect timing differences on grants due against construction works from major funders. All capital grants from European Regional Development Funds are claimed after the related expenditure has been paid.

16 Creditors – amounts falling due within one year

	Group		University	
	2013 £ (000)	2012 £ (000)	2013 £ (000)	2012 £ (000)
Bank loan	65	64	65	64
HEFCE	336	802	336	802
Bank overdraft	1	112	1	112
Trade creditors	781	732	781	732
Student deposits	14	78	14	78
Accruals and deferred income	1,812	2,203	1,804	2,200
Social security and other taxation	629	658	629	658
Amounts owed to joint ventures	1,890	2,684	1,890	2,684
Other creditors	47	57	47	57
CUC creditors and accrued income	38	51	38	51
	5,613	7,441	5,605	7,438

Included within the balance owed to joint ventures is £816,000 (2012: £2,711,000) held on behalf of FX Plus in a higher interest deposit account.

17 Creditors – amounts falling due after more than one year

	Group and University	
	2013 £ (000)	2012 £ (000)
Bank loan	546	611

The University drew down a loan from Lloyds Bank plc of £936k in 2006/07 from a facility of £1.25m, repayable on a quarterly basis over 15 years. Interest will be calculated at 0.2% per annum above the Bank's Base Rate. At 31 July 2013 the balance outstanding is £611,000 (2012: £675,000).

Falmouth University
Notes to the consolidated financial statements
for the year ended 31 July 2013 (continued)

17 Creditors – amounts falling due after more than one year (continued)

	Group and University	
	2013	2012
	£ (000)	£ (000)
Amounts repayable on bank loan:		
In one year or less	65	64
In more than one year but not more than two years	65	65
In more than two years but not more than five years	198	196
In more than five years	283	350
	611	675

18 Provisions for liabilities

	Enhanced Pension Provision	Relocation costs	Total
	£	£	£
Group & University			
Balance at 1 August 2012	737	37	774
Transferred from Income and expenditure	45	39	84
Utilised in the year	(44)	(37)	(81)
Balance at 31 July 2013	738	39	777

The enhanced pension provision represents an estimate of the expected future cost of enhancements to the pensions of qualifying staff. These have been negotiated on an individual basis with staff taking early retirement, or in two cases, have been inherited as part of contractual terms. The number of employees to which the pension relates was 16 at 31 July 2013. The provision is calculated based on the total capital cost with an allowance for future investment returns in excess of inflation.

Provision has also been made for relocation costs of up to £8,000 less amounts already claimed per employee expected to relocate. The number of employees to which the provision relates was eleven.

19 Deferred capital grants

	HEFCE building grants	HEFCE equipment grants	SWRDA and other grants	European Regional Dev't Fund	Total
	£ (000)	£ (000)	£ (000)	£ (000)	£ (000)
Balance at 1 August 2012	16,687	1,076	12,871	32,419	63,053
Received during the year	87	250	51	546	934
Released to Income and Expenditure	(384)	(722)	(372)	(994)	(2,472)
Balance at 31 July 2013	16,390	604	12,550	31,971	61,515

Grants received relate to funding for construction costs of the buildings at Penryn. Funds have been awarded through HEFCE, European Regional Development Funds and the South West of England Regional Development Agency.

Falmouth University
Notes to the consolidated financial statements
for the year ended 31 July 2013 (continued)

20 Revaluation reserve

	Group		University	
	2013	2012	2013	2012
	£ (000)	£ (000)	£ (000)	£ (000)
Balance brought forward	29,857	19,094	25,202	16,051
Transferred to Income and expenditure account - depreciation	(449)	(246)	(449)	(246)
Share of movement in joint venture's revaluation reserve	(87)	(63)	-	-
	<u>29,321</u>	<u>18,785</u>	<u>24,753</u>	<u>15,805</u>

21 Income and expenditure account

	Group		University	
	2013	2012	2013	2012
	£ (000)	£ (000)	£ (000)	£ (000)
Retained surplus	8,300	8,411	9,243	9,475
Surplus after depreciation of assets at valuation and tax	472	1,632	536	1,411
Transfer from revaluation reserve	536	308	449	245
Actuarial (loss)/gain on pension liability	(422)	(2,051)	(203)	(1,888)
Retained surplus carried forward	<u>8,886</u>	<u>8,300</u>	<u>10,025</u>	<u>9,243</u>
Represented by:				
Income and expenditure account reserve excluding pension reserve	13,333	12,576	14,472	13,519
Pension reserve	(4,447)	(4,276)	(4,447)	(4,276)
Total	<u><u>8,886</u></u>	<u><u>8,300</u></u>	<u><u>10,025</u></u>	<u><u>9,243</u></u>

The surplus for the year comprises the surplus from the University of £0.5m (2012: £1.8m), gift aid receivable from Falmouth Enterprises Limited of £19k (2012: £11k) and a share in the deficit of the joint venture of £58k (2012: share of surplus of £219k).

Falmouth University
Notes to the consolidated financial statements
for the year ended 31 July 2013 (continued)

22 Reconciliation of consolidated operating surplus to net cash from operating activities

	Note	31/7/13 £ (000)	31/7/12 £ (000)
Surplus before tax		472	1,632
Depreciation	11	3,303	2,974
Profit on disposal		-	(2)
Amortisation of negative goodwill	12	(6)	(6)
Pension costs less contributions payable		(160)	103
Deferred capital grants released	19	(2,472)	(2,419)
Share of joint venture loss/(profit)		58	(219)
Investment income	6	(47)	(59)
Interest payable	9	147	11
Increase in stocks		(5)	(4)
Increase in debtors		(132)	(732)
Decrease in creditors		(837)	(531)
Decrease/(Increase) in provisions		3	(309)
Net cash inflow from operating activities		324	439

23 Analysis of changes in net funds

	At 1 Aug 2012 £ (000)	Cashflow s £ (000)	At 31 July 2013 £ (000)
Cash in hand, and at bank	8,803	(2,875)	5,928
Overdrafts	(112)	111	(1)
	8,691	(2,764)	5,927
Debt due within 1 year	(64)	(1)	(65)
Debt due after 1 year	(611)	65	(546)
Total	8,016	(2,700)	5,316

24 Pension schemes

The University's employees belong to two principal pension schemes, the Teachers' Pensions Scheme (TPS) and the Cornwall Council Superannuation Scheme. The total pension cost for the period was as follows:

	31/7/13 £ (000)	31/7/12 £ (000)
CC Pension Scheme: Charge to the Income and expenditure account (note 7)	1,258	1,102
Teachers Pension Scheme: contributions paid (note 7)	920	918
Enhanced pension charge to Income and expenditure account (note 18)	45	80
Total pension cost for the year	2,223	2,100

Teachers' Pension Scheme (TPS)

The Teachers' Pension Scheme is accounted for as a defined contribution pension scheme on the basis that it is not possible for the scheme to separately identify the University's share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis.

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for the year ended 31 July 2013 (continued)

The Teachers' Pension Scheme (TPS) is a statutory, contributory, defined benefit scheme. The regulations under which the TPS operates are the Teachers' Pensions Regulations 1997, as amended. These regulations apply to teachers in schools and other educational establishments in England and Wales maintained by local authorities (LAs), to teachers in many independent and voluntary-aided schools, and to teachers and lecturers in establishments of further and higher education. Membership is automatic for full-time teachers or lecturers and from 1 January 2007 automatic too for teachers or lecturers in part-time employment following appointment or a change of contract. Teachers are able to opt out of the TPS.

Although teachers are employed by LAs and various other bodies, their retirement and other pension benefits, including annual increases payable under the Pensions (Increase) Acts are, as provided for in the Superannuation Act 1972, paid out of monies provided by Parliament. Under the unfunded TPS, teachers' contributions on a 'pay-as-you-go' basis, and employers' contributions, are credited to the Exchequer under arrangements governed by the above Act.

The Teachers' Pensions Regulations require an annual account, the Teachers' Pension Account, to be kept of receipts and expenditure (including the cost of pensions' increases). From 1 April 2001, the account will be credited with a real rate of return (in excess of price increases and currently set at 3.5%), which is equivalent to assuming that the balance in the account is invested in notional investments that produce that real rate of return.

Not less than every four years, with a supporting interim valuation in-between, the Government Actuary (GA), using normal actuarial principles, conducts a formal actuarial review of the TPS. The aim of the review is to specify the level of future contributions.

Contributions are assessed in two parts. Firstly, a standard contribution is determined. This is the contribution, expressed as a percentage of the salary of a teacher / lecturer entering service, which would defray the cost of benefits payable in respect of that service. Secondly, a supplementary contribution is payable if, as a result of the actuarial investigation, it is found that accumulated liabilities of the Account for benefits to past and present teachers, are not fully covered by normal contributions to be paid in future and by the fund built up from past contributions.

The last valuation of the TPS related to the period 1 April 2001 - 31 March 2004. The GA's report of October 2007 revealed that the total liabilities of the Scheme (pensions currently in payment and the estimated cost of future benefits) amounted to £166,500m. The value of the assets (estimated future contributions together with the proceeds from the notional investments held at the valuation date) was £163,240m. The assumed real rate of return is 3.5% in excess of prices and 2% in excess of earnings. The rate of real earnings growth is assumed to be 1.5%. The assumed gross rate of return is 6.5%. The GA's Department has cancelled the 2008 valuation as formal actuarial valuations for unfunded public service pension schemes have been suspended by HM Treasury.

The annual accounts for 2012-13 estimated that the total liabilities of the scheme were £224,900m using the assumptions of a real rate of return of 2.35% in excess of pension increases and 0.15% in excess of earnings increases. The rate of return was assumed to be 4.1%.

Employees pay tiered contribution rates ranging from 6.4% to 11.2% according to their salary band. Employer rates are 14.1%.

Falmouth University
Notes to the consolidated financial statements
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FRS 17 retirement benefits disclosure

The University is a member of the Cornwall Council Pension Scheme, a funded defined benefit scheme in the UK. The total contribution made for the year ended 31 July 2013 was £1,503k (2012: £1,404k) of which employer's contributions totalled £1,091k (2012: £999k) and employees' contributions totalled £412k (2012: £405k). The agreed contribution rates for future years are 14.6 per cent plus a lump sum payment for employers and between 5.5 and 7.5 per cent for employees.

The actuarial valuation of the scheme at 31 March 2010 showed a deficit of £289m. Employers' contribution rates during the year were 14.6% plus an annual lump sum of £109,000 to March 2013 and 14.6% plus an annual lump sum of £140,000 from April 2013. Employees pay tiered contributions and these were between 5.5% and 7.5% (2012: 5.5% to 7.5%).

The following information is based upon a full actuarial valuation of the fund at 31 March 2010 rolled forward to 31 July 2013 by a qualified independent actuary. For this purpose the rate used to discount the liabilities is based on the rate of return of an AA rated corporate bond and the investments have been valued at bid value.

Actuarial assumptions

The major assumptions used by the actuary were:

	2013	2012
	%	%
Rate of increase in salaries	5.1	4.5
Inflation - CPI	2.8	2.2
Rate of increase for pensions in payment	2.8	2.2
Discount rate for liabilities	4.6	4.4
Commutation of pensions to lump sums- membership post 1 April 2012	70.0	70.0

The current mortality assumptions include sufficient allowance for future improvements in mortality rates. The assumed life expectations on retirement age 65 are:

	At 31 July 2013	At 31 July 2012
<i>Retiring today</i>		
Males	86.3	86.3
Females	88.4	88.4
<i>Retiring in 20 years</i>		
Males	88.2	88.2
Females	90.6	90.6

Falmouth University
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Scheme assets

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	Long-term rate of return expected at 31 July 2013	Bid value at 31 July 2013	Long-term rate of return expected at 31 July 2012	Mid market value at 31 July 2012
	%	£(000)	%	£(000)
Equities	5.5	10,290	5.5	10,218
Bonds	3.3	3,859	3.3	2,593
Property	3.7	804	3.7	1,068
Cash	2.8	1,125	2.8	1,373
Estimated employers' share of scheme assets		16,078		15,252
Present value of scheme liabilities- Funded		(20,525)		(19,528)
Deficit in the scheme		(4,447)		(4,276)

The University employs a building block approach in determining the rate of return on fund assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected rate of return for each asset class over the actual asset allocation for the Fund as at 31 July 2013.

Actual return on assets

	2013 £'000	2012 £'000
Actual return on assets	2,486	222

Analysis of the amount charged to Income and Expenditure account

	2013 £(000)	2012 £(000)
Current service cost	1,213	1,088
Exceptional FRS17 reorganisation net gain	(324)	-
Total operating charge	889	1,088

Analysis of pension finance (income)/costs

	2013 £(000)	2012 £(000)
Expected return on pension scheme assets	(715)	(911)
Interest on pension scheme liabilities	843	891
Net cost/(income)	128	(20)

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

	2013 £(000)	2012 £(000)
Actuarial loss recognised in STRGL in the year	(203)	(1,888)
Cumulative actuarial loss recognised in STRGL at 1 August	(2,833)	(945)
Cumulative actuarial loss recognised in STRGL at 31 July	(3,036)	(2,833)

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Notes to the consolidated financial statements
for the year ended 31 July 2013 (continued)

Asset and Liability Reconciliation

	2013	2012
	£'000	£'000
Reconciliation of Liabilities		
Liabilities at start of period	19,528	16,213
Current service cost	1,213	1,088
Interest cost	843	891
Employee contributions	412	405
Actuarial loss	1,974	1,199
Estimated benefits paid	(378)	(282)
Losses on curtailments	42	14
Liabilities extinguished on settlements	(3,109)	-
Liabilities at end of period	<u>20,525</u>	<u>19,528</u>

Reconciliation of Assets

Assets at start of period	15,252	13,908
Expected return on assets	715	911
Actuarial gain/(loss)	1,771	(689)
Employer contributions	1,091	999
Employee contributions	412	405
Estimated benefits paid (net of transfers in)	(378)	(282)
Assets distributed on settlements	(2,785)	-
Assets at end of period	<u>16,078</u>	<u>15,252</u>

History of liabilities, assets and experience adjustments

	2013	2012	2011	2010	2009
	£(000)	£(000)	£(000)	£(000)	£(000)
Scheme liabilities	(20,525)	(19,528)	(16,213)	(15,386)	(13,272)
Scheme assets	16,078	15,252	13,908	10,860	8,512
Deficit	(4,447)	(4,276)	(2,305)	(4,526)	(4,760)
Experience adjustments on Scheme liabilities	-	(94)	(484)	-	-
Experience adjustments on Scheme assets	1,771	(689)	1,062	556	(1,861)

25 Capital commitments

	Group and University	
	2013	2012
	£ (000)	£ (000)
Authorised but not committed	2,520	382
Commitments contracted at 31 July	<u>111</u>	<u>1,094</u>

Amounts authorised are in respect of works on capital projects for the Falmouth campus less commitments to date. Commitments contracted relate to the design work that had been awarded to contractors at the year end date.

Falmouth University
Notes to the consolidated financial statements
for the year ended 31 July 2013 (continued)

26 Financial commitments

At 31 July 2013 the University had annual commitments under non-cancellable operating leases as follows:

	Group and University	
	2013	2012
	£ (000)	£ (000)
Land and buildings expiring between two to five years	18	13

The University guarantees 50% (£9.3m) of a 25 year £18.6m bank loan by Lloyds Bank plc to FX Plus. FX Plus drew the loan down in 2006 and exercised an option to fix the interest rate at 5.779% but was converted to a full term fixed rate in March 2012 of 5.215%.

A further loan of £10m (£12.5m including rolled up interest) was taken out by FX Plus in 2007 to fund the construction of 300 new student residences. This loan is for a term of 30 years and 50% is guaranteed by the University.

FX Plus drew down a loan of £20.5m for new residences in 2009. The loan is repayable over 30 years and 50% is guaranteed by the University.

FX Plus has also drawn down a loan of £8M for new residences. The loan is repayable over 16 years and 50% is guaranteed by the University.

The University and UoE have undertaken to pass on sufficient funds (including specific grants) to the FX Plus group to enable it to meet its contractual commitments to deliver the campus buildings and student accommodation at Penryn and to enable the group to continue to trade.

27 Related-party transactions

Due to the nature of the University's operations and the composition of the Board (with members being drawn from local, public and private sector organisations) it is inevitable that transactions will take place with organisations in which a Board member may have an interest. All transactions involving organisations in which a Board member may have an interest are conducted at arm's length and in accordance with the University's financial regulations and normal procurement procedures, which require individuals to declare any interest.

The University has taken advantage of the exemption under FRS 8 not to disclose transactions with subsidiaries that are 100% owned.

The University holds a 50% share of FX Plus, a company limited by guarantee, having no share capital and for which exempt charitable status has been obtained. FX Plus is a joint venture company owned equally by the University and UoE.

FX Plus has been established to operate student and commercial services for the Penryn Campus under a shared services agreement.

The University and UoE have continued to guarantee sums of £9.3m and £6.25m each to Lloyds Bank Plc, in respect of the borrowings of £18.6m and £12.5m respectively to FX Plus. They have also guaranteed £10.25m each to Barclays Bank plc in respect of borrowings of £20.5m and £4m each to the European Investment Bank and Lloyds Bank plc in respect of borrowings of £8m.

TDV is a wholly owned subsidiary of FX Plus. It has been established to provide the construction of the main campus for the Combined Universities in Cornwall project based at Penryn. TDV will

Falmouth University
Notes to the consolidated financial statements
for the year ended 31 July 2013 (continued)

continue to undertake academic related building works on behalf of the UoE and the University. The UoE and the University receive capital grants that are released to TDV to fund the academic development at the Penryn campus.

The FX Plus Group has capital commitments as follows:

	2013	2012
	£ (000)	£ (000)
Authorised but not committed	4,827	6,799
Commitments contracted at 31 July 2013	994	5,054

Amounts authorised are in respect of various projects at the Penryn campus less commitments to date.

Transactions between the University and FX Plus (which are all shown on an arms length basis) were as follows:

	Purchases from related parties	Sales to related parties	Payments to third parties through joint venture	Amounts owed to related party	Amounts owed by related party
	£ (000)	£ (000)	£ (000)	£ (000)	£ (000)
Falmouth Exeter Plus Group					
2013	5,549	500	2,537	1,890	-
2012	3,557	391	4,984	2,684	-

Balances due to and from the joint venture are shown in note 15 Debtors and note 16 Creditors – amounts due within one year. ‘Payments to third parties through joint venture’ represents amounts paid to contractors for the University’s share of the design and construction of buildings and facilities at the Penryn campus.

Students’ Union (FXU)

The Students’ Union has not been consolidated in the University’s financial statements because the University does not exercise a significant influence over its operations. Grants were paid to FXU during the year as follows:

	Year to 31/7/13	Year to 31/7/12
	£ (000)	£ (000)
Block grant	169	112
Staffing grant	332	246
Sports	30	30
Other	8	-
	539	388

28 Access to learning funds

Year to **Year to**

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	31/7/13	31/7/12
	£ (000)	£ (000)
Brought forward	11	11
Funding Council grant	110	105
Other funding body grants	6	4
	<u>127</u>	<u>120</u>
Disbursed to students	(122)	(109)
Balance unspent	<u>5</u>	<u>11</u>

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.

29 CUC central costs

	Year to 31/7/13	Year to 31/7/12
	£ (000)	£ (000)
Income		
ERDF Convergence grant	158	294
Contributions from partner institutions	94	149
European Social Fund	174	68
	<u>426</u>	<u>511</u>
Expenditure		
Staffing	296	303
Office & administration	58	104
Marketing & PR	50	87
Professional fees	22	17
	<u>426</u>	<u>511</u>

CUC central costs relate to pooled costs for the Combined Universities in Cornwall Project Office which are managed on behalf of the partners by the University. These amounts are included within the Income and Expenditure notes 2 to 8 above.

30 Post balance sheet events

There were no post balance sheet events to report.

On 22 November 2013 the consolidated financial statements were authorised for issue by the Governing Body and do not reflect events after this date.

