CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 July 2016

FALMOUTH
UNIVERSITY

BOARD OF GOVERNORS

Board of Governors (at date of signing)

Chairman	Mr C Pomfret
Deputy-Chair	Mr C Wace
Vice-Chancellor & Chief Executive	Professor A Carlisle
Audit Committee Chair	Mr A Allen
Independent Governors	Mr M Carne Miss A Cressey Mr T Jones Mr B Louveaux Mr J Mathers
Academic Board Representative	Mrs T Pritchard
Professional Services Staff Representative	Mr R Hillier
Students' Union President - Falmouth	Mr C Slesser

Other Officers

Senior Deputy Vice-Chancellor	Professor G Smith
Deputy Vice-Chancellor (Academic)	Professor A Murray
Registrar & Director of Student Information	Professor J Press
Chief Operating Officer	Mr P Cox
Director of Finance	Mr R Holmes
Secretary to the Board	Dr R Kirby
Clerk to the Board	Mrs R Wyatt

Registered Office Address

Falmouth Campus, Woodlane, FALMOUTH TR11 4RH

Bankers
Barclays Bank plc, 3rd Floor, Windsor Court, 3 Windsor Place, CARDIFF CF10 3BX

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

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REPORT OF THE GOVERNING BODY

The Board of Governors present their report and the audited financial statements for the year ended 31 July 2016.

INTRODUCTION

For over 110 years, Falmouth University has been a dynamic centre for creative learning and innovation. In our Strategic Plan 2015-2020 we present a vision that will enable us to build on this legacy and achieve our ambition to be an internationally recognised creative innovation hub.

Falmouth has grown rapidly in recent years, almost doubling in size since 2006. We have a comprehensive portfolio that uniquely and equally spans all of the creative art forms, and we are proud to have been named as the UK's Number 1 Arts University for a third consecutive year in The Times & Sunday Times Good University Guide. Thanks to significant investment, our facilities are pitched at creative industry standard and our staff are respected and experienced professionals in their fields.

The University's graduates have excellent prospects in the creative economy – one of the fastest growing and largest economic sectors in the UK – which now provide 1 in 11 of all jobs in the UK, and 1 in 6 of all graduate jobs.

STRATEGIC PLAN: PROGRESS AGAINST OUR OBJECTIVES

In 2015, the University refreshed its Strategic Plan for the planning period 2015-2020, keeping the five main objectives of the previous plan, and introducing more ambitious plans to grow student numbers and diversify the portfolio.

The following sections present summaries of the University's success in 2015/16 against its Strategic Plan objectives. As a result of the progress detailed below, the University has risen to highly prominent positions in UK Higher Education league tables and other external indicators of quality. The University rose to 21st of 119 UK Universities in the 2016 Guardian league. This represents a rise of 55 places in The Guardian's table in the last three years, and ranks Falmouth at 2nd among the 75 modern Universities established since 1992.

STRATEGIC PLAN OBJECTIVE 1: TO PRODUCE SATISFIED GRADUATES WHO GET GREAT JOBS

The Strategic Plan 2015-2020 promotes this objective to first position, reflecting the University's absolute commitment to delivering an outstanding student experience, and the highest rates of employment and self employment for graduates. This prioritisation is timely, given that student satisfaction, retention and graduate employability are the cornerstones of the forthcoming Teaching Excellence Framework, which will control universities' access to inflation-linked fee increases.

In 2015/16, the University made strong progress against this objective, improving National Student Survey results, and graduate employability survey results (the Destinations of Leavers from Higher Education Survey).

SATISFIED GRADUATES – NATIONAL STUDENT SURVEY (NSS)

In the 2016 NSS, Falmouth scored 85% for overall satisfaction; an improvement of ten percentage points in the last five years. These results led to the University achieving the ranking of 17th of 129 UK Universities for teaching quality, in The Times and Sunday Times Good University Guide 2017.

The Strategic Plan Measure of Success for the NSS is for all undergraduate courses to achieve an overall satisfaction score of 90% by 2017. The University will continue to pursue student experience enhancement initiatives, with a particular focus on improving scores for course organisation and management in 2017.

SATISFIED GRADUATES – TIMES HIGHER EDUCATION SURVEY

For the second consecutive year, Falmouth achieved the rank of 11th of 113 Universities in the UK, in the Times Higher Student Experience Survey 2015, published in April 2016. The overall ranking combines scores in key areas of student satisfaction, including teaching quality, pastoral care and the quality of the campus and the facilities. Falmouth achieved some outstanding rankings in these individual categories, including first in the UK for three categories: good environment on campus, good support and welfare, and good library and opening hours; Falmouth was also ranked second in the UK for high quality facilities.

GREAT JOBS

In 2016 the University returned a very positive set of results in the recent Destination of Leavers in Higher Education (DLHE) survey, matching or exceeding the UK averages for each employment or further study category.

For the third year in a row, Falmouth University has improved its employability results. The overall employability figure for UK domiciled graduates increased by a further percentage point to 97%, above the UK average of 94%. This includes graduates working full time or part time, those in self-employment and those in further study. Falmouth's overall score for employment or further study is also the highest of the UK's Arts Universities, and places Falmouth 20th of the 165 Higher Education Institutions in the UK by this measure.

Falmouth has also seen a further increase of 7 percentage points in overall 'graduate level' employability, to 82%, 5 points above the UK average. This measure carries significant weighting in UK university league tables. This outcome placed Falmouth 34th of 129 Universities for graduate prospects in The Times and Sunday Times Good University Guide 2016, 19 places above the next Arts University for this measure.

Unemployment has fallen from 3% last year to 2% this year. Self-employment and business start-up amongst Falmouth graduates rises a further three points to 28%; more than four times the national average of 6%. The University's recruitment strategy is strongly focused on articulating the journey of Falmouth University students and graduates into employment, and self employment, in the Creative Industries, when they have completed their course of study.

Further, the Creative Industries Economic Estimates published by the Department for Culture, Media and Sport in January 2016, confirmed that 1 in 11 jobs in the UK now sit in the Creative Economy; 2.8m jobs in total. Through continuous development and management of the academic portfolio, Falmouth has ensured that our course offering now addresses 100% of the job categories in the creative industries (in 2010 the portfolio only covered 48%). This has been achieved through addition of new provision in Advertising, Architecture, Software & Electronic Publishing, and Digital & Entertainment Media.

STRATEGIC PLAN OBJECTIVE 2: TO HELP GROW CORNWALL

This objective, also promoted to a higher position in the 2015-2020 Strategic Plan, establishes the University's commitment to recruiting and retaining students from Cornwall and the Isles of Scilly, creating new jobs and supporting the growth of the creative and cultural industries in the County.

The Grow Cornwall objective commits the University to more than double the number of students from Cornwall enrolled, from 468 in 2014 to 1,126 by 2020. While the University has a strong record of recruiting students from disadvantaged backgrounds in Cornwall, the Strategic Plan target recognises the University's belief that raising aspirations and prioritizing access to higher education is an essential component of growing Cornwall. As the number of student places per head of population is lower than the national average, the University is actively developing partnerships with schools, and further and higher education providers to help raise aspiration and improve participation in the region.

Falmouth had achieved 700 placed applicants from Cornwall prior to the start of the Autumn 2016 term, a rise of 22.3% on the previous year, and a rise of 59.1% of Cornish students from POLAR Quintile 1 (areas with the lowest proportion of participation in HE). This represents a significant milestone in the achievement of the 2020 target for enrolments from Cornwall. In 2016, the Office for Fair Access approved Falmouth's new Access Agreement, which commits £3m of University investment in fair access, retention, and graduate employability for students from disadvantaged backgrounds. Further, the University is part of a consortium of South West HEIs and FE Colleges which successfully bid to HEFCE for a £5.5m National Collaborative Outreach Programme for 2017-2020, which targets fair access and outreach work in HE 'cold spots' in the region.

An economic impact study, undertaken by Oxford Economics in May 2016, confirmed that £58.3m p.a. of economic activity was supported by Falmouth University and its students in 2014-15; over £1m per week. This is projected to rise to £2m per week by 2020. 1,300 jobs were supported by the University and its students in 2014/15: 1 in every 200 jobs in Cornwall. The University's Launchpad graduate entrepreneurship programme, supported by European Regional Development Fund and Cornwall Council, will play a major role in the economic regeneration of Cornwall's economy (see Objective 4, below, for further details).

STRATEGIC PLAN OBJECTIVE 3: TO EXPAND AND DIVERSIFY WHAT WE DO

The Strategic Plan 2015-2020 commits the University to achieving 8,000 total enrolments in the year 2020; almost double the headcount from 2013/14 levels. The University has taken advantage of the Government's removal of student number controls to grow numbers in current provision, where sustainable, and in new provision, including courses in Architecture, Digital Games and Business Entrepreneurship, first introduced in 2014/15.

In 2015/16, the University initiated, developed and formally introduced a range of new partnership and diversification projects, designed to support total enrolments on diversification programmes of c.1,800 of the overall target of 8,000 enrolments by 2020. These range from local progression agreements with further education colleges, to partnerships with major international educational establishments. The models of partnership include a mix of franchise, validation, progression, articulation and dual degrees. Approximately 199 students were enrolled on these programmes at the start of 2016/17, representing an income of £430k. By 2020, these are projected to rise to 1,873 students, delivering an income of £3.1m.

Current collaborative partners include the Academy of Contemporary Music, Cambridge Education Group (Digital), the Fashion Retail Academy, and Cambridge School of Visual and Performing Arts. Closer to home, the University has put in place a franchise partnership with Bodmin College; a validation partnership with Cornwall College; and a progression agreement with Truro and Penwith College. We have a number of progression partnerships with Cornish schools, giving guaranteed interviews or offers.

STRATEGIC PLAN OBJECTIVE 4: TO ESCALATE OUR RESEARCH & INNOVATION

This objective affirms the University's approach of focusing on fields where it can build significant volume and depth and which respond to the grand challenges identified by the national research agencies.

Following a major review in 2015, the University launched a new Research and Innovation Strategy for 2016-2020, articulating the University's R&I focus for the next four years. As well as applying for Research Degree Awarding Powers, the University will prioritise preparation for the 2021 Research Excellence Framework, and sharpen its R&I focus into 3 key themes: Digital Economy, Creative Connected Communities, and Smart Design.

In 2016 the University developed, and bid for, the £12.5m Launchpad Graduate Entrepreneurship programme, a full rollout of the programme successfully piloted in 2014/15. If awarded, Launchpad will attract £9.8m from ERDF, and £2.5m from Cornwall Council, and will build a new generation of 32 digital businesses in Cornwall and create 128 much needed high value job opportunities across the region.

Companies emerging from the programme – which also builds in a Masters in Entrepreneurship, will spin out to accelerator sites across the County, and remain headquartered in Cornwall for five years. Across the pilot and the full programme (commencing in 2017), Launchpad has now attracted £14m in external funding.

STRATEGIC PLAN OBJECTIVE 5: TO BE INTERNATIONALLY SIGNIFICANT

The Strategic Plan 2015-2020 sets a target of 969 international student enrolments by 2020, from a base level of 195 in 2013/14. For 2016/17 entry, new international enrolments returned to 2014-15 levels (109 new enrolments) after three consecutive years of growth.

Future growth will be supported by a range of strategic partnerships and recruitment initiatives with educational establishments around the world, in key markets for our creative subjects.

While the full consequences for HE of the UK's forthcoming exit from the European Union are not clear, there are clear risks to the University's objective 'to be internationally significant'. In particular, the future of the Erasmus+ exchange programme after 2016/17 is in question, and while EU applicants to UK HEIs have been guaranteed access to the student loan system for 2017/18 and the duration of their studies, the long term outlook for recruitment of international students to on campus programmes in the UK is uncertain. The University believes that a range of collaborative partnership programmes, offering varied modes of study, from part time, to online, to blended learning, provide a robust framework for growing international enrolments.

MAXIMISING OUR RESOURCES

Alongside the five Strategic Plan objectives, the University is committed to making the best possible use of our staffing and physical resources, for the benefit of students and for meeting our sustainability targets. In 2016 the University launched an optimisation agenda, designed to drive resource optimisation and efficiency across the university, through a range of projects aimed at driving productivity, delivering added value, enhancing the customer experience, and ultimately delivering increasing surpluses. The Business Plan includes an increase in bottom line surplus to 10% by 2019/20. This level of surplus is currently only achieved by the inclusion of an efficiency/cost savings target of c£1.3m per annum by 2019/20.

The University will continue to manage actively the academic portfolio, to reflect the global graduate employability market in the creative industries, and leveraging of EU 2020 structural funds in the context of the University's role in the economic development of Cornwall.

FINANCIAL OVERVIEW

The details below explain that the results for the year have been extremely positive for Falmouth in many areas, all of which have influenced the University's healthy financial outturn. In line with the financial strategy, surplus levels have risen and need to continue to rise to enable investment in further facilities for both students and staff to meet our growth ambitions. The results for the year show that the institution remains strong and has achieved or exceeded almost all of its financial key performance indicators.

FINANCIAL OBJECTIVES

The University's financial objectives are driven by long term sustainability and value for money. These are laid out in the annual Business Plan which sets out the institutional business model as follows:

A ACHIEVE AN UPWARD TRAJECTORY OF OPERATING SURPLUS AND CASH GENERATION

B ENSURE THAT THE FULL COSTS OF ACTIVITIES ARE PROPERLY UNDERSTOOD TO IMPROVE THE FINANCIAL CONTRIBUTION FROM ACADEMIC DEPARTMENTS SUCH THAT ALL COURSES 'CONVERGE' AT A LEVEL THAT ENSURES TRANSPARENCY AND EQUITY

C INCREASE REVENUE FROM A BROADER RANGE OF INCOME SOURCES

D INVEST IN ESTATES AND FACILITIES, THROUGH A MIXTURE OF CAPITAL AND REVENUE TO ENSURE THEY ARE FIT FOR PURPOSE AND SUPPORT AN EXCELLENT STUDENT EXPERIENCE

E DEVELOP AND OPERATE SYSTEMS AND PROCESSES THAT ENSURE PROPER BUDGETARY AND FINANCIAL CONTROL AND DELIVER VALUE FOR MONEY

F MANAGE RISK EFFECTIVELY WITH ROBUST POLICIES AND PRACTICES

G MANAGE BORROWING ARRANGEMENTS TO ENABLE GROWTH, CONTAIN DEBT SERVICE COSTS AND LIMIT EXPOSURE TO MOVEMENTS IN BORROWING COSTS

PERFORMANCE INDICATORS

In order to monitor financial health and sustainability the University Key Performance Indicators linked to the institutional 'measures of success' are monitored on a regular basis and are supplemented by financial KPIs which have been informed by the work of the sector body, the Financial Sustainability Strategy Group. These will feed into the annual return to HEFCE as a condition of the Memorandum of Assurance and Accountability.

	Area of performance	KPIs used in each area	Actual	Target	Notes
1	Teaching and learning and the student experience	Student recruitment	4,822	5,173	Headcount as at 1 December
		Cornwall recruitment	626	789	Headcount as at 1 December
		Student retention	94%	95%	Taking in-year drop out
		NSS results	85%	86%	2016 published result
		Teaching income per academic FTE	**£177k**	**£166k**	Fee and grant income per academic staff number FTE
2	Research outputs and sustainability	R&I income as % of total income	2.1%	2.5%	Research and innovation income, including HEFCE QR funds, and EU support
3	Financial performance for sustainability	EBITDA	**£5.9m**	**£4m**	Published surplus plus depreciation, interest and pension costs less deferred capital grant
4	Financial health	Surplus generation (exc. pension)	6.9%	4.6%	Published surplus less pension charge as % of income
		Liquidity (current ratio)	1.67	1.41 or better	Current assets as proportion of current liabilities
		Gearing/ASC	4.2%	7% or lower	Annual costs of borrowing (HEFCE definition) as proportion of income
		Total debt : Total funds (frozen GAAP)	26%	40% or less	Total loan finance (including loan guarantees) as proportion of income
		I&E Reserves (exc pension) : Total Income	35%	25% or more	Unrestricted reserves less pension liability as proportion of income
5	Other areas deemed appropriate by the institution	Cost of space per sq.m.	**£141k**	**£126k**	Running cost of estates/facilities as proportion of 41,000 sq.m occupied
		Earned income generation	2.7%	3%	Non-teaching income, including shared services and FX Plus agency

The University is required to complete the annual Finance Record for the Higher Education Funding Council for England (HEFCE). The University is assessed by HEFCE each year and was rated as 'not being at higher risk' – this is considered an acceptable outcome.

FINANCIAL POSITION

FINANCIAL RESULTS

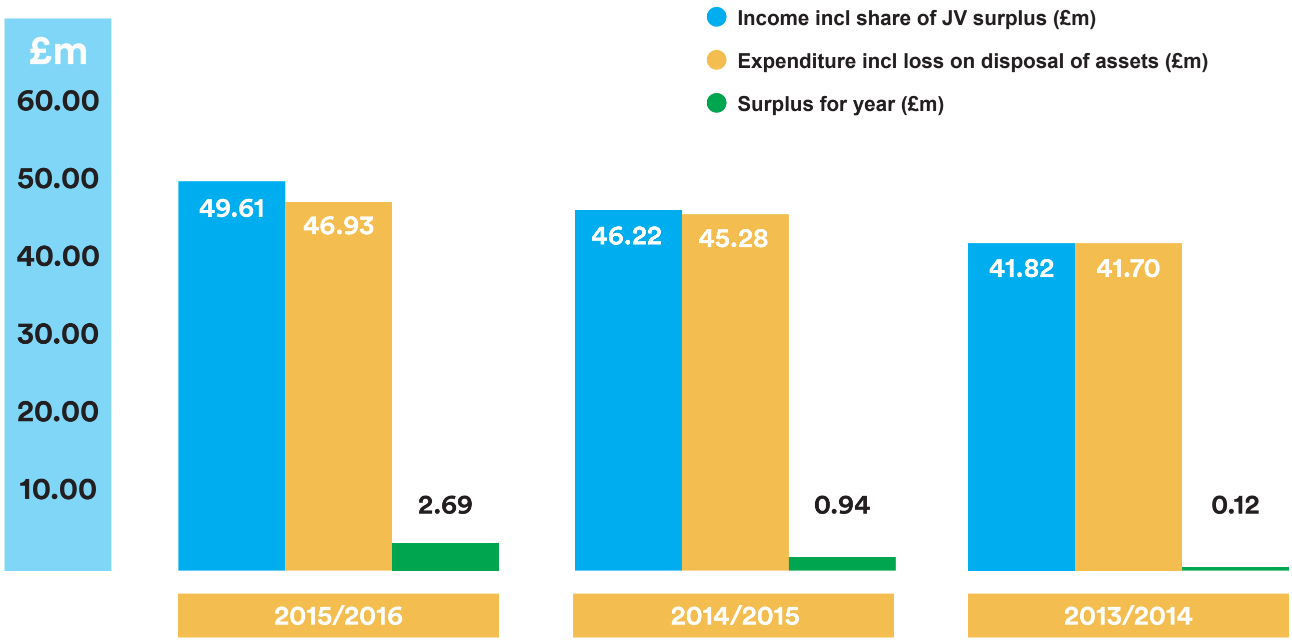
The year ended 31 July 2016 represents the first year under a new accounting standard (Financial Reporting Standard 102 (FRS102)) and a new Statement of Recommended Practice (SORP) which determines how accounts are prepared and presented.

The main changes resulting from these new standards are generally accepted as leading to greater volatility and some significant changes to the way in which various accounting balances are disclosed. Related accounting policies are presented on pages 45 to 51. For Falmouth they are explained in note 21 and impact the university's net asset position at 31 July 2015 as follows:

Accounting change	Impact on net assets £(000)
Reclassification of deferred capital grants	(56,405)
Employee leave accrual	(833)
Revaluation of fixed assets	4,087
Total	**(53,151)**

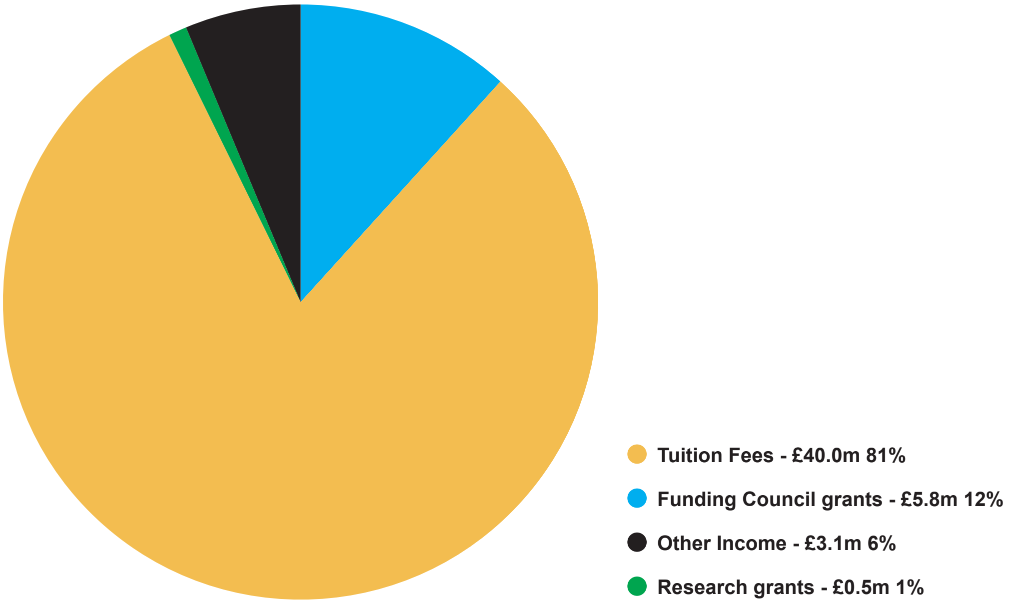
In addition, the pension reserve previously shown as a separate line is now incorporated into the Income & Expenditure Reserves which has reduced the balance by £15.85m, although the pension figure is excluded for HEFCE and bank covenant purposes and has no immediate cash/EBITDA impact.

Group financial highlights include:	**2015/16**	**FRS102 2014/15**	**FRS102 2013/14**
	£(000)	£(000)	£(000)
Income	49,349	45,770	41,685
Expenditure	(46,633)	(45,159)	(41,558)
Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA)	5,961	4,018	2,005
Net assets	43,306	46,338	34,970
Net assets excluding pension liability	59,157	57,069	42,535
Cash at bank and in hand	**11,343**	**9,607**	**5,574**

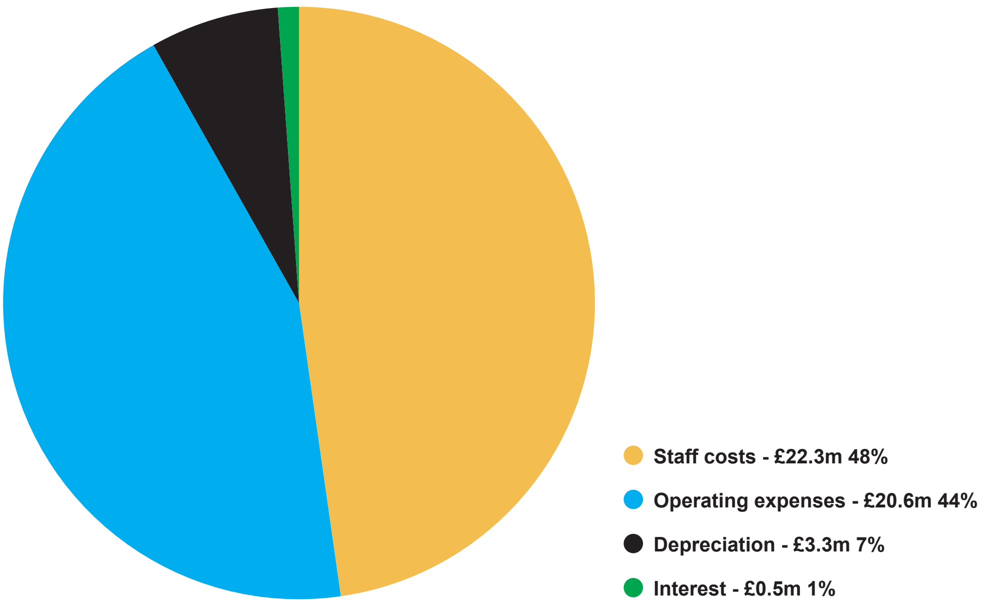


The financial year 2015/16 saw income rise due to continued increases in student numbers which more than offset the fall in income from research and EU revenue grants as the current Convergence programme for Cornwall comes to an end. Against this, costs were controlled with new areas of spend focussing on front line teaching and capital investment in improving estates and facilities.

THE GROUP RECORDED A SURPLUS FOR THE YEAR OF £2.7M (2014/15 – £0.9M) THIS MAINTAINS THE REQUIRED TRAJECTORY OF IMPROVING SURPLUSES YEAR ON YEAR FOR FUTURE INVESTMENT.



INCOME ROSE BY 7.8% WITH FUNDING COUNCIL GRANTS REMAINING STATIC. TUITION FEE RECEIPTS NOW MAKE UP OVER 80% OF TOTAL INCOME (EXCLUDING THE SHARE OF JOINT VENTURE) AND REINFORCES THE RELIANCE THE UNIVERSITY HAS FOR TEACHING.



COSTS ROSE BY 3.3% DURING THE YEAR WITH STAFF COSTS CONTINUING TO ACCOUNT FOR THE MAJORITY OF EXPENDITURE. THE STAFF PAY AWARD, INCREASE IN NATIONAL INSURANCE AND HIGHER PENSION CONTRIBUTIONS LED TO A 3% INCREASE IN STAFF COSTS WHILST OTHER OPERATING COSTS ROSE DUE TO STUDENT NUMBERS, NEW PARTNERSHIP COSTS, IMPROVEMENTS IN ESTATES CONDITION, BURSARY PAYMENTS AND PROJECT COSTS (PARTICULARLY £0.9M IN RELATION TO RESIDENTIAL DEVELOPMENT)

THE UNIVERSITY HAS INCOME AND EXPENDITURE RESERVES OF £1.6M AND CASH AND SHORT TERM INVESTMENT BALANCES OF £11.3M.

Tangible fixed asset additions during the year amounted to £4m, split between land and buildings improvements of £3m and equipment purchased of £1m. This related to the new Heart at the Penryn Campus, together with works that spanned the year end for the Fox Atrium building extension and refurbishment at Falmouth Campus and the power upgrade to allow further development of the Penryn Campus.

The University has a subsidiary company, Falmouth Enterprises Limited, the principal activity of which is the provision of commercial services to external parties on behalf of the University. In addition, the University owns 50% in Falmouth Exeter Plus, a joint venture with the University of Exeter. Any surpluses generated by the subsidiary and joint venture are transferred under deed of covenant. In the current year, the surpluses generated were £25k and £265k for Falmouth Enterprises Limited and Falmouth Exeter Plus respectively.

TREASURY POLICIES AND OBJECTIVES

Treasury management is the management of the University's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

The University has a separate treasury management policy in place.

Short term borrowing for temporary revenue purposes is authorised by the Director of Finance. All other borrowing requires the authorisation of the Board of Governors and complies with the requirements of the Memorandum of Assurance and Accountability.

CASH FLOWS AND LIQUIDITY

Cash flow from operating activities was strong at £5.6m (2014/15 - £5.4m) which allowed investment in estates and facilities. The overall net cashflow of £1.7m was lower than the previous year (2014/15 - £6.6m) due to the bank loan received in that year.

In total, the face of the balance sheet shows that borrowings are relatively modest. It must be noted that the University does support 50% of the loans within Falmouth Exeter Plus of c£26m – although these are funded by income from student residences.

During the year the University approved further borrowing of up to £15m in order to support the requirements of the Estates Strategy and 2020 Campus Plan. This was tendered and selected after the year end.

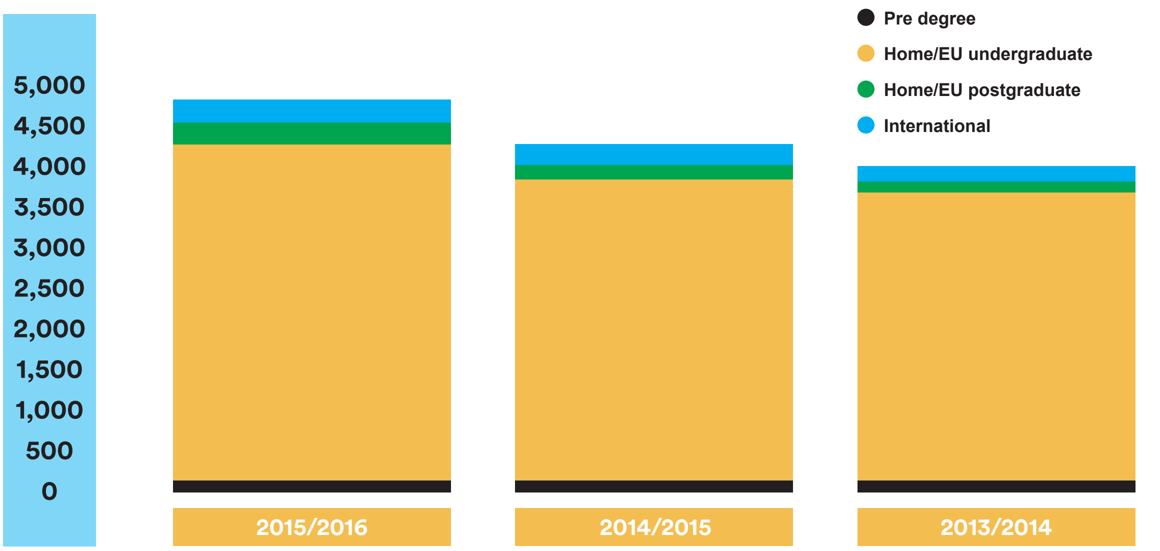
PAYMENT PERFORMANCE

The Late Payment of Commercial Debts (Interest) Act 1998, which came into force on 1 November 1998, requires Universities, in the absence of agreement to the contrary, to make payments to suppliers within 30 days of either the provision of goods or services or the date on which the invoice was received. The target set by the Treasury for payment to suppliers within 30 days is 90%. During the accounting period 1 August 2015 to 31 July 2016, the University paid 87% of its invoices within 30 days. The University incurred no interest charges in respect of late payment for this period.

CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE

STUDENT NUMBERS

In 2015/16 the University enrolled more students than ever and registered a 12% increase in Home/EU undergraduate numbers together with a 14% increase in international students.



STUDENT ACHIEVEMENTS

With over 90% of net income deriving from tuition fee income, student recruitment (and retention) across all on-campus portfolio, across all markets, levels, modes and fee-types and across the growing collaborative provision, is clearly the primary factor influencing the forecasts.

Detailed target-setting processes in support of the above was carried out earlier in the year to ensure that growth targets can be achieved. This comprises attenuation and subtraction as well as growth and addition. The University also re-profiled targets across markets and fee types to take account of the fast-changing and highly competitive international conditions whilst ensuring that the bottom line projections (and the target of 8,000 enrolments by 2020) remain intact.

For example, notwithstanding recent good progress in EU recruitment, the plan is to revise projections downward, in light of the EU referendum result, by c.75%. And similarly, in light of the potential 'contaminating' effects of this result on perceptions of the UK as a study destination alongside increasing competition from countries with more liberal post-study visa regimes, international targets will be attenuated. There was always sufficient latitude in provisional, annual projections of (on-campus) course intake targets to accommodate this though growth in collaborative provision will need to accelerate to ensure planned income targets are achieved.

Finally, in order to maintain overall income and contribution levels, additional emphasis is being placed on in-year student retention and all departments are tasked with achieving a target of 95% by 2019/20.

PORTFOLIO DEVELOPMENTS

The rebalancing of the portfolio means that additional Home and EU students are being recruited to maintain the top line income.

The University continues to ensure that the course portfolio (and target-setting process) reflects the dynamics and changing employment patterns of the Creative Industries. Within this overall growth in employment prospects in the UK Creative Industries, the best-performing sub-sectors have been the Performing & Visual Arts, Computing, Design, and Advertising & Marketing. The University therefore continues to grow the portfolio 'to scale': that is, taking account of the relative size of the sub-sectors that make up the Creative Industries and acknowledging that for every 1 job in Architecture, there are 2 in Advertising, 2.6 in Film & Television, 3.2 in the Performing & Visual Arts and 7.1 in Computing.

Our portfolio responds to these trends and includes the Launchpad / MA Entrepreneurship proposal, a development of new on-campus provision in Motion Graphics, Interaction Design, Game Art and Technical Theatre in response to clear industrial demand / market opportunity.

5 online MA's (with 3 entry points per year) are to be delivered via an innovative partnership with CEG Digital designed to reach out to the multi-polar creative world. These first courses are in Advertising & Marketing, Creative App Development, Photography, Creative Events Management and Writing for Script & Screen.

We are growing our Music provision (given the UK's prominence in this global sector) by collaborating with the heavily industry-oriented Academy of Contemporary Music (London). Their new Clapham campus, opening in September 2016, will become a recognised college of Falmouth University.

ESTATES AND FACILITIES DEVELOPMENT AND PLANNING

Investment in estates and facilities during the year is in accordance with the Estates Strategy which confirmed a two campus strategy with the traditional campus in Falmouth housing the Schools of Art, Communication Design and Architecture & Interior Design. The rest of the portfolio sits on the Penryn campus which the University shares with the University of Exeter. A programme of summer works was carried out to adapt both academic and support space to accommodate growth and included works on necessary, but hidden, power and infrastructure works on the shared Penryn campus together with adaptations to buildings at Falmouth and the start of a major project to increase space and usability of the Fox buildings on the lower part of the campus.

In considering the 2020 Campus Plan for Penryn the share of joint projects has been adjusted to reflect the larger growth expected by Falmouth, together with some projects which are expected towards the end of the planning period. This means that underlying investment levels of between 4% and 4.5% are required to maintain and enhance the required facilities.

These facilities remain a key requirement for students and staff in order for the teaching to be relevant and industry-focussed. A replacement plan exists for the main resource areas with c£1m being invested each year to update Photography, Film & Television, Art & Design, and Music & Theatre Arts.

In turn loan finance is required to partly finance the investment required and the Board approved additional loan financing of up to £15m over the next 5 years.

LOOKING INTO THE FUTURE

The University continues to work towards Project 8,000 through a combination of both on and off-campus courses.

Applicants placed at Falmouth University through UCAS for 2016/17 entry grew by 13% over the previous year; a major achievement against a growth of just 2% at all HEIs across the UK, and growth of 0.8% at HEIs in England.

The University's income from new enrolments for 2016/17 has exceeded the overall financial target for new enrolments. From this point forward, the University's growth in student numbers towards the 8,000 target will depend on enrolments through collaborative partnerships in greater numbers than traditional, full time, on campus enrolments. This approach is essential in order to counter a series of connected challenges, common to the UK Higher Education sector, including the demographic downturn in 18-20 year olds (which will not begin to recover until 2022), and a significant downturn in demand for part time undergraduate courses, and for postgraduate taught study.

The international market remains extremely competitive and was the one area where recruitment stood still. The impact of the EU Referendum has yet to be felt in full and targets have been adjusted as we expect both EU and non-EU student demand to decrease despite the UK still 'being open for business'.

The University has had the withdrawal of HEFCE funding for specialist institutions and remains under threat of further cuts to grants from HEFCE and may lose a substantial element of Student Opportunity funding for retention. The need for growth is therefore essential together with a new initiative of 'optimisation' which will require all departments to be reviewed to ensure they are fit for purpose, especially with another year of static Home/EU undergraduate fee levels.

Since the year end the Fox Atrium project was completed and ready for the start of the new academic year. Other expansion plans are also underway with the Launchpad bid for EU funds passing the first selection phase.

With high demand, another year of improved league table results and a growing number of students from new partnerships, Falmouth University considers itself to be a going concern in accordance with The Code of Good Governance for English Universities and will be able to meet its liabilities as they become due. The University has approved the business plan to 2020 and taken account of principal risks over that period.

RESOURCES

THE UNIVERSITY HAS VARIOUS RESOURCES THAT IT CAN DEPLOY IN PURSUIT OF ITS STRATEGIC OBJECTIVES.

TANGIBLE RESOURCES INCLUDE THE TWO UNIVERSITY CAMPUSES, VALUED AT £102M.

FINANCIAL

The Group has £43m of net assets (including £15.8m pension liability) and long term debt of £3.5m.

PEOPLE

The University employs 426 people (expressed as full time equivalents), of whom 294 are teaching, research and academic support staff. In addition, the University indirectly employs 155 staff through Falmouth Exeter Plus (i.e. 50% of the joint venture), with 60 of these supporting teaching activity.

REPUTATION

The University has a good reputation locally and nationally. Maintaining a quality brand is essential for the University's success at attracting students and external relationships.

PRINCIPAL RISKS AND UNCERTAINTIES

THE UNIVERSITY HAS UNDERTAKEN FURTHER WORK DURING THE YEAR TO DEVELOP AND EMBED THE SYSTEM OF INTERNAL CONTROL, INCLUDING FINANCIAL, OPERATIONAL AND RISK MANAGEMENT WHICH IS DESIGNED TO PROTECT THE UNIVERSITY'S ASSETS AND REPUTATION.

Based on the strategic plan, the Vice-Chancellor's Executive Group (VCEG) undertakes comprehensive risk reviews each quarter. They identify systems and procedures, including specific preventable actions which should mitigate any potential impact on the University. The internal controls are then implemented and the subsequent year's appraisal will review their effectiveness and progress against risk mitigation actions. In addition to the annual review, VCEG also consider any risks which may arise as a result of new areas of work being undertaken by the University.

A risk register is maintained at the University level which is reviewed at least annually by the Audit Committee and more frequently where necessary. The risk register identifies the key risks, the likelihood of those risks occurring, their potential impact on the University and the actions being taken to reduce and mitigate the risks. Risks are prioritised using a consistent scoring system.

This is supported by a risk management training programme as part of the Governor induction process to raise awareness of risk throughout the University.

Outlined below is a description of the principal risk factors that may affect the University. Not all the factors are within the University's control. Other factors besides those listed below may also adversely affect the University.

#	Risk description	Rating
01	Failure to recruit to student targets, for Cornwall, UK, European Union (EU) and international students	RED
02	Failure to deliver alternative modes of delivery, including part time, distance learning and continuing professional development, to support expansion plans	RED
03	Failure to deliver a high quality student experience across the University	RED
04	Failure to optimise utilisation of the physical estate and equipment over the long term in line with the University's growth plans through appropriate maintenance, replacement and limited new build	RED
05	Failure to maintain student related data quality, management, control and resilience	AMBER
06	Failure to drive, and incentivise, high performance and innovative behaviours from staff	AMBER
07	Failure to deliver high levels of student employability and employer engagement	AMBER
08	Failure to deliver the planned progress of Research & Innovation	AMBER
09	Failure to achieve Research Degree Awarding Powers by 2020	AMBER
10	Failure to comply with the expectations of the Competition and Markets Authority (CMA)	AMBER
11	Failure to retain UKVI Highly Trusted status	AMBER
12	Failure to adequately implement the Prevent (Counter Terrorism Act) requirements within the institution	AMBER
13	Failure to manage the University's pensions liabilities	AMBER

During the year these risks were considered with new risks being added and others being addressed or mitigating action having taken place. New risks include:

Decision date	Risk name	Previous net risk status	New net risk status
February 2016	New risk: 'Failure to adequately implement the PREVENT (Counter Terrorism Act) requirements within the institution'.	n/a	LH (amber)
February 2016	New risk: Failure to manage the University's pensions liabilities	n/a	MM (amber)
October 2015	New risk: 'Failure to comply with the expectations of the Competition and Markets Authority (CMA)'	n/a	MM (amber)
October 2015	New risk: 'Failure to retain UKVI Highly Trusted status'	n/a	LH (amber)

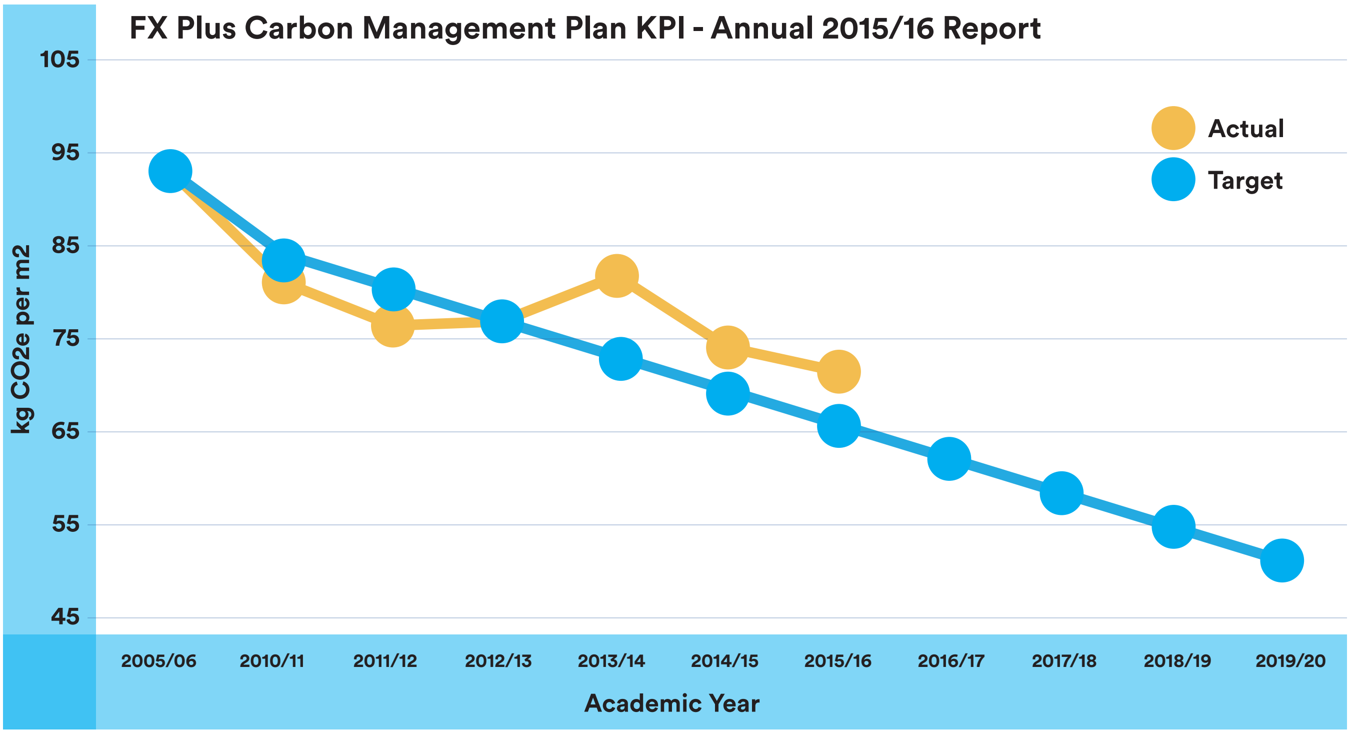
At the same time, the University continues to promote and expand through partnerships with a number of private providers and expects up to 1,873 students to be generated from these new markets. This will increase income from validation and franchise fees as well as business models offering profit share through partners such as Cambridge Education Group.

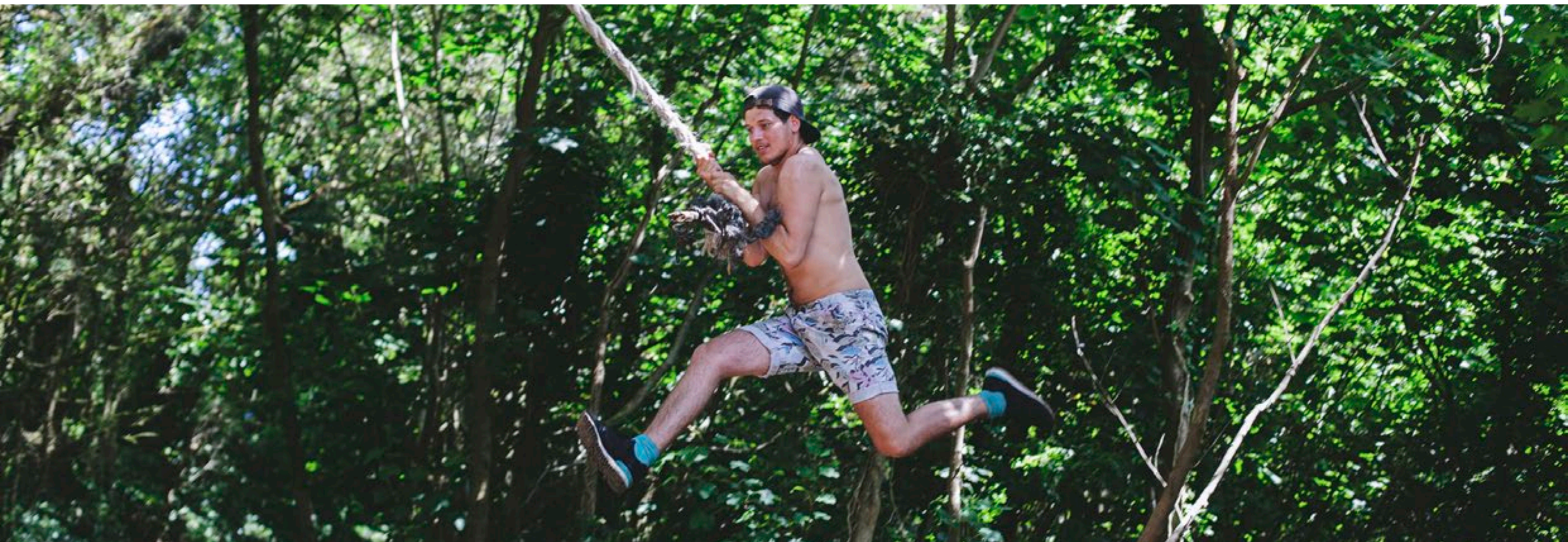
SUSTAINABILITY

FALMOUTH'S CARBON TARGET IS TO REDUCE THE CARBON FOOTPRINT TO 51.4KG CO2E PER M2 OF GROSS INTERNAL AREA (GIA) BY 2020 COMPARED TO A 2005/06 BASELINE OF 93.4 KG CO2E PER M2, A 45% REDUCTION.

The Penryn Campus has an Environmental Sustainability Working Group Action Plan which includes energy and water management, procurement, transport, biodiversity, waste and recycling and information technology.

Falmouth is not currently on track to meet the 2020 reduction target but emissions per m2 have continued to fall; a reduction of 3.4% compared to the 2014/15 academic year. The 2015/16 carbon footprint of 71.85 kg CO2e per m2 was 23% less than the 2005/06 baseline (20% in 2014/15), and was 9% short of the 2015/16 end of year interim target of 65.95 kg CO2e per m2 of GIA.





STAKEHOLDER RELATIONSHIPS

IN LINE WITH MOST UNIVERSITIES, FALMOUTH UNIVERSITY HAS MANY STAKEHOLDERS.

THESE INCLUDE:

- STUDENTS
- STAFF
- OTHER HE INSTITUTIONS (PARTICULARLY THE UNIVERSITY OF EXETER)
- EDUCATION SECTOR FUNDING BODIES (ESPECIALLY HEFCE AS REGULATOR)
- LOCAL AUTHORITIES AND THE LOCAL ENTERPRISE PARTNERSHIP (LEP)
- THE LOCAL COMMUNITY
- EMPLOYERS
- TRADE UNIONS
- PROFESSIONAL BODIES
- LENDERS OF LOAN FINANCE

The University recognises the importance of these relationships and engages in regular communication with them. Engagement with students is largely through liaison groups and close working with the student union, FXU, who sit on the Board and are involved in all major strategic decisions. Equally, staff are represented by two trade unions, the UCU (for academic staff) and GMB (for Professional Services).

Each year, the FXU present a list of priorities for consideration by the University and take into account all student feedback during the course of the previous year featuring areas such as Accommodation, Disabled Students' Allowance, Postgraduate & International Experience and Employability.

The University has structured itself into ten academic departments around subject disciplines and is supported by a staffing structure led by the Vice-Chancellor and Executive Group, Academic Directors and core Professional Services, some of which are provided through the joint venture, Falmouth Exeter Plus. As shown in note 7 the University employs over 400 staff directly and also pays for over 300 staff employed by the joint venture.

All staff are paid under a formal pay and grading system which allows for incremental progression year on year and promotion through grade boundaries upon re-evaluation of job descriptions and duties. All staff are offered one of two final salary pension schemes both of which are a statutory requirement but are under constant review by Governors due to the increasing annual cost and growing liability.

EQUAL OPPORTUNITIES

We believe that positively engaging with equality and diversity will mean we are better placed to provide the best possible experience for our students, improve our staff satisfaction, strengthen our decision-making and our overall performance. Increasing evidence across the sector suggests that diverse and inclusive institutions are more efficient, more productive and deliver better outcomes.

To take full advantage of these opportunities we will need to ensure that we plan for a diverse workforce to create a talent pipeline that reflects a global mind-set, one that is culturally fluent and adept at working across traditional boundaries, internationally as well as across sectors.

One of the goals of the Government's White Paper on Higher Education is to drive fairness of opportunity in access to university education, with a specific aim to double the proportion of people from disadvantaged backgrounds entering Higher Education by 2020. In addition to this national focus on widening participation, Falmouth's Strategic Plan 2015-20 sets out ambitious targets for the institution, including specific measures of success in relation to student satisfaction levels, diverse modes of study, and student headcount, with major increases in the numbers of international students and students from Cornwall.

The University's equality and diversity agenda is important in supporting the achievement of these targets and goes beyond compliance and the meeting of legal requirements. Ensuring equality of opportunity will provide Falmouth with access to the widest possible talent pool to recruit both staff and students from, while valuing the diversity of our staff and student groups helps to uncover the potential of all individuals, as well as promoting Falmouth as an attractive and inclusive place to work and study. The University's equality and diversity mission is therefore:

"TO SUPPORT FALMOUTH IN BEING A WORLD CLASS PLACE TO STUDY AND WORK, BY PROVIDING AN INCLUSIVE ENVIRONMENT WHERE THERE IS EQUAL OPPORTUNITY FOR A DIVERSE STUDENT AND STAFF COMMUNITY TO REACH THEIR FULL CREATIVE, ACADEMIC AND ENTREPRENEURIAL POTENTIAL."

THE OVERALL STUDENT GENDER BALANCE AT FALMOUTH IN 2015/16 (61% FEMALE / 39% MALE) REFLECTED A GREATER PROPORTION OF FEMALES THAN THE LATEST AVAILABLE NATIONAL AVERAGE WITHIN THE HIGHER EDUCATION SECTOR (55% FEMALE / 45% MALE).

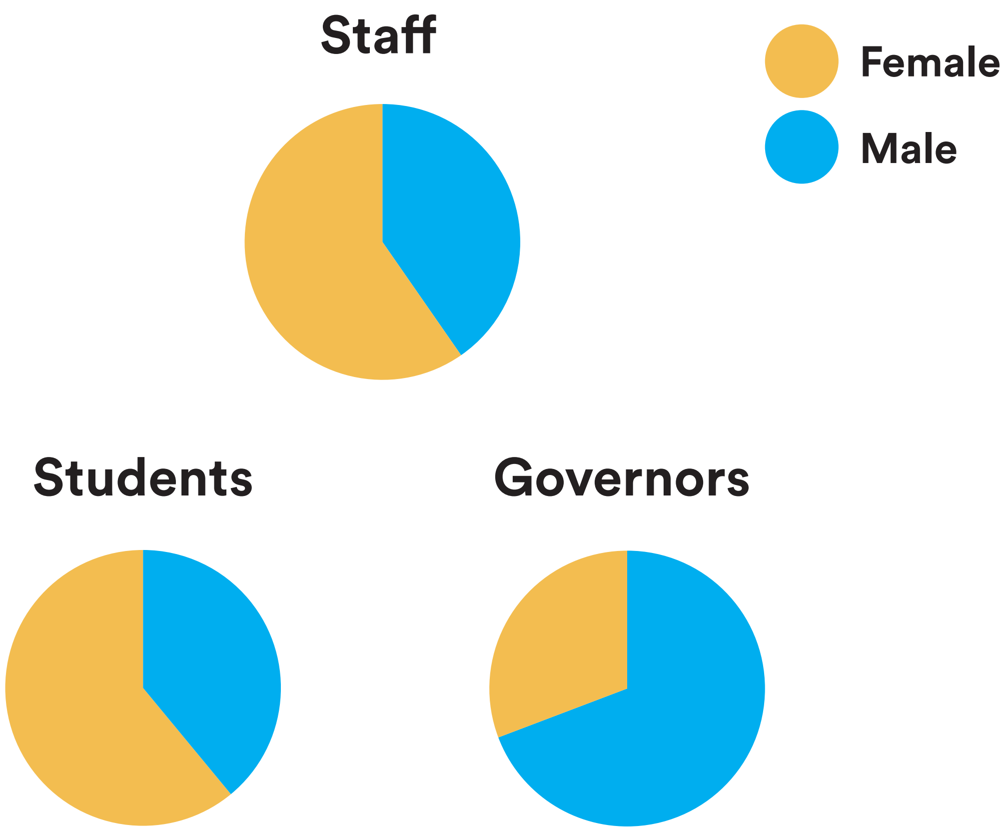
FOR STAFF THE OVERALL GENDER BALANCE WITHIN PROFESSIONAL SERVICES ROLES (63.6% FEMALE / 36.4% MALE) IS VERY CLOSE TO THE LATEST AVAILABLE NATIONAL AVERAGE WITHIN HIGHER EDUCATION (62.6% FEMALE / 37.4% MALE).

FOR ACADEMIC ROLES, FALMOUTH HAS A GREATER PROPORTION OF FEMALE STAFF (51.3%) THAN THE NATIONAL AVERAGE (44.5%) WHICH MAY IN PART BE DUE TO FALMOUTH'S FOCUS ON ARTS SUBJECTS; THE NATIONAL AVERAGE FOR ART & DESIGN IS 48.5% FEMALE.

THE GENDER BALANCE VARIES ACCORDING TO GRADE – 7.8% OF FEMALE ACADEMIC STAFF WERE EMPLOYED AT GRADE 8 OR ABOVE, COMPARED TO 19.9% OF MALE ACADEMIC STAFF. FOR PROFESSIONAL SERVICES, 2.5% OF FEMALE STAFF WERE EMPLOYED AT GRADE 7, COMPARED TO 9.6% OF MALE PROFESSIONAL SERVICES STAFF.

ACROSS FALMOUTH'S MAIN COMMITTEES AND DEPARTMENTAL BOARDS, 62.6% OF MEMBERS IN 2015 WERE MALE, WHILE 37.4% WERE FEMALE.

THE JNCHES GENDER PAY REPORT 2015 RATED FALMOUTH AS BEING IN THE TOP 5 UK UNIVERSITIES IN TERMS OF PAY PARITY FOR ACADEMIC STAFF.



DISABILITY STATEMENT

The University seeks to achieve the objectives set down in the Equality Act 2010 with 26.4% of Falmouth students recording a disability in 2015-2016. Among undergraduate and FE students around two thirds of recorded disabilities are for learning difficulties, and while this proportion is less than one quarter for postgraduate students, it is still the largest identified category of disability for that group.

Nationally, evidence shows that graduates with disabilities tend to do slightly less well in degree attainment than those without reported disabilities. This trend is reflected at Falmouth with disabled students under-represented in the numbers achieving first class degrees and over represented in the numbers achieving third class degrees, while the opposite is true for students not reporting a disability.

Falmouth has a higher proportion of staff reporting having a disability, at 5.6% compared with 3.9% nationally in 2012/13. This may be influenced by our geographic location, as the Office for National Statistics report that a higher than average disability rate is not unusual in coastal communities. Our subject focus is also likely to be a factor as it is acknowledged that the artistic and creative community have a higher than average reporting of disability.

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.

IN CLOSING

While the political and economic environment presents numerous challenges to the sector, the senior team and the Board of Governors are confident that the University is well positioned to deliver its Strategic Plan 2015-2020 objectives and targets, against which excellent progress has been made in the past year. In particular, the University has achieved new heights of external recognition, reaching 21st place in The Guardian's league table of UK universities while retaining number one Arts University status in all three league tables. This is a testament to the University's relentless focus on the student experience and graduate employment outcomes.

In 2015/16 the University has also ramped up its external profile, joining Universities UK and increasing its engagement with local and regional civic and business agencies, including formal partnerships with the unitary authority in Cornwall.

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 University's successes, and progress towards delivery of the Strategic Plan.

Approved by order of the members of the Board of Governors on 18 November 2016 and signed on its behalf by:

C Pomfret
Chair

PUBLIC BENEFIT STATEMENT

LEGAL STATUS

The University was established as a Higher Education Corporation on 1 April 1989 under the Education Reform Act 1988. The University is an exempt charity for the purposes of Part 3 of the Charities Act 2011.

The University was incorporated as Falmouth School of Art and Design. On 10 December 2012, the Privy Council granted consent to change the name to Falmouth University. The aims of the University include 'to provide higher education', 'to provide further education' and 'to carry out research and to publish the results of the research'.

VISION

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

"TO BE AN INTERNATIONALLY RECOGNISED CREATIVE INNOVATION HUB"

The Strategic Plan 2015-2020 outlines five key objectives to help Falmouth achieve its goals:

- **TO PRODUCE SATISFIED GRADUATES WHO GET GREAT JOBS**
- **TO EXPAND AND DIVERSIFY WHAT WE DO**
- **TO BE CELEBRATED FOR OUR RESEARCH AND INNOVATION**
- **TO HELP GROW CORNWALL**
- **TO BE INTERNATIONALLY SIGNIFICANT**

PUBLIC BENEFIT

Falmouth University is an exempt charity under Part 3 of the Charities Act 2011 and is regulated by the Higher Education Funding Council for England. The members of the Governing Body, who are trustees of the charity, are disclosed on page 32.

In setting and reviewing the University's strategic objectives, the Governing Body has had due regard for the Charity Commission's guidance on public benefit and particularly upon its supplementary guidance on the advancement of education. The guidance sets out the requirement that all organisations wishing to be recognised as charities must demonstrate, explicitly, that their aims are for the public benefit.

In delivering its mission, the University provides the following identifiable public benefits through the advancement of education:

- **HIGH-QUALITY TEACHING**
- **WIDENING PARTICIPATION AND TACKLING SOCIAL EXCLUSION**
- **EXCELLENT EMPLOYMENT RECORD FOR STUDENTS**
- **STRONG STUDENT SUPPORT SYSTEMS**
- **LINKS WITH EMPLOYERS, INDUSTRY AND COMMERCE**

EQUALITY & DIVERSITY (E&D)

As a public sector organisation, Falmouth has duties under the Equality Act 2010 to promote the Equality Duty in relation to the protected characteristics of age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation.

As a public body, the University has additional duties to promote equality. This is known as the Equality Duty which requires that the University has 'due regard' in carrying out its activities to:

- **Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Equality Act 2010**
- **Advance equality of opportunity between people from different groups by considering the need to:**
  - **Remove or minimise disadvantages suffered by people due to their protected characteristics**
  - **Meet the needs of people with protected characteristics**
  - **Encourage people with protected characteristics to participate in public life or other activities where their participation is low**
  - **Foster good relations between people from different groups**

This duty gives public authorities legal responsibilities to demonstrate that they are taking action on equality in policymaking, in the delivery of services and in public sector including the need to publish one or more equality objectives that support the aims of the Equality Duty.

At Falmouth University we believe that positively engaging with equality and diversity will mean we are better placed to provide the best possible experience for our students, improve our staff satisfaction, strengthen our decision-making, and our overall performance.

National focus on driving fairness of opportunity and widening participation is reflected in Falmouth's Strategic Plan 2015-20 which sets out ambitious targets and measures of success in relation to student satisfaction levels, diverse modes of study and student headcount, with major increases in the numbers of international students and students from Cornwall.

This is the context for the review of our Equality and Diversity strategy in 2016, one that will direct our activities and resources to supporting the achievement of these targets. One that goes beyond compliance to ensuring equality of opportunity that will provide Falmouth with access to the widest possible talent pool to recruit both staff and students from, as well as promoting Falmouth as an attractive and inclusive place to work and study.

Falmouth's equality work aims to ensure that anyone with the talent and potential should be able to study with us by promoting inclusion, advancing equality of opportunity, and creating a diverse student population in which all students, regardless of background are offered the same choices and opportunity.

To achieve this, we will create and maintain a diverse and inclusive working environment that is reflected in staff and student satisfaction and engagement, and in our reputation. Our workforce will reflect a diverse range of experiences, outlook and approaches to bring maximum flexibility, creativity, and problem solving skills.

An analysis of our staff and student profile has identified four key objectives in our E & D strategy:

1. **IMPROVE ACCESS FOR DISADVANTAGED STUDENTS - this will mean we are committed to improving access, retention, and employment outcomes for students from disadvantaged groups and higher education 'cold spots' in Cornwall.**

2. **IMPROVE THE EXPERIENCE OF STUDENTS WITH DISABILITIES - Across the higher education sector, the retention rates of students with disabilities and their degree attainment tends to be on average less than those without disabilities. We will target these groups for additional support to further improve retention rates, the student experience, and degree and employment outcomes.**

3. **IMPROVE OUR DATA COLLECTION AND ANALYSIS - to ensure all individuals are given the opportunity to reach their potential within the organisation. In relation to our students, a fuller data set will enable a broader analysis of the student journey and ensure more targeted and responsive planning to areas of need.**

4. **FURTHER PROMOTE AND IMPROVE GENDER EQUALITY - to ensure we systematically address any gender differences because it is important to provide the University with access to the widest possible pool of talent and demonstrate our commitment to have due regard to the need to eliminate discrimination and advance equality of opportunity**

The Equality and Diversity (E&D) Group is currently chaired by the Vice-Chair, Deputy Vice-Chancellor Academic. The group meet once a term to take oversight, to discuss, monitor and review matters reporting to the Vice-Chancellor's Executive Group (VCEG) and making recommendations to the Vice-Chancellor.

CORPORATE SOCIAL RESPONSIBILITY

Falmouth University continues to work in partnership with Falmouth Exeter Plus (FX Plus), the University of Exeter, and Falmouth and Exeter Students' Union (FXU) to ensure that we align our collective values and behaviours with the expectations and needs of students, staff and our local communities.

As a partnership, we aim to make a positive difference to people's lives; to help students feel welcome in the local area; to support world class research; to build productive relationships with community partners; to minimise our impact on the environment; and contribute to Cornwall's regeneration by sharing knowledge and skills.

Opportunities for students to become involved in community-led events are embedded in the annual programme. Students have helped support the Penryn 800 Festival, Falmouth Spring Festival, and the Fal River Festival which Falmouth University also sponsored in 2015 and 2016.

We organise a guest speaker series, an annual Summer Show and our Academy of Music and Theatre Arts (AMATA) runs a year-round public programme, from student performances and live bands to theatre, dance and conferences, which are open to all students, staff and members of the local community.

Falmouth University works with FX Plus and Falmouth Town Council on the Town & Gown Committee and represents the partnership on various groups to understand the impact of the student body on the population of the two towns of Falmouth and Penryn. A quarterly newsletter circulated in the local area keeps the community updated with developments and news from the Universities, and we work together with the Council's Public Protection and Anti-social behaviour teams, Devon and Cornwall Police and local landlords to ensure everyone in our community feels safe and supported if they need help to solve a problem. FX Plus's multi-faith chaplaincy continued to support Falmouth's Street Pastor scheme during 2015/16, providing opportunities for student volunteering that focus on the wellbeing of others.

In 2016 a new sports centre, boasting a four court sports hall, fitness studio and gym, and a day nursery opened on the Penryn Campus, all of which are open to the local community. This complements the library facilities and Falmouth-based nursery which are also open to all. The student village is available for hire during the summer season as holiday accommodation. The Penryn Campus plays host to a number of community events throughout the year including Falmouth Urban Downhill, Garden Open Day and Tremough Community Games.

In terms of sharing knowledge and skills, many of our staff members continue to play an active role in local life as town councillors, trustees of charitable bodies, volunteers, supporters of community groups, and participants in sports teams.

STUDENT ADMISSIONS AND WIDENING PARTICIPATION

Falmouth has made significant progress since 2013-14 in the recruitment of students from Cornwall, and currently exceeds the 2013/14 HESA target (93.6%) for the percentage of young entrants from state schools, lower socio-economic classifications (SEC) and low participation neighbourhoods at 94.9%.

While more women than men applied to Falmouth in 2015 (64.3% female compared to 35.6% male), the gender balance for offers made very closely matches these proportions, indicating that there is not a gender bias at the offers stage, but that fewer male students are attracted to apply.

Nationally in 2014/15, 70% of full-time female students and 65% of full-time male students attained first and upper-second (2.1) degrees. The corresponding figures for Falmouth in the same year are 79% and 71% respectively.

At Falmouth female students are over represented in the numbers achieving first class degrees and under-represented in the numbers achieving third class degrees, while the opposite is true for male students.

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 and advise on funding issues, in addition to the Hardship Fund, providing a coherent and simple process for all students in need of financial support. Whilst being responsible for managing these funds, the Student Funding Manager also contributes to Open Days and Marketing events in order to best raise awareness of financial support to prospective and current students. In 2015/16, Falmouth expended £1.7m in bursaries; £395,000 in US Federal Loans and approximately £140,000 in Access to Learning Fund awards.

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 a range of 'Money Matters' guides aimed at informing school leavers, applicants and current students of their funding options. These are published on the website, together with information on private awards and bursaries, funded by alumni and external arts organisations. 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.

CORPORATE GOVERNANCE

STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL

The following statement is provided to enable readers of the annual report and accounts of the University to obtain a better understanding of its governance and legal structure. This statement covers the period from 1 August 2015 to 31 July 2016 and up to the date of approval of the annual report and financial statements.

The University endeavours to conduct its business:

i. **in accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership);**

ii. **in full accordance with the guidance to Universities from the Committee of University Chairs in The Code of Good Governance for English Universities (“the Code”); and**

iii. **having due regard to the UK Corporate Governance Code 2014 insofar as it is applicable to the further education sector.**

The University is committed to exhibiting best practice in all aspects of corporate governance and in particular the University has adopted and complied with the Code. We have not adopted and therefore do not apply the UK Corporate Governance Code. However, we have reported on our Corporate Governance arrangements by drawing upon best practice available, including those aspects of the UK Corporate Governance Code we consider to be relevant to the further education sector and best practice.

In the opinion of the Governors, the University complies with/exceeds all the provisions of the Code, and it has complied throughout the year ended 31 July 2016. The Governing Body recognises that, as a body entrusted with both public and private funds, it has a particular duty to observe the highest standards of corporate governance at all times. In carrying out its responsibilities, it takes full account of The Code of Good Governance for English Universities issued by the Committee of University Chairs in March 2015, which it formally adopted on 22 May 2015.

The University is an exempt charity within the meaning of Part 3 of the Charities Act 2011. The Governors, who are also the Trustees for the purposes of the Charities Act 2011, confirm that they have had due regard for the Charity Commission’s guidance on public benefit and that the required statements appear elsewhere in these financial statements.

MEMBERSHIP OF THE BOARD OF GOVERNORS SERVING DURING 2015/16

	Date of appointment	Term of office	Expiry of term	Status of appointment	Committees served	Attendance
Chris Pomfret	1 Sep 2015	First term	31 Aug 2019	Chair of the Board of Governors	Nominations Committee, Remuneration Committee	100%
Andrew Allen	1 Jul 2014	First term	31 Jul 2018	Independent Governor	Audit Committee	100%
Mark Carne	1 Aug 2013	First term	31 Jul 2017	Independent Governor	Remuneration Committee	67%
Alison Cressey	1 Sep 2015	First term	31 Aug 2019	Independent Governor	Nominations Committee	100%
Bertrand Louveaux	1 Aug 2013	First term	31 Jul 2017	Independent Governor	Audit Committee	83%
John Mathers	1 Sep 2015	First term	31 Aug 2019	Independent Governor	Audit Committee	83%
Howard Milton	1 August 2013	First term	9 Feb 2016	Independent Governor		0%
Dame Janet Ritterman	1 Aug 2012	Second term	31 Jul 2016	Independent Governor	Audit Committee, Nominations Committee, Remuneration Committee	83%
Charles Wace	1 Sep 2015	First term	31 Aug 2019	Independent Governor	Remuneration Committee	83%
Professor Anne Carlisle	1 Sep 2009	n/a	n/a	Vice-Chancellor & Chief Executive	Nominations Committee, Remuneration Committee	100%
Robert Hillier	1 Sep 2015	-	31 Aug 2017	Staff Governor		100%
Tracy Pritchard	1 Sep 2015	-	31 Aug 2017	Staff Governor		100%
Fred Mallin	1 Sep 2015	-	31 Aug 2016	Student Governor		83%

In attendance

Mr Peter Cox	Chief Operating Officer	Board of Governors; Audit Committee	100%
Mr Rob Holmes	Director of Finance	Board of Governors; Audit Committee	100%
Dr Robin Kirby	Strategic Advisor to the Vice-Chancellor, & Secretary to the Board of Governors	Secretary to: Board of Governors, Remuneration, Nominations and Audit Committees	100%
Professor Geoff Smith	Senior Deputy Vice-Chancellor	Board of Governors	100%
Professor Alan Murray	Deputy Vice-Chancellor (Academic)	Board of Governors	67%
Mrs Robyn Wyatt	Clerk to the Board of Governors	Clerk to: Board of Governors; Audit Committee	100%

INDEPENDENT GOVERNOR SKILLS MATRIX

GOVERNOR SKILLS MATRIX

GOVERNOR	Charles Wace	John Mathers	Bertrand Louveaux	Alison Cressey	Mark Carne	Andrew Allen	Janet Ritterman	Chris Pomfret
Accountancy						X		X
Audit		X				X	X	X
Business & Commerce	X		X	X	X	X		X
Corporate Giving							X	
Cornish Economy						X		X
Creative Industries	X	X		X			X	
Estates Management					X			
EU Investment Programmes								X
Financial Management	X				X	X		X
Further Education				X				
Higher Education		X		X			X	
Human Resource Management		X			X			
Internationalisation					X		X	X
Investment	X			X	X			
Law			X			X		
Local Politics								X
Marketing & Brand Management	X	X		X				X
Manufacturing Sector				X	X			X
Public Sector		X		X			X	
Quality Management					X		X	X
Research / Research Management							X	
Strategic Planning and Review					X		X	X
Westminster Politics		X			X			X

It is the Board's responsibility to bring independent judgement to bear on issues of strategy, performance, resources and standards of conduct.

The Board is provided with regular and timely information on the overall financial performance of the University together with other information such as performance against funding targets, proposed capital expenditure, quality matters and personnel-related matters such as health and safety and environmental issues. The Board meets six times a year.

The Board conducts its business through a number of committees. Each committee has terms of reference, which have been approved by the Board. These committees are remuneration, nominations and audit. Full minutes of all meetings, except those deemed to be confidential by the Board, are available from the Secretary to the Board of Governors.

The Clerk to the Board maintains a register of financial and personal interests of the governors. The register is available for inspection at the registered office.

All governors are able to take independent professional advice in furtherance of their duties at the University's expense and have access to the Secretary to the Board, who is responsible to the Board for ensuring that all applicable procedures and regulations are complied with. The appointment, evaluation and removal of the Secretary are matters for the Board as a whole.

Formal agendas, papers and reports are supplied to governors in a timely manner, prior to Board meetings. Briefings are provided on an ad hoc basis.

The Board has a strong and independent non-executive element and no individual or group dominates its decision-making process. The Board considers that each of its non-executive members is independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement.

There is a clear division of responsibility in that the roles of the Chair and Accounting Officer are separate.

APPOINTMENTS TO THE BOARD

Any new appointments to the Board are a matter for the consideration of the Board as a whole. The Board has a Nominations Committee, consisting of three members of the Board, which is responsible for the selection and nomination of any new member for the Board's consideration. The Board is responsible for ensuring that appropriate training is provided as required.

Members of the Board are appointed for a term of office not exceeding four years.

REMUNERATION COMMITTEE

Throughout the year ending 31 July 2016 the University's Remuneration Committee comprised three members of the Board. The Committee's responsibilities are to make recommendations to the Board on the remuneration and benefits of the Vice-Chancellor and other key management personnel.

Details of remuneration for the year ended 31 July 2016 are set out in note 7 to the financial statements.

AUDIT COMMITTEE

The Audit Committee comprises three members of the Board (excluding the Accounting Officer). The Committee operates in accordance with written terms of reference approved by the Board.

The Audit Committee meets on a termly basis and provides a forum for reporting by the University's internal auditors and financial statements auditors, who have access to the Committee for independent discussion, without the presence of University management. The Committee also receives and considers reports from the main funding bodies as they affect the University's business.

The University's internal auditors review the systems of internal control, risk management controls and governance processes in accordance with an agreed plan of input and report their findings to management and the Audit Committee.

Management is responsible for the implementation of agreed audit recommendations and internal audit undertakes periodic follow-up reviews to ensure such recommendations have been implemented.

The Audit Committee also advises the Board on the appointment of internal auditors and financial statements auditors and their remuneration for audit and non-audit work as well as reporting annually to the Board.

INTERNAL CONTROL

Scope of responsibility

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

The Board has delegated the day-to-day responsibility to the Vice-Chancellor, as Accounting Officer, for maintaining a sound system of internal control that supports the achievement of the University's policies, aims and objectives, whilst safeguarding the public funds and assets for which she is personally responsible, in accordance with the responsibilities assigned to her in the Memorandum of Accountability and Assurance between Falmouth University and HEFCE. She is also responsible for reporting to the Board any material weaknesses or breakdowns in internal control.

The purpose of the system of internal control
The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of University policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Falmouth University for the year ended 31 July 2016 and up to the date of approval of the annual report and accounts.

Capacity to handle risk
The Board has reviewed the key risks to which the University is exposed together with the operating, financial and compliance controls that have been implemented to mitigate those risks. The Board is of the view that there is a formal ongoing process for identifying, evaluating and managing the University's significant risks that has been in place for the period ending 31 July 2016 and up to the date of approval of the annual report and accounts. This process is regularly reviewed by the Board.

The risk and control framework
The system of internal control is based on a framework of regular management information, administrative procedures including the segregation of duties, and a system of delegation and accountability. In particular, it includes:

- **comprehensive budgeting systems with an annual budget, which is reviewed and agreed by the governing body**
- **regular reviews by the governing body of periodic and annual financial reports which indicate financial performance against forecasts**
- **setting targets to measure financial and other performance**
- **clearly defined capital investment control guidelines**
- **the adoption of formal project management disciplines, where appropriate.**

Falmouth University uses an internal audit service, which operates in accordance with the requirements of the HEFCE's Audit Code of Practice. The work of the internal audit service is informed by an analysis of the risks to which the University is exposed, and annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the Board on the recommendation of the audit committee. At minimum, annually, the internal auditors provide the governing body with a report on internal audit activity in the University. The report includes an independent opinion on the adequacy and effectiveness of the University's system of risk management, controls and governance processes.

Review of effectiveness
As Accounting Officer, the Vice-Chancellor has responsibility for reviewing the effectiveness of the system of internal control. Her review of the effectiveness of the system of internal control is informed by:

- the work of the internal auditors
- the work of the executive managers within the University who have responsibility for the development and maintenance of the internal control framework
- comments made by the University's financial statements auditors in their management letters and other reports.

The Accounting Officer has been advised on the implications of the result of her review of the effectiveness of the system of internal control by the Audit Committee, which oversees the work of the internal auditor and other sources of assurance, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The senior management team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the departments. The senior management team and the Audit Committee also receive regular reports from internal audit and other sources of assurance, which include recommendations for improvement. The Audit Committee's role in this area is confined to a high-level review of the arrangements for internal control. The Board's agenda includes a regular item for consideration of risk and control and receives reports thereon from the senior management team and the Audit Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception.

Based on the advice of the Audit Committee and the Accounting Officer, the Board is of the opinion that the University has an adequate and effective framework for governance, risk management and control, and has fulfilled its statutory responsibility for "the effective and efficient use of resources, the solvency of the institution and the body and the safeguarding of their assets".

GOING CONCERN

After making appropriate enquiries, the Board considers that the University has adequate resources to continue in operational existence for the foreseeable future. For this reason, it continues to adopt the going concern basis in preparing the financial statements.

Approved by order of the members of the Board on 18 November 2016 and signed on its behalf by:

Signed:..

Chris Pomfret
Chair of Governors

Signed ....

Prof A Carlisle
Vice-Chancellor & Chief Executive

STATEMENT OF RESPONSIBILITIES OF THE BOARD OF GOVERNORS

The members of the Board are required to present audited financial statements for each financial year.

Within the terms and conditions of the Memorandum of Accountability and Assurance between HEFCE and the Board of the University, the Board, through its Accounting Officer, is required to prepare financial statements for each financial year in accordance with the 2015 Statement of Recommended Practice – Accounting for Further and Higher Education and with the University Accounts Direction 2015 to 2016 issued by HEFCE, and which give a true and fair view of the state of affairs of the University and the result for that year.

In preparing the financial statements, the Board is required to:

- **select suitable accounting policies and 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 financial statements on the going concern basis, unless it is inappropriate to assume that the University will continue in operation.**

The Board is also required to prepare a Board Report which describes what it is trying to do and how it is going about it, including the legal and administrative status of the group and the University.

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the University, and which enable it to ensure that the financial statements are prepared in accordance with the relevant legislation of incorporation and other relevant accounting standards. It is responsible for taking steps that are reasonably open to it in order to safeguard the assets of the Group and the University and to prevent and detect fraud and other irregularities.

The maintenance and integrity of the University website is the responsibility of the Board of the University; 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.

Members of the Board are responsible for ensuring that expenditure and income are applied for the purposes intended by Parliament and that the financial transactions conform to the authorities that govern them. In addition, they are responsible for ensuring that funds from HEFCE are used only in accordance with the Memorandum of Accountability and Assurance with HEFCE and any other conditions that may be prescribed from time to time. Members of the Board must ensure that there are appropriate financial and management controls in place in order to safeguard public and other funds and to ensure they are used properly. In addition, members of the Board are responsible for securing economical, efficient and effective management of the group and the University's resources and expenditure, so that the benefits that should be derived from the application of public funds from HEFCE are not put at risk.

Approved by order of the members of the Board on 18 November 2016 and signed on its behalf by:

Signed: Robin Kirby .... **18 November 2016**

Dr Robin Kirby
Strategic Advisor to the Vice-Chancellor, & Secretary to the Board of Governors

INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF GOVERNORS OF FALMOUTH UNIVERSITY

We have audited the financial statements of Falmouth University for the year ended 31 July 2016 set out on pages 41 to 85. 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) including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

This report is made solely to the Board of Governors, in accordance with paragraph 13(2) of the University's Articles of Government. Our audit work has been undertaken so that we might state to the Board of Governors those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Board of Governors for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF THE BOARD OF GOVERNORS AND AUDITOR

As explained more fully in the Statement of Responsibilities of the Board of Governors set out on page 38, the Board of Governors 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 of Governors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 Group's and the University's affairs as at 31 July 2016, of the Group's and University's income and expenditure, gains and losses and changes in reserves and of the Group's cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and with the 2015 Statement of Recommended Practice – Accounting for Further and Higher Education; and
- meet the requirements of HEFCE's *Accounts direction to higher education institutions for 2015-16 financial statements.*

OPINION ON OTHER MATTERS PRESCRIBED IN THE HEFCE AUDIT CODE OF PRACTICE (EFFECTIVE 1 AUGUST 2014) ISSUED UNDER THE FURTHER AND HIGHER EDUCATION ACT 1992

In our opinion, in all material respects:

- funds from whatever source administered by the Group and the University for specific purposes have been properly applied to those purposes and managed in accordance with relevant legislation;
- income has been applied in accordance with the University's articles of Government;
- funds provided by HEFCE have been applied in accordance with the Memorandum of Assurance and Accountability and any other terms and conditions attached to them; and
- the corporate governance and internal control requirements of HEFCE's *Accounts direction to higher education institutions for 2015-16 financial statements* have been met.

Emma Holiday

For and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
Plym House
Plymouth
PL6 8LT

November 2016

FALMOUTH UNIVERSITY CONSOLIDATED AND UNIVERSITY STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 JULY 2016

	Note		**Year to 31/7/16 Group £ (000)**	**Year to 31/7/16 University £ (000)**	**Year to 31/7/15 Group £ (000)**	**Year to 31/7/15 University £ (000)**
Income						
Funding body grants	**2**		5,781	5,781	5,649	5,649
Tuition fees and education contracts	**3**		39,982	39,982	35,347	35,347
Research grants and contracts	**4**		482	482	639	639
Other income	**5**		3,036	3,022	4,098	4,042
Endowment and investment income	**6**		68	68	37	37
Total income			**49,349**	**49,335**	**45,770**	**45,714**
Expenditure						
Staff costs	**7**		22,264	22,264	21,626	21,626
Other operating expenses	**8**		20,552	20,538	19,722	19,697
Depreciation	**11**		3,283	3,283	3,394	3,394
Interest and other finance costs	**9**		534	534	417	417
			46,633	**46,619**	**45,159**	**45,134**
Surplus before other gains and share of joint venture			**2,716**	**2,716**	**611**	**580**
Loss on disposal of assets			(294)	(294)	(119)	(119)
Share of operating surplus in joint venture	**13**		265	-	448	-
Surplus before tax and surplus for year			**2,687**	**2,422**	**940**	**461**
Actuarial loss in respect of pension schemes			(5,714)	(4,257)	(3,375)	(2,539)
Change in fair value of hedging financial instruments			(5)	-	53	-
Total comprehensive income for the year			**(3,032)**	**(1,835)**	**(2,382)**	**(2,078)**

All income relates to continuing operations.

The notes on pages 45 to 85 form an integral part of the financial statements.

FALMOUTH UNIVERSITY CONSOLIDATED AND UNIVERSITY STATEMENT OF CHANGES IN RESERVES FOR THE YEAR ENDED 31 JULY 2016

Group	Income & Expenditure Account Restricted **£ (000)**	Income & Expenditure Account Unrestricted **£ (000)**	Revaluation reserve **£ (000)**	Total **£ (000)**
Balance at 1 August 2014	27	5,503	43,190	48,720
Surplus from the income statement	-	940	-	940
Other comprehensive income	-	(3,322)	-	(3,322)
Transfers between revaluation and income and expenditure reserve	-	746	(746)	-
Balance at 1 August 2015	**27**	**3,867**	**42,444**	**46,338**
Surplus from the income statement	-	2,687	-	2,687
Other comprehensive income	-	(5,719)	-	(5,719)
Transfers between revaluation and income and expenditure reserve	-	746	(746)	-
Balance at 31 July 2016	**27**	**1,581**	41,698	**43,306**

University	Income & Expenditure Account Restricted **£ (000)**	Income & Expenditure Account Unrestricted **£ (000)**	Revaluation reserve **£ (000)**	Total **£ (000)**
Balance at 1 August 2014	27	7,363	28,178	35,568
Surplus from the income statement	-	461	-	461
Other comprehensive income	-	(2,539)	-	(2,539)
Transfers between revaluation and income and expenditure reserve	-	486	(486)	-
Balance at 1 August 2015	**27**	**5,771**	**27,692**	**33,490**
Surplus from the income statement	-	2,422	-	2,422
Other comprehensive income	-	(4,257)	-	(4,257)
Transfers between revaluation and income and expenditure reserve	-	486	(486)	-
Balance at 31 July 2016	**27**	**4,422**	**27,206**	**31,655**

FALMOUTH UNIVERSITY BALANCE SHEETS AS AT 31 JULY 2016

		Group	University		Group	University
		2016	2016		2015	2015
	Note	£ (000)	£ (000)		£ (000)	£ (000)
Fixed Assets						
Benefit arising from the acquisition of Dartington College of Arts	**12**	-	-		(2)	(2)
Tangible assets	**11**	102,883	102,855		102,446	102,423
Investment in subsidiary undertakings	**13**	-	1		-	1
Interest in joint venture	**13**	11,628	-		12,825	-
		114,511	102,856		115,269	102,422
Current Assets						
Stock		43	43		53	53
Trade and other receivables	**14**	1,137	1,162		1,980	2,006
Cash at bank and in hand		11,343	11,320		9,607	9,576
		12,523	12,525		11,640	11,635
Less: Creditors - amounts falling due within one year	**15**	(7,505)	(7,503)		(8,116)	(8,112)
Net current assets		**5,018**	**5,022**		**3,524**	**3,523**
Total assets less current liabilities		**119,529**	**107,878**		**118,793**	**105,945**
Less: Creditors - amounts falling due after more than one year	**16**	(57,453)	(57,453)		(58,786)	(58,786)
Provisions						
Pension provision		(15,851)	(15,851)		(10,731)	(10,731)
Other provisions	**17**	(2,919)	(2,919)		(2,938)	(2,938)
Net assets		**43,306**	**31,655**		**46,338**	**33,490**

Restricted reserves						
Income and expenditure-Endowments	**18**	**27**	**27**		**27**	**27**
Unrestricted reserves						
Income and expenditure account-unrestricted		1,581	4,422		3,867	5,771
Revaluation reserve	**19**	41,698	27,206		42,444	27,692
Total Reserves		**43,306**	**31,655**		**46,338**	**33,490**

The notes on pages 45 to 85 form an integral part of the financial statements.

The financial statements on pages 41 to 85 were approved by the Board of Governors on 18 November 2016 and signed on its behalf by:

Signed:..

Chris Pomfret
Chair of Governors

Signed ....

Prof A Carlisle
Vice-Chancellor & Chief Executive Officer

FALMOUTH UNIVERSITY CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 JULY 2016

		Year to 31/7/16		Year to 31/7/15
	£ (000)	£ (000)	£ (000)	£ (000)
Cash flow from operating activities				
Surplus for the year		2,687		940
Adjustment for non-cash items				
Depreciation		3,283		3,394
Amortisation		(2)		(6)
Deferred capital grants released		(1,472)		(1,292)
Decrease/(increase) in stock		10		(6)
Decrease in debtors		1,261		515
Decrease in creditors		(1,083)		(725)
Increase in pension provision		457		310
(Decrease)/increase in other provisions		(19)		2,188
Share of operating surplus in joint venture		(265)		(448)
Loss on disposal of assets		294		119
Adjustment for investing or financing items				
Investment income		(68)		(37)
Interest payable		534		417
Net cash inflow from operating activities		**5,617**		**5,369**
Cash flow from investing activities				
Deferred capital grants received	396		443	
Investment income	68		37	
Payments made to acquire fixed assets	(3,984)		(2,689)	
		(3,520)		(2,209)
Cash flows from financing activities				
Interest paid	(123)		(100)	
New bank loan received	-		3,660	
Loan repayments in year	(239)		(104)	
		(362)		3,456
Increase in cash and cash equivalents in the year		**1,735**		**6,616**
Cash and cash equivalents at the beginning of the year		9,589		2,973
Cash and cash equivalents at the end of the year		**11,324**		**9,589**

FALMOUTH UNIVERSITY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2016

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 2015 and in accordance with Financial Reporting Standard (FRS) 102. The University is a public benefit entity and therefore has applied the relevant public benefit requirement of FRS 102. The financial statements are prepared in accordance with the historical cost convention.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year, are discussed in note 26.

BASIS OF CONSOLIDATION

The consolidated financial statements include the University and its subsidiary company, Falmouth Enterprises Limited. Intra-group sales and profits are eliminated fully on consolidation.

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 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.

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 believes that the University is well placed to effectively manage its business risks, despite the current uncertain economic situation.

The Board has 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.

RECOGNITION OF INCOME

Income from the sale of goods or services is credited to the Consolidated Statement of Comprehensive Income when the goods or services are supplied to the external customers or the terms of the contract have been satisfied.

Fee income is stated gross of any expenditure which is not a discount and credited to the Consolidated Statement of Comprehensive Income 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.

Investment income is credited to the Consolidated Statement of Comprehensive Income on a receivable basis.

Funds the University receives and disburses as paying agent on behalf of a funding body are excluded from the income and expenditure of the University where the University is exposed to minimal risk or enjoys minimal economic benefit related to the transaction.

Grant funding

Grant funding including funding council block grant, research grants from government sources and grants (including research grants) from non-government sources are recognised as income when the University is entitled to the income and performance related conditions have been met. Income received in advance of performance related conditions being met is recognised as deferred income within creditors on the balance sheet and released to income as the conditions are met.

Donations and endowments

Non exchange transactions without performance related conditions are donations and endowments. Donations and endowments with donor imposed restrictions are recognised in income when the University is entitled to the funds. Income is retained within the restricted reserve until such time that it is utilised in line with such restrictions at which point the income is released to general reserves through a reserve transfer.

Donations with no restrictions are recognised in income when the University is entitled to the funds.

Investment income and appreciation of endowments is recorded in income in the year in which it arises and as either restricted or unrestricted income according to the terms of the restriction applied to the individual endowment fund.

There are four main types of donations and endowments identified within reserves:

1. Restricted donations - the donor has specified that the donation must be used for a particular objective.
2. 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 University.
3. Restricted expendable endowments - the donor has specified a particular objective other than the purchase or construction of tangible fixed assets, and the University has the power to use the capital.
4. 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.

Capital grants

Government capital grants are recognised in income over the expected useful life of the asset. Other capital grants are recognised in income when the University is entitled to the funds subject to any performance related conditions being met.

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. A small number of employees are members of the Universities Superannuation Scheme (USS). These are defined benefit schemes which are contracted out of the State Earnings Related Pension Scheme. CC and USS are funded schemes and are valued every three years by professionally qualified independent actuaries.

TPS and USS are multi-employer schemes for which it is not possible to identify the assets and liabilities to the University's members due to the mutual nature of the schemes and therefore these schemes are accounted for as defined contribution retirement benefit schemes.

A liability is recorded within provisions for any contractual commitment to fund past deficits within the USS scheme.

Defined Contribution Plan

A defined contribution plan is a post-employment benefit plan under which the university pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

Defined Benefit Plan

Defined benefit plans are post-employment benefit plans other than defined contribution plans. Under defined benefit plans, the University's obligation is to provide the agreed benefits to current and former employees, and actuarial risk (that benefits will cost more or less than expected) and investment risk (that returns on assets set aside to fund the benefits will differ from expectations) are borne, in substance, by the University. The Group should recognise a liability for its obligations under defined benefit plans net of plan assets. This net defined benefit liability is measured as the estimated amount of benefit that employees have earned in return for their service in the current and prior periods, discounted to determine its present value, less the fair value (at bid price) of plan assets. The calculation is performed by a qualified actuary using the projected unit credit method. Where the calculation results in a net asset, recognition of the asset is limited to the extent to which the University is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

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 statement 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.

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.

EMPLOYMENT BENEFITS

Short term employment benefits such as salaries and compensated absences are recognised as an expense in the year in which the employees render service to the University. Any unused benefits are accrued and measured as the additional amount the University expects to pay as a result of the unused entitlement.

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 statement as incurred.

FINANCE LEASES

Leases in which the University assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Leased assets acquired by way of finance lease and the corresponding lease liabilities are initially recognised at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

OPERATING LEASES

Costs in respect of operating leases are charged on a straight-line basis over the lease term. Any lease premiums or incentives are spread over the whole term of the lease including extension options.

FOREIGN CURRENCIES

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at year-end rates. Resulting exchange differences are included in the Statement of Comprehensive Income for the financial year.

TANGIBLE FIXED ASSETS

Fixed assets are stated at deemed cost less accumulated depreciation and accumulated impairment losses. Certain items of fixed assets that had been revalued to fair value on the date of transition to the 2015 FE HE SORP are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Land and buildings

Freehold land is not depreciated. Buildings are stated at cost 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).

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 2016. They are not depreciated until they are brought into use.

Fixtures, fittings & equipment

Equipment, including computers and software, costing less than de minimis threshold of £5,000 per individual item is recognised as expenditure. All other equipment is capitalised.

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

Computers and equipment	- 4 years
Motor vehicles	- 4 years
Musical instruments	- 10 years

Depreciation methods, useful lives and residual values are reviewed at the date of preparation of each Balance Sheet.

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 net assets at the date of acquisition. Goodwill is amortised over its estimated economic life. Impairment tests are carried out at the end of the first year and thereafter subject to normal periodic reviews for indications of impairment.

The accounting treatment for negative goodwill is set out in the note on accounting for business combinations (note 12).

INVESTMENTS

Non-current investments are included in the balance sheet at amortised cost less impairment.

Investments in jointly controlled entities and subsidiaries are carried at cost less impairment in the University's accounts.

Current asset investments are held at fair value with movements recognised in the Surplus or Deficit for the year.

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.

CASH AND CASH EQUIVALENTS

Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are in practice available within 24 hours without penalty.

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value.

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.

A contingent liability arises from a past event that gives the University a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the University. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

A contingent asset arises where an event has taken place that gives the University a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the University.

Contingent assets and liabilities are not recognised in the Balance Sheet but are disclosed in the notes.

ACCOUNTING FOR JOINT OPERATIONS, JOINTLY CONTROLLED ASSETS AND JOINTLY CONTROLLED OPERATIONS

The University accounts for its share of joint ventures using the equity method.

The University accounts for its share of transactions from joint operations and jointly controlled assets in the Consolidated Statement of Comprehensive Income.

TAXATION

The University is an exempt charity within the meaning of Part 3 of the Charities Act 2011, and, as such, is a charity within the meaning of Section 506 (1) of the Income and Corporation Taxes Act 1988. It is therefore a charity within the meaning of Para 1 of schedule 6 to the Finance Act 2010 and accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by section 478-488 of the Corporation Tax Act 2010 (CTA 2010) or section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes.

The University receives no similar exemption in respect of Value Added Tax and falls under the partial exemption regime so that it can only recover a minor element of VAT charged on its inputs. Irrecoverable VAT on inputs is included in the costs of such inputs. Any irrecoverable VAT allocated to fixed assets is included in their cost.

The University's subsidiary is liable to Corporation Tax in the same way as any other commercial organisation.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are provided where they are more likely than not to be recovered. Deferred tax assets and liabilities are not discounted.

RESERVES

Reserves are classified as restricted or unrestricted. Restricted endowment reserves include balances which, through endowment to the University, are held as a permanently restricted fund which the University must hold in perpetuity.

Other restricted reserves include balances where the donor has designated a specific purpose and therefore the University is restricted in the use of these funds.

TRANSITION TO 2015 SORP

The University is preparing its financial statements in accordance with FRS 102 for the first time and consequently has applied the first time adoption requirements. An explanation of how the transition to 2015 SORP has affected the reported financial position, financial performance and cash flows of the consolidated results of the University is provided in note 21.

Application of first time adoption grants certain exemption from the full requirements of 2015 SORP in the transition period. The following exemptions have been taken into these financial statements:

- Revaluation has been used as deemed cost for long leasehold land and buildings
- A cash flow statement for the University only has not been prepared

2 FUNDING BODY GRANTS

	Group 31/7/16 £ (000)	University 31/7/16 £ (000)	Group 31/7/15 £ (000)	University 31/7/15 £ (000)
HEFCE recurrent grant	4,135	4,135	3,920	3,920
HEFCE specific grants:				
- Catalyst/Strategic Development Funds	47	47	340	340
- Collaborative Outreach	186	186	-	-
- Postgraduate support scheme	100	100	-	-
- Business relations (HEIF)	-	-	286	286
HEFCE deferred capital grants released in year				
- Buildings	321	321	321	321
- Equipment	264	264	188	188
EFA/SFA recurrent grant	728	728	594	594
	5,781	**5,781**	**5,649**	**5,649**

3 TUITION FEES AND EDUCATION CONTRACTS

	Group 31/7/16 £ (000)	University 31/7/16 £ (000)	Group 31/7/15 £ (000)	University 31/7/15 £ (000)
Full-time students	35,995	35,995	32,250	32,250
Full-time students charged overseas fees	3,367	3,367	2,553	2,553
Part-time students	278	278	325	325
Research fees	32	32	44	44
FE fees and other charges	310	310	175	175
	39,982	**39,982**	**35,347**	**35,347**

4 RESEARCH GRANTS AND CONTRACTS

	Group 31/7/16 £ (000)	University 31/7/16 £ (000)	Group 31/7/15 £ (000)	University 31/7/15 £ (000)
Other contracts	482	482	639	639
	482	**482**	**639**	**639**

5 OTHER INCOME

	Group 31/7/16 £ (000)	University 31/7/16 £ (000)	Group 31/7/15 £ (000)	University 31/7/15 £ (000)
Other income generating activities	326	285	304	248
Residences and catering operations	655	655	633	633
Other income (including European grants)	741	768	1,582	1,582
Negative goodwill released on acquisition	2	2	6	6
Recharges for the provision of combined services	331	331	700	700
Deferred capital grants	887	887	783	783
Other income (CUC pooled funds)	94	94	90	90
	3,036	**3,022**	**4,098**	**4,042**

6 ENDOWMENT AND INVESTMENT INCOME

	Group 31/7/16 £ (000)	University 31/7/16 £ (000)	Group 31/7/15 £ (000)	University 31/7/15 £ (000)
Bank deposit interest	68	68	37	37
	68	**68**	**37**	**37**

7 STAFF COSTS

	Group 31/7/16 £ (000)	University 31/7/16 £ (000)	Group 31/7/15 £ (000)	University 31/7/15 £ (000)
Wages and salaries	17,512	17,512	17,472	17,472
Social security costs	1,510	1,510	1,316	1,316
Other pension costs	3,242	3,242	2,838	2,838
	22,264	**22,264**	**21,626**	**21,626**
Emoluments of the Vice-Chancellor & Chief Executive	£ 222,017	£ 222,017	£ 218,247	£ 218,247
Performance-related bonus	31,020	31,020	31,948	31,948
Benefits in kind	3,137	3,137	2,829	2,829
	256,174	**256,174**	**253,024**	**253,024**
Pension contributions	41,697	41,697	35,854	35,854
	297,871	**297,871**	**288,878**	**288,878**
Remuneration of higher paid staff excluding Vice-Chancellor & Chief Executive (excluding employer's pension contributions):	**Number**	**Number**	**Number**	**Number**
£100,000 - £109,999 pa	2	2	-	-
£110,000 - £119,999 pa	-	-	1	1
£120,000 - £129,999 pa	1	1	2	2
£140,000 - £149,999 pa	1	1	1	1

Average staff numbers (FTEs) by major category:	**Number**	**Number**	**Number**	**Number**
Academic departments	252	252	231	231
Research & innovation	19	19	35	35
Academic support services	23	23	23	23
Administration	111	111	118	118
Premises	21	21	21	21
Other income generation	1	1	1	1
	427	**427**	**429**	**429**

KEY MANAGEMENT PERSONNEL

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the University. The University views its Vice-Chancellor's Executive Group (VCEG) as its key management personnel. This consists of 10 members of staff. Staff costs includes compensation paid to key management personnel.

	Group 31/7/16 £ (000)	University 31/7/16 £ (000)	Group 31/7/15 £ (000)	University 31/7/15 £ (000)
Key management personnel compensation	1,277	1,277	1,355	1,355

GOVERNORS ACTING AS TRUSTEES

No governor has received any remuneration or waived payments from the group during the year (2015: none).

The total expenses paid to or on behalf of six governors was £3,580 (2014/15: £3,061 paid to five governors). This represents travel and subsistence expenses incurred in attending Board, committee meetings and charity events in their official capacity.

8 OTHER OPERATING EXPENSES

	Group 31/7/16 £ (000)	University 31/7/16 £ (000)	Group 31/7/15 £ (000)	University 31/7/15 £ (000)
Teaching materials and expenses	2,628	2,628	2,802	2,802
Franchise fees	242	242	156	156
Library and learning resource costs	1,608	1,608	1,375	1,375
IT support costs	1,644	1,644	1,552	1,552
Student support costs	1,049	1,049	1,336	1,336
Recruitment and restructuring costs	316	316	746	746
Research costs	375	375	698	698
Auditors remuneration - external audit fees	47	46	36	35
Auditors remuneration - internal audit fees	31	31	30	30
Auditors remuneration - non audit fees	-	-	-	-
Administrative expenses	1,598	1,598	2,174	2,174
Residential development fees	935	935	-	-
CUC central costs	174	174	27	27
Advertising and promotional expenses	1,518	1,518	1,457	1,457
Bursaries payable	1,969	1,969	1,707	1,707
Heat, light, rates and water	1,126	1,126	1,191	1,191
Repairs and maintenance to premises	4,668	4,668	3,910	3,910
Inter-campus transport	103	103	12	12
Rents and property leases	53	53	74	74
Other income generation costs	468	455	439	415
	20,552	**20,538**	**19,722**	**19,697**
Auditors' remuneration includes the following				
External audit fees	47	46	36	35
Internal audit fees	31	31	30	30

9 INTEREST AND OTHER FINANCE COSTS

	Group 31/7/16 £ (000)	University 31/7/16 £ (000)	Group 31/7/15 £ (000)	University 31/7/15 £ (000)
On bank loans not wholly repayable within five years	128	128	100	100
Pension finance costs	406	406	317	317
	534	**534**	**417**	**417**

10 ANALYSIS OF 2015/16 EXPENDITURE BY ACTIVITY - GROUP

	Staff costs £ (000)	Other operating expenses £ (000)	Depreciation £ (000)	Interest payable £ (000)	2015/16 Total £ (000)	2014/15 Total £ (000)
Academic departments	13,436	2,583	991	-	17,010	16,978
Academic support services	622	3,510	129	-	4,261	3,767
Research grants & contracts	957	319	4	-	1,280	2,117
Residences and catering	309	343	-	-	652	602
Premises	702	5,950	2,111	128	8,891	8,151
Administration & central services	6,080	7,487	48	406	14,021	12,983
Other services	145	186	-	-	331	472
Other expenses (including CUC)	13	174	-	-	187	89
Total	**22,264**	**20,552**	**3,283**	**534**	**46,633**	**45,159**

The depreciation charge has been funded by:	
Deferred capital grants	1,473
Revaluation reserve release	486
General income	1,324
	3,283

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 2015	527	101,729	16,625	118,881
Additions	2,711	309	994	4,014
Transfers	(527)	527	-	-
Disposals	-	(300)	(359)	(659)
C/f as at 31 July 2016	**2,711**	**102,265**	**17,260**	**122,236**
Depreciation				
B/f as at 1 August 2015	-	1,903	14,532	16,435
Charge for the year	-	1,913	1,370	3,283
Depreciation on disposals	-	(6)	(359)	(365)
C/f as at 31 July 2016	**-**	**3,810**	**15,543**	**19,353**
Net book value				
As at 31 July 2015	527	99,826	2,093	102,446
As at 31 July 2016	**2,711**	**98,455**	**1,717**	**102,883**
University				
Cost or valuation				
B/f as at 1 August 2015	527	101,814	16,291	118,632
Additions	2,711	308	990	4,009
Transfers	(527)	527	-	-
Disposals	-	(300)	(359)	(659)
C/f as at 31 July 2016	**2,711**	**102,349**	**16,922**	**121,982**
Depreciation				
B/f as at 1 August 2015	-	1,903	14,306	16,209
Charge for the year	-	1,913	1,370	3,283
Depreciation on disposals	-	(6)	(359)	(365)
C/f as at 31 July 2016	**-**	**3,810**	**15,317**	**19,127**
Net Book Value				
As at 31 July 2015	527	99,911	1,985	102,423
As at 31 July 2016	**2,711**	**98,539**	**1,605**	**102,855**

Land and buildings have previously been revalued in accordance with the old basis of accounting (2007 SORP) and on transition to FRS 102. The valuations as at the date of transition have been taken as deemed cost.

Land and buildings were professionally valued on the basis of depreciated replacement cost by Alder King, Chartered Surveyors, Newham Road, Truro on 31 July 2014. Properties have been valued on the basis of depreciated replacement cost.

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 2015	(502)
Adjustment to valuation	-
C/f as at 31 July 2016	**(502)**
Released to Income and Expenditure account	
B/f as at 1 August 2015	500
Release for the year	2
C/f as at 31 July 2016	**502**
Net book value	
At 31 July 2015	(2)
At 31 July 2016	**-**

13 INVESTMENT ASSET AND INTEREST IN JOINT VENTURE

	Group 2016 £ (000)	University 2016 £ (000)		Group 2015 £ (000)	University 2015 £ (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) and 100% of the issued share capital (2 £1 Ordinary Shares) in Cornwall Plus Limited. These joint venture companies with UoE have been established to provide the operational aspects (through FX Plus and Cornwall 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.

In accordance with FRS102 the Group is required to disclose its share of assets and liabilities in FX Plus. As at the year end these were as follows:

	2016 £ (000)	2015 £ (000)
Share of fixed assets	41,790	41,899
Share of current assets	3,675	3,730
Share of current liabilities	(3,339)	(2,911)
Share of long-term liabilities	(25,976)	(27,180)
Share of pension liability	(4,522)	(2,713)
	11,628	**12,825**
Share of income	12,882	11,991
Share of surplus for the year	265	448
Share of total tax payable	-	-
Share of total comprehensive income	(1,197)	(453)

Other investments of the University comprise:

Name	Company number	Shares
Atlantic Press Limited	05122849	10
Burning Arrow Limited	09755439	73
Hertzian Limited	09753777	59
Polygrammatic Limited	09753453	25
Relative Dimensions Studios Limited	09757678	250
Stormtide Limited	09757655	55
Stream TV Limited	08471003	100

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 DEBTORS

	Group 2016 £ (000)	University 2016 £ (000)	Group 2015 £ (000)	University 2015 £ (000)
Fees and charges	338	338	374	374
Trade debtors	212	212	306	302
Prepayments and accrued income	194	196	214	214
ERDF and ESF grants due	-	-	1,086	1,086
Amounts owed by group undertakings	-	23	-	30
Amounts owed by joint venture	403	403	-	-
Sundry debtors	13	13	17	17
Bad debt reserve	(23)	(23)	(17)	(17)
	1,137	**1,162**	**1,980**	**2,006**

15 CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group	University	Group	University
	2016	**2016**	**2015**	**2015**
	£ (000)	**£ (000)**	**£ (000)**	**£ (000)**
Bank loan	256	256	158	158
Salix loan	40	40	40	40
HEFCE	289	289	359	359
Bank overdraft	19	19	18	18
Trade creditors	856	856	938	938
Accruals and deferred income	5,220	5,218	5,148	5,144
Social security and other taxation	769	769	738	738
Amounts owed to joint ventures	-	-	577	577
Other creditors	24	24	32	32
CUC creditors and accrued income	32	32	108	108
	7,505	**7,503**	**8,116**	**8,112**

Deferred income includes grants receivable in respect of funding for construction costs of the buildings at Penryn.

16 CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group and University	
	2016	**2015**
	£ (000)	**£ (000)**
Deferred income	53,886	54,882
Bank loan	3,527	3,824
Salix fund	40	80
	57,453	**58,786**

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 is calculated at 0.2% per annum above the Bank's Base Rate. At 31 July 2016 the balance outstanding is £421,000 (2015: £481,000).

During 2014/15, the University drew down a further loan of £3.5m from Lloyds Bank plc, repayable on a quarterly basis over 20 years. There was a capital repayment holiday for the first year. Interest is calculated at 2.25% per annum above Base Rate. At 31 July 2016 the balance outstanding is £3.4m.

	Group and University	
	2016	2015
Amounts repayable on loans:	£ (000)	£ (000)
In one year or less	296	198
In more than one year but not more than two years	290	290
In more than two years but not more than five years	755	793
In more than five years	2,522	2,821
	3,863	**4,102**

17 PROVISIONS FOR LIABILITIES

Group & University	**Enhanced Pension Provision £ (000)**	**Relocation costs £ (000)**	**Grant clawback £ (000)**	**Total £ (000)**
Balance at 1 August 2015	709	28	2,201	2,938
Transferred from Income and expenditure	22	6	-	28
Utilised in the year	(47)	-	-	(47)
Balance at 31 July 2016	**684**	**34**	**2,201**	**2,919**

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 2016. 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 11.

The grant clawback relates to a proposed correction by the European Court of Auditors. The European Court of Auditors carried out a re-performance of an Article 16 audit of the Performance Centre in July 2011. This audit asserted that some of the procurement criteria were too restrictive and disproportionate. The University has contested the alleged clawback and awaits details of a hearing. In light of the above, a clawback of £2,201,000 was accrued in the financial statements in the year to 31 July 2015 and carried forward in the year to 31 July 2016.

18 ENDOWMENT ASSETS

	Group and University	
	2016	2015
Permanent and expendable endowments	**£ (000)**	**£ (000)**
Balance brought forward	27	27
Bursaries awarded	-	-
Balance carried forward	27	27

Endowment assets relate to two Denis Mitchell sculptures and a Michael Finn painting donated to and held in the University at valuation.

19 REVALUATION RESERVE

	Group 2016 £ (000)	University 2016 £ (000)	Group 2015 £ (000)	University 2015 £ (000)
Balance brought forward	42,444	27,692	43,190	28,178
Transferred to Income and expenditure account - depreciation	(486)	(486)	(486)	(486)
Share of movement in joint venture's revaluation reserve	(260)	-	(260)	-
	41,698	**27,206**	**42,444**	**27,692**

20 ANALYSIS OF CHANGES IN NET FUNDS

	At 1 Aug 2015 £ (000)	Cashflows £ (000)	At 31 July 2016 £ (000)
Cash and cash equivalents	9,607	1,736	11,343
Overdraft	(18)	(1)	(19)
Total	**9,589**	**1,735**	**11,324**

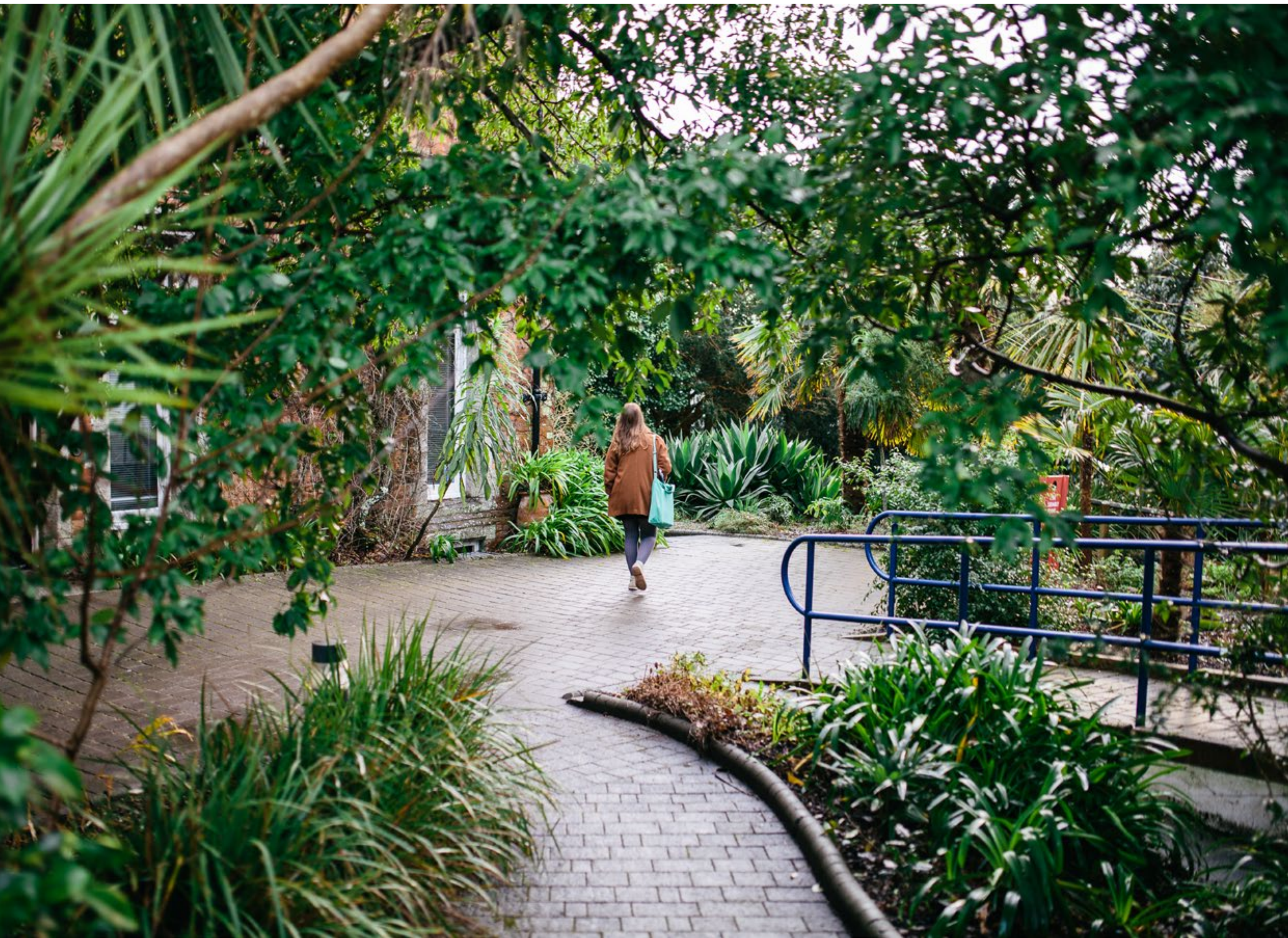
21 TRANSITION TO FRS102 AND THE 2015 SORP

As explained in the accounting policies, these are the University's first financial statements prepared in accordance with FRS 102 and the SORP. The accounting policies set out in Note 1 have been applied in preparing the financial statements for the year ended 2016, the comparative information presented in these financial statements for the year ended 2015 and in the preparation of an opening FRS 102 Statement of Financial Position at 1 August 2014. In preparing its FRS 102, SORP based Statement of Financial Position, the University has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (2007 SORP).

An explanation of how the transition to FRS 102 and the SORP has affected the University's financial position, financial performance and cash flows is set out in the following tables.

Included in the balance sheet information below is the following relating to the joint venture:

	1/8/14 £ (000)	**31/7/15 £ (000)**
Revaluation of land and buildings	10,531	10,454
Employee leave accrual	(76)	(75)
Derivatives	(37)	16
JV	**10,418**	**10,395**



21 TRANSITION TO FRS102 AND THE 2015 SORP (CONTINUED)

Group	Note	Old UK GAAP 1/8/14 £ (000)	Transition adjustments 1/8/14 £ (000)	FRS102 1/8/14 £ (000)
Fixed Assets				
Negative goodwill		(8)	-	(8)
Tangible Assets	A	99,489	4,095	103,584
Interest in joint venture	JV	2,742	10,418	13,160
		102,223	14,513	116,736
Endowment assets	A	27	(27)	-
		102,250	14,486	116,736
Current Assets				
Stock		47	-	47
Trade and other receivables		2,812	-	2,812
Cash and cash equivalents	B	5,574	(2,566)	3,008
		8,433	(2,566)	5,867
Creditors - amounts falling due within one year	C	(7,363)	548	(6,815)
Net Current Assets		1,070	(2,018)	(948)
Total Assets less Current Liabilities		**103,320**	**12,468**	**115,788**
Creditors - amounts falling due after more than one year	D	(481)	(58,272)	(58,753)
Provisions				
Pension and other Provisions		(8,315)	-	(8,315)
Total Net Assets		**94,524**	**(45,804)**	**48,720**
Reserves				
Deferred capital grants	D	59,554	(59,554)	-
Endowment funds		27	-	27
Income and Expenditure Reserve- unrestricted		6,158	(655)	5,503
Revaluation Reserve	A	28,785	14,405	43,190
Total Reserves		**94,524**	**(45,804)**	**48,720**

Notes to the reconciliation of reserves

A Land and buildings were revalued on transition. These are now included at deemed cost. Endowment assets have also been reclassified.

B Surplus cash held on behalf of the joint venture has been reclassified from the joint venture balance to cash and cash equivalents.

C	Creditors have decreased as follows:	**£ (000)**
	Employee leave accrual	(780)
	Surplus cash held on behalf of joint venture	2,566
	Deferred capital grants - deferred income in less than one year (see D below)	(1,238)
		548

D Deferred capital grants have been reclassified as deferred income and reduced for grants being taken to reserves due to meeting the relevant performance conditions.

21 TRANSITION TO FRS102 AND THE 2015 SORP (CONTINUED)

University		Old UK GAAP 1/8/14	Transition adjustments 1/8/14	FRS102 1/8/14
	Note	£ (000)	£ (000)	£ (000)
Fixed Assets				
Negative goodwill		(8)	-	(8)
Tangible Assets	A	99,466	4,127	103,593
Investments		1	-	1
		99,459	4,127	103,586
Endowment assets	A	27	(27)	-
		99,486	**4,100**	**103,586**
Current Assets				
Stock		47	-	47
Trade and other receivables		2,817	-	2,817
Cash and cash equivalents	B	5,546	(2,566)	2,980
		8,410	**(2,566)**	**5,844**
Creditors - amounts falling due within one year	C	(7,342)	548	(6,794)
Net Current Assets		**1,068**	**(2,018)**	**(950)**
Total Assets less Current Liabilities		**100,554**	**2,082**	**102,636**
Creditors - amounts falling due				
after more than one year	D	(481)	(58,272)	(58,753)
Provisions				
Pension and other Provisions		(8,315)	-	(8,315)
Total Net Assets		**91,758**	**(56,190)**	**35,568**
Reserves				
Deferred capital grants	D	59,554	(59,554)	-
Endowment funds		27	-	27
Income and Expenditure Reserve- unrestricted		7,873	(510)	7,363
Revaluation Reserve	A	24,304	3,874	28,178
Total Reserves		**91,758**	**(56,190)**	**35,568**

Notes to the reconciliation of reserves

A Land and buildings were revalued on transition. These are now included at deemed cost. Endowment assets have also been reclassified.

B Surplus cash held on behalf of the joint venture has been reclassified from the joint venture balance to cash and cash equivalents.

C	Creditors have decreased as follows:	**£ (000)**
	Employee leave accrual	(780)
	Surplus cash held on behalf of joint venture	2,566
	Deferred capital grants - deferred income in less than one year (see D below)	(1,238)
		548

D Deferred capital grants have been reclassified as deferred income and reduced for grants being taken to reserves due to meeting the relevant performance conditions.

21 TRANSITION TO FRS102 AND THE 2015 SORP (CONTINUED)

Group		**Old UK GAAP** **31/7/15**	**Transition adjustments** **31/7/15**	**FRS102** **31/7/15**
	Note	**£ (000)**	**£ (000)**	**£ (000)**
Fixed Assets				
Negative goodwill		(2)	-	(2)
Tangible Assets	**A**	98,332	4,114	102,446
Interest in joint venture	**JV**	2,430	10,395	12,825
		100,760	14,509	115,269
Endowment assets	**A**	27	(27)	-
		100,787	**14,482**	**115,269**
Current Assets				
Stock		53	-	53
Trade and other receivables		1,980	-	1,980
Cash and cash equivalents	**B**	13,032	(3,425)	9,607
		15,065	**(3,425)**	**11,640**
Creditors - amounts falling due within one year	**C**	(9,184)	1,068	(8,116)
Net Current Assets		5,881	(2,357)	3,524
Total Assets less Current Liabilities		**106,668**	**12,125**	**118,793**
Creditors - amounts falling due				
after more than one year	**D**	(3,904)	(54,882)	(58,786)
Provisions				
Pension and other Provisions		(13,669)	-	(13,669)
Total Net Assets		**89,095**	**(42,757)**	**46,338**
Reserves				
Deferred capital grants	**D**	56,316	(56,316)	-
Endowment funds		27	-	27
Income and Expenditure Reserve- unrestricted		4,503	(636)	3,867
Revaluation Reserve	**A**	28,249	14,195	42,444
Total Reserves		**89,095**	**(42,757)**	**46,338**

Notes to the reconciliation of reserves

A Land and buildings were revalued on transition. These are now included at deemed cost. Endowment assets have also been reclassified.

B Surplus cash held on behalf of the joint venture has been reclassified from the joint venture balance to cash and cash equivalents.

C	Creditors have decreased as follows:	**£ (000)**
	Employee leave accrual	(834)
	Surplus cash held on behalf of joint venture	3,425
	Deferred capital grants - deferred income in less than one year (see D below)	(1,523)
		1,068

D Deferred capital grants have been reclassified as deferred income and reduced for grants being taken to reserves due to meeting the relevant performance conditions.

21 TRANSITION TO FRS102 AND THE 2015 SORP (CONTINUED)

University		Old UK GAAP 31/7/15	Transition adjustments 31/7/15	FRS102 31/7/15
	Note	£ (000)	£ (000)	£ (000)
Fixed Assets				
Negative goodwill		(2)	-	(2)
Tangible Assets	**A**	98,309	4,114	102,423
Investments		1	-	1
		98,308	4,114	102,422
Endowment assets	**A**	27	(27)	-
		98,335	**4,087**	**102,422**
Current Assets				
Stock		53	-	53
Trade and other receivables		2,006	-	2,006
Cash and cash equivalents	**B**	13,001	(3,425)	9,576
		15,060	**(3,425)**	**11,635**
Creditors - amounts falling due within one year	**C**	(9,181)	1,069	(8,112)
Net Current Assets		5,879	(2,356)	3,523
Total Assets less Current Liabilities		**104,214**	**1,731**	**105,945**
Creditors - amounts falling due				
after more than one year	**D**	(3,904)	(54,882)	(58,786)
Provisions				
Pension and other Provisions		(13,669)	-	(13,669)
Total Net Assets		**86,641**	**(53,151)**	**33,490**
Reserves				
Deferred capital grants	**D**	56,316	(56,316)	-
Endowment funds		27	-	27
Income and Expenditure Reserve- unrestricted		6,443	(672)	5,771
Revaluation Reserve	**A**	23,855	3,837	27,692
Total Reserves		**86,641**	**(53,151)**	**33,490**

Notes to the reconciliation of reserves

A Land and buildings were revalued on transition. These are now included at deemed cost. Endowment assets have also been reclassified.

B Surplus cash held on behalf of the joint venture has been reclassified from the joint venture balance to cash and cash equivalents.

C	Creditors have decreased as follows:	**£ (000)**
	Employee leave accrual	(833)
	Surplus cash held on behalf of joint venture	3,425
	Deferred capital grants - deferred income in less than one year (see D below)	(1,523)
		1,069

D Deferred capital grants have been reclassified as deferred income and reduced for grants being taken to reserves due to meeting the relevant performance conditions.

21 TRANSITION TO FRS102 AND THE 2015 SORP (CONTINUED)

Group	Note	Old UK GAAP 31/7/15 £ (000)	STRGL items * 31/7/15 £ (000)	Transition adjustments 31/7/15 £ (000)	FRS 102 31/7/15 £ (000)
Income					
Funding body grants	E	5,636	-	13	5,649
Tuition fees and education contracts		35,347	-	-	35,347
Research grants and contracts		639	-	-	639
Other Income	E	4,243	-	(145)	4,098
Endowment and investment Income		37	-	-	37
Total Income		45,902	-	(132)	45,770
Expenditure					
Staff Costs	F	21,573	-	53	21,626
Other operating expenses		19,722	-	-	19,722
Depreciation	E	3,412	-	(18)	3,394
Interest and other finance costs	H	222	-	195	417
Total Expenditure		44,929	-	230	45,159
Surplus before other gains and share of joint venture		**973**	-	(362)	611
Loss on disposal of assets		(119)	-	-	(119)
Share of operating surplus in joint venture	G	583	-	(135)	448
Surplus before tax and surplus for year		**1,437**	**-**	**(497)**	**940**
Actuarial loss in respect of pension scheme	H	-	(3,628)	253	(3,375)
Change in fair value of hedging financial instruments	I	-	-	53	53
Total comprehensive income for the year		**1,437**	**(3,628)**	**(191)**	**(2,382)**

* This column represents items that were previously recorded within the Statement of Total Recognised Gains and Losses (STRGL) and are now recorded within the Statement of Comprehensive Income.

Notes to the reconciliation of surplus

E Land and buildings were revalued on transition. These are now included at deemed cost. This has affected depreciation and the associated deferred capital grants release.

F Movement in employee leave accrual.

G	Share of operating surplus in joint venture has decreased as follows:	**£ (000)**
	Employee leave accrual	1
	Additional depreciation following revaluation	(77)
	Additional interest payable due to pension change	(59)
		(135)

H Interest has increased and actuarial loss has decreased due to a change in the methodology of calculating pension finance costs.

I A loan swap on one of the joint venture's bank loans has been recognised in the balance sheet. Hedge accounting has been adopted and therefore movements in fair value are recorded within other comprehensive income.

21 TRANSITION TO FRS102 AND THE 2015 SORP (CONTINUED)

University	Note	Old UK GAAP 31/7/15 £ (000)	STRGL items * 31/7/15 £ (000)	Transition adjustments 31/7/15 £ (000)	FRS 102 31/7/15 £ (000)
Income					
Funding body grants	**E**	5,636	-	13	5,649
Tuition fees and education contracts		35,347	-	-	35,347
Research grants and contracts		639	-	-	639
Other Income	**E**	4,187	-	(145)	4,042
Endowment and investment Income		37	-	-	37
Total Income		45,846	-	(132)	45,714
Expenditure					
Staff Costs	**F**	21,573	-	53	21,626
Other operating expenses		19,697	-	-	19,697
Depreciation	**E**	3,412	-	(18)	3,394
Interest and other finance costs	**G**	222	-	195	417
Total Expenditure		44,904	-	230	45,134
Surplus before other gains and share of joint venture		**942**	-	(362)	580
Loss on disposal of assets		(119)	-	-	(119)
Surplus before tax and surplus for year		**823**	**-**	**(362)**	**461**
Actuarial loss in respect of pension scheme	**G**	-	(2,734)	195	(2,539)
Total comprehensive income for the year		**823**	**(2,734)**	**(167)**	**(2,078)**

* This column represents items that were previously recorded within the Statement of Total Recognised Gains and Losses (STRGL) and are now recorded within the Statement of Comprehensive Income.

Notes to the reconciliation of surplus

E Land and buildings were revalued on transition. These are now included at deemed cost. This has affected depreciation and the associated deferred capital grants release.

F Movement in employee leave accrual.

G Interest has increased and actuarial loss has decreased due to a change in the methodology of calculating pension finance costs.

The only impact of the transition to FRS 102 on the cash flows of the University or the Group is the reclassification of some short term investments to cash and cash equivalents as shown above.

22 PENSION SCHEMES (GROUP & UNIVERSITY)

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:

	31/7/16 £ (000)		31/7/15 £ (000)
CC Pension Scheme: Charge to the Income and expenditure account (note 7)	1,837		1,577
USS Pension Scheme: contributions paid (note 7)	10		10
Teachers Pension Scheme: contributions paid (note 7)	1,395		1,251
Enhanced pension charge to Income and expenditure account (note 18)	47		46
Total pension cost for the year	**3,289**		**2,884**

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.

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 was carried out as at 31 March 2012. The GA's report revealed that the total liabilities of the Scheme (pensions currently in payment and the estimated cost of future benefits) amounted to £191,500m. The value of the assets (estimated future contributions together with the proceeds from the notional investments held at the valuation date) was £176,600m. The assumed real rate of return is 3% in excess of prices and 0.25% in excess of earnings. The rate of real earnings growth is assumed to be 2.75%. The assumed gross rate of return is 5.06%.

The latest published accounts (2013-14) estimated that the total liabilities of the scheme were £250,200m using the assumptions of a real rate of return of 1.8% in excess of pension increases and 0.15% in excess of earnings decreases. The rate of return was assumed to be 4.35%.

Employees pay tiered contribution rates ranging from 6.4% to 12.4% according to their salary band. Employer rates are 16.48% from September 2015 (14.4% from September 2014 to August 2015).

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 2016 was £1,760k (2015: £1,481k) of which employer's contributions totalled £1,294k (2015: £1,063k) and employees' contributions totalled £466k (2015: £418k).

The actuarial valuation of the scheme at 31 March 2014 showed a deficit of £460m. Employers' contribution rates during the year were 15.6% plus an annual lump sum of £160,000 to March 2015 and 16.6% plus an annual lump sum of £190,000 from April 2015. The agreed contribution rates from April 2016 are 17.6 per cent plus a lump sum payment of £210k. Employees pay tiered contributions and these were between 5.5% and 12.5% (2015: 5.5% to 12.5%).

The following information is based upon a full actuarial valuation of the fund at 31 March 2014 rolled forward to 31 July 2016 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:	2016 %	2015 %
Rate of increase in salaries	3.9	4.6
Inflation - CPI	1.9	2.7
Rate of increase for pensions in payment	1.9	2.7
Discount rate for liabilities	2.5	3.7
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 2016	**At 31 July 2015**
Retiring today		
Males	87.2	87.2
Females	89.4	89.4
Retiring in 20 years		
Males	89.4	89.4
Females	91.8	91.8

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 2016	**Bid value at 31 July 2016**	**Long-term rate of return expected at 31 July 2015**	**Bid value at 31 July 2015**
	%	**£(000)**	**%**	£(000)
Equities	2.5	10,643	3.7	8,457
Bonds	2.5	8,728	3.7	9,636
Property	2.5	1,490	3.7	1,180
Cash	2.5	426	3.7	393
Estimated employers' share of scheme assets		21,287		19,666
Present value of scheme liabilities- Funded		(37,138)		(30,397)
Deficit in the scheme		(15,851)		(10,731)

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 2016.

Actual return on assets		
	2016	**2015**
	£'000	£'000
Actual return on assets	216	1,256

Analysis of the amount charged to Income and Expenditure account

	2016 £(000)	**2015 £(000)**
Current service cost	1,847	1,587
Total operating charge	1,847	1,587

Analysis of pension finance costs

	2016 £(000)	**2015 £(000)**
Interest income on plan assets	(753)	(724)
Interest on pension scheme liabilities	1,159	1,041
Net cost	406	317

Amount recognised in other comprehensive income (OCI)

	2016 £(000)	2015 £(000)
Actuarial loss recognised in OCI in the year	(4,257)	(2,539)
Cumulative actuarial loss recognised in OCI at 1 August	(5,575)	(3,036)
Cumulative actuarial loss recognised in OCI at 31 July	(9,832)	(5,575)

Asset and Liability Reconciliation		
	2016	**2015**
Reconciliation of Liabilities	£'000	£'000
Liabilities at start of period	30,397	24,527
Current service cost	1,847	1,587
Interest cost	1,159	1,041
Employee contributions	466	466
Remeasurements	3,720	3,071
Estimated benefits paid	(458)	(312)
Losses on curtailments	7	17
Liabilities at end of period	37,138	30,397
Reconciliation of Assets		
Assets at start of period	19,666	16,962
Interest income on plan assets	753	724
Remeasurements	(537)	532
Employer contributions	1,397	1,294
Employee contributions	466	466
Estimated benefits paid (net of transfers in)	(458)	(312)
Assets at end of period	21,287	19,666

History of liabilities, assets and experience adjustments

	2016 £(000)	2015 £(000)	2014 £(000)	2013 £(000)	2012 £(000)
Scheme liabilities	(37,138)	(30,397)	(24,527)	(20,525)	(19,528)
Scheme assets	21,287	19,666	16,962	16,078	15,252
Deficit	(15,851)	(10,731)	(7,565)	(4,447)	(4,276)
Experience adjustments on Scheme liabilities	275	143	691	-	(94)
Experience adjustments on Scheme assets	(537)	532	(1,214)	1,771	(689)

PENSION SCHEME – USS (GROUP & UNIVERSITY)

The total cost charged to the Statement of Comprehensive Income is £10K (2015: £10K).

The latest available full actuarial valuation of the scheme was at 31 March 2014 ("the valuation date"), which was carried out using the projected unit method.

Since the Group cannot identify its share of scheme assets and liabilities, the following disclosures reflect those relevant for the scheme as a whole.

The 2014 valuation was the third valuation for USS under the scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. At the valuation date, the value of the assets of the scheme was £41.6 billion and the value of the scheme's technical provisions was £46.9 billion indicating a shortfall of £5.3 billion. The assets therefore were sufficient to cover 89% of the benefits which had accrued to members after allowing for expected future increases in earnings.

Defined benefit liability numbers for the scheme have been produced using the following assumptions:

	2016	2015
Discount rate	3.6%	3.3%
Pensionable salary growth	n/a	3.5% in the first year and 4.0% thereafter
Pension increases (CPI)	2.2%	2.2%

The main demographic assumption used relates to the mortality assumptions. Mortality in retirement is assumed to be in line with the Continuous Mortality Investigation's (CMI) S1NA tables as follows:

Male members' mortality	**98% of S1NA ["light"] YoB tables - no age rating**
Female members' mortality	**99% of S1NA ["light"] YoB tables - rated down 1 year**

Use of these mortality tables reasonably reflects the actual USS experience. To allow for further improvements in mortality rates the CMI 2014 projections with a 1.5% p.a long term rate were also adopted. The current life expectancies on retirement at age 65 are:

	2016	**2015**
Males currently aged 65 (years)	24.3	24.2
Females currently aged 65 (years)	26.5	26.4
Males currently aged 45 (years)	26.4	26.3
Females currently aged 45 (years)	28.8	28.7

	2016	**2015**
Scheme assets	£49.8bn	£49.1bn
Total scheme liabilities	£58.3bn	£60.2bn
FRS 102 total scheme deficit	£8.5bn	£11.1bn
FRS 102 total funding level	85%	82%

23 CAPITAL COMMITMENTS

	Group and University	
	2016	2015
	£ (000)	£ (000)
Authorised but not committed	1,774	415
Commitments contracted at 31 July 2016	1,801	549

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.

24 FINANCIAL COMMITMENTS

Amounts payable under non-cancellable operating leases were as follows:

	Group and University	
	2016	2015
	£ (000)	£ (000)
Land and buildings		
In one year or less	52	5
In more than one year but not more than two years	52	-
In more than two years but not more than five years	100	-
In more than five years	15	-
Total	**219**	**5**

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 drew down a loan of £8m for new residences in 2013. 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.

25 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 102 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.

Cornwall Plus Limited is a wholly owned subsidiary of FX Plus. It has been established to operate the commercial, non-charitable activities of the joint venture primarily relating to non-student letting of residences, non-academic conferences, external events and corporate hospitality for third parties.

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 and became dormant at the end of the year.

The FX Plus Group has capital commitments as follows:

	2016	2015
	£ (000)	£ (000)
Authorised but not committed	3,625	2,584
Commitments contracted at 31 July 2016	838	280

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**
Falmouth Exeter Plus Group	£ (000)	£ (000)	£ (000)	£ (000)	£ (000)
2016	**8,857**	**85**	**-**	**-**	**403**
2015	8,096	263	100	577	-

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 31/7/16 £ (000)	**Year to 31/7/15 £ (000)**
Block grant (including withheld for staffing)	434	399
Sports	30	30
	464	**429**

26 ACCOUNTING ESTIMATES AND JUDGEMENTS

Key sources of estimation uncertainty

The University makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Useful economic lives of tangible assets

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives of the assets so these are re-assessed annually and amended when necessary to reflect current estimates. See note 11 for the carrying amount of the property, plant and equipment, and note 1 for the useful economic lives for each class of assets.

Impairment of debtors

The University makes an estimate for the recoverable value of trade and other debtors. When assessing impairment of trade and other debtors, management considers factors including the current credit rating of the debtor, the ageing profile of debtors and historical experience. See note 15 for the net carrying amount of the debtors and associated impairment provision.

Pensions

FRS102 requires that certain assumptions are made in order to determine the amount to be recorded for retirement benefit obligations and pension plan assets, in particular for defined benefit plans. These are mainly actuarial assumptions such as expected inflation rates, employee turnover, expected return on plan assets and discount rates. Substantial changes in the assumed development of any one of these variables may significantly change the University's retirement benefit obligation and pension assets.

Critical accounting judgements in applying the University's accounting policies

There are no such judgements in either the current or prior year.

27 POST BALANCE SHEET EVENTS

There were no post balance sheet events to report.

On 18 November 2016 the consolidated financial statements were authorised for issue by the Governing Body and do not reflect events after this date.