

University of Ulster

*FINANCIAL STATEMENTS
FOR THE YEAR TO 31 JULY 2004
ISSN 0307-496X*

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UNIVERSITY OF ULSTER GROUP ACCOUNTS

Treasurer's Report

SCOPE OF THE FINANCIAL STATEMENTS

Where the Financial Statements refer to the Group this definition includes the activities of the University and its eight subsidiary companies, viz:-

- UU Health Limited
- UUTECH Limited
- UUSR Limited
- UU Bibliotech Limited
- UUONLINE.com Limited (dormant)
- Synergy Centres Limited
- UU Services Limited
- UU Foundation Limited

In the remainder of this report references to the University are deemed to include the activities of the subsidiary companies.

RESULTS FOR THE YEAR

The University recorded a surplus for the year of £5.0M on a historical cost basis. This is the basis on which the University's outturn is compared against other universities. On a revaluation of assets basis the surplus for the year was £1.4M.

The University's total income was £146M, an increase of 12% on the previous year.

Funding Council block grants for teaching received from the Department for Employment and Learning (DEL) represent the main source of income to the University at 52%. Overall Funding Council grant income has remained at a level similar to the prior year. Teaching block grant reduced by £0.7M compared to the previous year. This was a result of the transfer of funding for the provision of support to full-time nursing and allied health profession students from DEL to the Department of Health and Social Services and Personal Services (DHSSPS) representing £3.4M of funding in 2003. The decrease in teaching funding has been partially offset by an increase of £2.2M in research funding and a reduction in specific grants awarded to the University of £1.8M when compared year on year.

Income from academic fees and support grants decreased by £1.6M. This is again due to the reclassification of DHSSPS funded students whose fee income is analysed under Other Income. Other than this classification difference, academic fees and support grants have moved in line with student numbers and increases in student fees.

Research income in the accounts shows an increase compared to the previous year of £6M. This reflects the success of the University in the recent Government initiatives, in particular SPUR 1 and 2 and Peace II funding of £3.2M, general increase in research grants awards of £2M and increased administration for research studentships of £0.8M.

In addition, the University received £1.6M of funding which was capitalised during the year and has been transferred to deferred capital grant for release in future years. This comprises of £1.3M relating to the Molecular Biosciences building at Coleraine and £0.3M relating to the Energy and Nanotechnology building at Jordanstown.

Other operating income has increased by £10.8M. This reflects the transfer of funding, previously referred to, from DEL to DHSSPS in relation to the provision of support to nursing and subjects allied to medicine. The University also received a rates refund of £1.5M.

Staff costs increased by £4.6M when compared with the previous year. This reflects pay awards of 3% and incremental drift of 1%. During the year the increase of salary costs relating to externally funded activities was higher in comparison to those salary costs supported by the DEL and DHSSPS funded activity.

OTHER OPERATING COSTS

These have increased in line with the increase in income.

LIQUIDITY AND CASH FLOW

The Cash Flow Statement for the year shows a cash outflow of £4.3M, the main component of which was net capital expenditure of £16.1M less £12.4M relating to a cash surplus on operating activity. This compares to a cash outflow of £4M in 2002/2003.

The cash outflow of £4.3M for the year reduced the University's liquidity position, increasing borrowings from £11.4M at the previous year end to £15.7M at the current year end.

UNIVERSITY OF ULSTER GROUP ACCOUNTS

Treasurer's Report - Continued

INVESTMENT PERFORMANCE

The University's Endowment Asset Investments were valued at £2.4M at 31 July 2004, this represents a decrease in value of £103K.

CAPITAL AND MAJOR MAINTENANCE PROJECTS

Capital expenditure in the year totalled £25M against which capital grants of £9M were received. Of this expenditure approximately £3.3M related to expenditure on IT equipment for use in both Faculties and Departments and £2M related to the purchase of books and periodicals which have been classified in the accounts as library assets. The remaining £19.7M was invested in the redevelopment of the University's Estate. The largest projects include the purchase of land in Jordanstown, the Molecular Bioscience Building at Coleraine, the car park management scheme and the initial stages of the redevelopment of the Belfast Campus.

NET ASSETS

The Group Net Assets were £188M at 31 July 2004.

INTERNAL AUDITORS

During the year Deloitte provided an Internal Audit service to the University.

FINANCIAL MANAGEMENT

The University monitors on a quarterly basis Faculty Income and Expenditure accounts. These accounts are presented to the Financial Planning Group (FPG), a committee chaired by the Vice-Chancellor and involving the senior managers of the University.

The FPG is responsible for reviewing on an on-going basis the financial performance of the University against the Corporate Plan and for establishing the budget allocation methodologies. This group is also charged with reviewing and approving all salary costs and staff appointments to the University.

FUTURE DEVELOPMENTS

The University is in discussion with the Department of Education concerning the possible expansion of the Magee Campus through the use of land at Foyle and Londonderry College. In addition, plans for the redevelopment of the University's Belfast Campus are at an advanced stage. It is estimated that £32M is required to fund this project of which £14M of external funding has already been identified.

Finally in preparation for the Research Assessment Exercise in 2008, the University is in the process of establishing thirteen Research Institutes to support selectivity of research activity. In further support of these new Research Institutes, the University is seeking to recruit high calibre researchers at professorial and reader level.

CONCLUSION

The annual results reported are ahead of the University's corporate plan target of break even on a historical cost basis. This improvement reflects additional income received by the University during the year as well as improvements in cost control and in particular in managing the DEL and DHSSPS funded activity costs. The Group had a net cash inflow from operational activity of £12M against which the University committed £17M in support of capital projects. The Group's retained profit at £27M shows an increase of £5M against the previous year, net assets of £188M (£180M - 2003) and borrowings of £17M (£13M - 2003). Despite exceeding the Corporate Plan target, the University continues to operate in a difficult financial environment with a real value reduction in Government funding and increased costs associated with the collection of student fees and the need for major capital redevelopment of the University Estate. Furthermore the University is incurring significant additional costs in providing geographically-split regional campuses for which it is not receiving any additional government funding.

Finally the Government's draft Higher Education (Northern Ireland) Order 2005 with the proposed introduction of variable tuition fees in 2006 will provide the University with significant challenges in the short term and it is not clear what the impact of this new funding model will be on Northern Ireland.

UNIVERSITY OF ULSTER GROUP ACCOUNTS

Corporate Governance

The University of Ulster is committed to exhibiting best practice in all aspects of corporate governance. This summary describes the manner in which the University has applied the principles set out in Section 1 of the Combined Code on Corporate Governance issued by the London Stock Exchange in June 1998. Its purpose is to help the reader of the accounts understand how the principles have been applied.

The University endeavours to conduct its business in accordance with seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership) and with the guidance to universities which has been provided by the Committee of University Chairmen in its *Guide for Members of Governing Bodies of Universities and Colleges in England, Wales and Northern Ireland*.

The University is an independent corporation, whose legal status derives from a Royal Charter originally granted in 1984. Its objects, powers and framework of governance are set out in the Charter and its supporting Statutes, the latest version of which was approved by the Privy Council in 2000.

The Charter and Statutes require the University to have three separate bodies, each with clearly defined functions and responsibilities, to oversee and manage its activities, as follows:

- **The Council** is the executive governing body, responsible for the finance, property, investments and general business of the University, and for setting the general strategic direction of the institution.

It has a majority of appointed members from outside the University (described as lay members), from whom its Chairman and its Deputy Chairman must be drawn. Also included in its members are elected representatives of the staff of the University and the student body. None of the lay members receives any payment, apart from the reimbursement of expenses, for the work which they do for the University.

- **The Senate** is the academic authority of the University. It is composed mainly of academic staff but provision is also made for membership of non-academic staff and students. Its role is to direct and regulate the teaching and research work of the University.
- **The Court** is a large, mainly formal body (somewhat akin to the shareholders of a large public company). It offers a means whereby the wider interests served by the University can be associated with the institution, and provides a public forum where members of Court can raise any matters about the University. The Court normally meets once a year to receive the annual report and accounts of the University. The Court is also responsible, on the nomination of the Council, for the appointment of the Chancellor, the Pro-Chancellors and the Honorary Treasurer. In addition, major changes to the constitution of the University may require the approval of the Court before they can be submitted to the Privy Council.

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

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

Although the Council meets at least five times each year, certain functions are delegated to its committees, the General Purposes and Finance Committee, the Nominations Committee, the Remuneration Committee and the Audit Committee. The decisions and recommendations of these committees are formally reported to the Council.

These committees are formally constituted as committees of the Council with written terms of reference and specified membership. All Committees of the Council have a lay majority and are chaired by a lay person.

The General Purposes and Finance Committee, inter alia, recommends to the Council the University's annual revenue and capital budgets and monitors performance in relation to the approved budget.

UNIVERSITY OF ULSTER GROUP ACCOUNTS

Corporate Governance - Continued

The Nominations Committee has delegated responsibility for the appointment and re-appointment of lay persons to the Council. Appointed members hold office for a period of four years and are eligible for re-appointment for one further period of four years.

The Remuneration Committee reviews annually the salaries of the senior staff of the University including the Professoriate body and the Vice-Chancellor. The review takes account of any external earnings, including consultancy, by senior staff as well as the salary norms within the Higher Education sector for a wide variety of senior posts.

The Audit Committee meets four times a year, with the University's external and internal auditors in attendance. The Committee considers detailed reports together with recommendations for the improvement of the University's systems of internal control and management's responses and implementation. It also receives and considers reports and advice from the Funding Council as they effect the University's business and monitors adherence to the regulatory requirements. Whilst Senior Management attend meetings of Audit Committee as necessary, they are not members of the Committee, and the Committee may meet both the External Auditors and the Internal Auditors on their own for independent discussions.

As Chief Executive of the University, the Vice-Chancellor exercises considerable influence upon the development of institutional strategy, the identification and planning of new developments and the shaping of the institutional ethos. The Pro-Vice-Chancellors, Deans of Faculties and Directors of Administrative Departments all contribute in various ways to these aspects of the work, but the ultimate responsibility for what is done rests with the Vice-Chancellor. The University has also a Strategic Planning Group reporting to the University's Planning Committee, which is a committee of the Senate. Both the Strategic Planning Group and the Planning Committee are chaired by the Vice-Chancellor.

The University maintains a Register of Interests of Members of the Council and Senior Officers which may be consulted by arrangement with the Head of Governance Services. The Register is available at all meetings of the Council.

The Head of Governance Services, under delegated authority of the Director of Planning and Governance Services, acts as Secretary to the Council. Any enquiries about the constitution and governance of the University are addressed to the Head of Governance Services.

UNIVERSITY OF ULSTER GROUP ACCOUNTS

Statement of Internal Control

STATEMENT OF INTERNAL CONTROL

As the governing body of the University of Ulster, we, the Council, have responsibility for maintaining a sound system of internal control that supports the achievements of policies, aims and objectives, while safeguarding the public and other funds and assets for which we are responsible, in accordance with the responsibilities assigned to the governing body in the Charter and Statutes and the Financial Memorandum with The Department of Employment and Learning (DEL).

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

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of policies, aims and objectives; to evaluate the nature and extent of those risks; and to manage them efficiently, effectively and economically. Those procedures have been in place since February 2003.

The following actions have been taken in relation to the risk management policy and for reviewing the effectiveness of the systems of internal control:

- The Council meets at least five times a year to consider the plans and strategic direction of the University;
- A Corporate Risk Register which incorporates the key risks at institutional level, is maintained;
- The Strategic Planning Group, the University's designated Risk Management Committee formally reviews and assesses corporate risks bi-annually;
- All Faculties and Departments, as part of their planning, maintain and review bi-annually their risk registers and provide, annually, signed stewardship statements confirming their adherence to the risk management policy and process;
- A report on risk management is submitted to the Council annually in December;
- Risk management is a standing item on the agenda of the Audit Committee;

In addition to these actions:

- The institution has completed the HEFCE guidance checklist on risk assessment and has reported to the Council; and
- The independent internal audit service has reviewed risk assurance and has provided an adequate level of assurance. Recommendations of the auditors have been fully implemented.

The internal audit service operates to standards defined in the HEFCE Audit Code of Practice and submits regular reports, which include the head of internal audit's independent opinion on the adequacy and effectiveness of the system of internal controls, together with recommendations for improvement.

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

UNIVERSITY OF ULSTER GROUP ACCOUNTS

Responsibilities of the University's Council

RESPONSIBILITIES OF THE UNIVERSITY'S COUNCIL

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

The Council is responsible for ensuring the maintenance of proper accounting records which disclose with reasonable accuracy at any time the financial position of the University and which enable it to ensure that Financial Statements are prepared in accordance with the Statutes, the Statement of Recommended Practice on Accounting in Higher Education Institutions and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between the Department for Employment and Learning (DEL) and the Council of the University, the Council, through its designated office holder, is required to prepare Financial Statements for each financial year which give a true and fair view of the state of affairs of the University and of the surplus or deficit and cash flows for that year.

In causing the Financial Statements to be prepared, the Council has ensured that:

- ◆ suitable accounting policies are selected and applied consistently;
- ◆ judgements and estimates are made that are reasonable and prudent;
- ◆ applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- ◆ Financial Statements are prepared on the going concern basis unless it is inappropriate to presume that the University will continue in operation. The Council is satisfied that the University has adequate resources to continue in operation for the foreseeable future; for this reason the going concern basis continues to be adopted in the preparation of the Financial Statements.

The Council has taken reasonable steps to:

- ◆ ensure that funds from DEL are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Department and any other conditions which the Department may from time to time prescribe;
- ◆ ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- ◆ safeguard the assets of the University and prevent and detect fraud;
- ◆ secure the economical, efficient and effective management of the University's resources and expenditure.

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

- ◆ a comprehensive medium and short-term planning process, supplemented by detailed annual income, expenditure, and cash flow budgets;
- ◆ regular reviews of financial results involving variance reporting and updates of forecast outturns;
- ◆ clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review by the General Purposes and Finance Committee on behalf of the Council;
- ◆ a Financial Procedures Manual, detailing financial controls and procedures;
- ◆ a professional Internal Audit team whose annual programme is approved by the Audit Committee.

The Audit Committee, on behalf of Council, has reviewed the effectiveness of the University's system of internal financial control. Any system of internal financial control can, however, only provide reasonable, but not absolute, assurance against material misstatement or loss.

UNIVERSITY OF ULSTER GROUP ACCOUNTS

Independent Auditor's Report to the Council of the University of Ulster

We have audited the Financial Statements on pages 8 to 34, which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and in accordance with the accounting policies set out on pages 8 - 10.

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

RESPECTIVE RESPONSIBILITIES OF THE UNIVERSITY'S COUNCIL AND THE INDEPENDENT AUDITORS

The University's Council is responsible for preparing the Financial Statements. Our responsibilities as independent auditors are established by statute, the Auditing Practices Board, the Code of Audit Practice issued by the Higher Education Funding Council for England and our profession's ethical guidance.

We report to you our opinion as to whether the Financial Statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice on Accounting in Further and Higher Education Institutions. We also report to you whether, income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the University have been properly applied only for the purposes for which they were received and whether income has been applied in accordance with the Statutes and, where appropriate, with the Financial Memorandum with the Department for Employment and Learning (DEL).

We also report to you if, in our opinion, the Treasurer's Report is not consistent with the financial statements, if the University has not kept proper accounting records, the accounting records do not agree with the Financial Statements or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the Treasurer's Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Financial Statements.

BASIS OF OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board and the Audit Code of Practice issued by the Higher Education Funding Council for England. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Statements. It also includes an assessment of the significant estimates and judgements made by the University's Council in the preparation of the Financial Statements and of whether the accounting policies are appropriate to the institution's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Financial Statements.

OPINION

In our opinion:

- the Financial Statements give a true and fair view of the state of affairs of the University and the Group as at 31 July 2004 and of the Group's surplus of income over expenditure, recognised gains and losses and cashflows for the year then ended and are properly prepared in accordance with the Statement of Recommended Practice - Accounting for Further and Higher Education Institutions;
- in all material respects, income from the Department for Employment and Learning, grants and income for specific purposes and from other restricted funds administered by the University during the year ended 31 July 2004 have been applied for the purposes for which they were received;
- in all material respects, income during the year ended 31 July 2004 has been applied in accordance with the University's statutes and, where appropriate, with the Financial Memorandum with the Department for Employment and Learning.

KPMG
Chartered Accountants
Registered Auditors
Belfast

17 December 2004

UNIVERSITY OF ULSTER GROUP ACCOUNTS

Statement of Principal Accounting Policies

1. Accounting convention

The Financial Statements have been prepared in accordance with the Statement of Recommended Practice “Accounting in Further and Higher Education Institutions” and in accordance with applicable Accounting Standards and under the historical cost convention, as modified by the revaluation of certain land and buildings, library books and endowment asset investments.

2. Consolidation

The consolidated Financial Statements include the University and its subsidiary undertakings. The results of the subsidiary companies are included in the consolidated Income and Expenditure Account from the date of acquisition or up to the date of disposal. Joint Ventures are consolidated under the gross equity method of consolidation. Intra-Group sales and profits are eliminated fully on consolidation.

The University of Ulster’s Students’ Union is constituted as an independent body and therefore in accordance with FRS2, its financial statements are not consolidated with the Financial Statements of the University.

3. Recognition of Income

Income from specific endowments and donations, research grants, contracts and other services rendered is included to the extent of the expenditure incurred during the year, together with any related contributions towards overhead costs. All income from short-term deposits and general endowment asset investments is credited to the Income and Expenditure Account on a receivable basis.

4. Pension Schemes

The two principal pension schemes for the University’s staff are the Universities Superannuation Scheme (USS) and the Northern Ireland Local Government Officers Superannuation Committee Pension Fund (NILGOSC). The schemes are defined benefit schemes which are externally funded and contracted out of the State Earnings-Related Pension Scheme. The funds are valued every three years by actuaries using the aggregate method, the rates of contribution payable being determined by the trustees on the advice of the actuaries. In line with the transition arrangements for FRS 17, it is not possible to identify the University’s share of the underlying assets and liabilities of these schemes, and hence contributions to the schemes are accounted for as if they were a defined contribution scheme. The cost recognised within the deficit for the year in the income and expenditure account being equal to the contribution payable to the scheme for the year. A small number of staff remain in other pension schemes.

5. Foreign Currencies

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

6. Leases

Fixed assets held under finance leases and the related lease obligations are recorded in the Balance Sheet at the fair value of the leased assets at the inception of the lease. The excess of lease payments over recorded lease obligations are treated as finance charges which are amortised over each lease term to give a constant rate of charge on the remaining balance of the obligations. Rental costs under operating leases are charged to expenditure in equal annual amounts over the periods of the leases.

7. Land and Buildings

Land and Buildings are stated at valuation except for those buildings purchased since the last valuation date which are stated at cost. The basis of valuation is depreciated replacement cost. The valuation on 30 June 1999 was performed by the Valuation and Lands Agency. The University adopted the transitional arrangements under FRS15; Tangible Fixed Assets and decided to retain the carrying value of land and buildings at the 30 June 1999 valuation figure (as amended to reflect any impairment in value). The valuation of land and buildings by the Valuation and Land Agency will continue to be undertaken every five years with any impairment in value recognised in the year. Land is held freehold and is not depreciated as it is considered to have an indefinite useful life. Buildings are depreciated over their expected useful lives as determined by the Valuation and Lands Agency.

8. Equipment

Equipment, including software, costing less than £5,000 per individual item or group of related items, is written

UNIVERSITY OF ULSTER GROUP ACCOUNTS

Statement of Principal Accounting Policies - Continued

off in the year of acquisition. All other equipment is capitalised. Capitalised equipment (other than research grant equipment) is stated at cost and depreciated over its expected useful life, assumed to be four years.

Where equipment is acquired with the aid of a specific research grant it is capitalised over the shorter of its estimated useful life or the remaining life of the research grant, with the related grant being credited to a deferred capital grant account and released to the Income and Expenditure account over the remaining life of the related grant.

Research equipment depreciation is charged in the year of acquisition. Depreciation is not charged in the year of acquisition of non-research equipment.

9. **Library assets**

A valuation of Library assets was performed in 2001 by the University's Head Librarian and certified as appropriate by the Director of Information Services at Queen's University, Belfast. The University have considered the appropriateness of continuing to revalue these assets fully every five years with an interim valuation after three years. Given that the assets revalued in 2001 have now been fully depreciated and given that all new additions are depreciated over two years, the Council feel that such a policy of revaluation is not appropriate in these circumstances. Accordingly, all library asset additions will be recorded at cost and depreciated over two years.

10. **Deferred capital grants**

Where fixed assets are acquired with the aid of specific grants, these grants are treated as deferred capital grants and released to income over the expected useful life of the assets. In the case of research grants the deferred capital grant is released to income over the remaining life of the grant.

11. **Goodwill**

Purchased goodwill (representing the difference between the fair value of the net assets acquired and the consideration given) arising on consolidation in respect of acquisitions is capitalised. Goodwill is amortised to nil by equal annual instalments over its estimated useful life.

12. **Investments**

Endowment asset investments are included in the Balance Sheet at market value. Investments in subsidiary undertakings are shown at cost subject to any impairments. The University's investments in spin out companies held through its subsidiary companies are valued at market value.

13. **Stocks**

Stocks are valued at the lower of cost and net realisable value.

14. **Provision for bad debts**

Bad debts are written off when recognised as irrecoverable. Debts which are considered doubtful are provided for in the accounts.

15. **Maintenance of Premises**

The University has a 5 year planned maintenance programme which is reviewed on an annual basis. Actual expenditure on maintenance is charged to the Income and Expenditure account in the period it is incurred.

16. **Taxation Status**

The University is an exempt charity within the meaning of Schedule 2 of the Charities Act 1993 and as such is a charity within the meaning of Section 506(1) of the Taxes Act 1988. Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by Section 505 of the Taxes Act 1988 or Section 256 of the Taxation 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.

17. **Cash flows and liquid resources**

Cash flows comprise increases or decreases in cash. 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.

UNIVERSITY OF ULSTER GROUP ACCOUNTS

Statement of Principal Accounting Policies - Continued

Liquid resources comprise assets readily disposable but not within 24 hours without penalty. They include term deposits and other instruments held as part of the University's treasury management activities. They exclude any such assets held as Endowment Asset Investments.

18. Provisions

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 benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

UNIVERSITY OF ULSTER GROUP ACCOUNTS
Consolidated Income and Expenditure Account
for the Year ended 31 July 2004

		Group 2004	Group 2003
		£000	£000
Income - continuing operations	Note		
Funding Council Grants	1	75,771	75,747
Academic Fees and Support Grants	2	25,184	26,758
Research Grants and Contracts.....	3	17,463	11,404
Other Operating Income	4	27,692	16,879
Endowment Income and Interest Receivable	5	229	413
Total Income		146,339	131,201
Expenditure - continuing operations			
Staff Costs.....	6	90,407	85,793
Depreciation	11	10,740	12,345
Other Operating Expenses.....	7	43,244	38,826
Interest Payable	8	529	466
Total Expenditure		144,920	137,430
Surplus/(Deficit) after depreciation of assets at valuation before and after tax		1,419	(6,229)

Note of Historical Cost Surpluses and Deficits

Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount		3,613	6,608
Historical cost surplus before and after tax		5,032	379

The income and expenditure of the Group relates wholly to continuing operations.

UNIVERSITY OF ULSTER GROUP ACCOUNTS

Balance Sheet as at 31 July 2004

	Notes	Group 2004 £000	University 2004 £000	Group 2003 £000	University 2003 £000
Fixed Assets					
Intangible Assets					
Goodwill.....	10	—	—	142	—
Negative Goodwill	10	(4,333)	(4,333)	(4,456)	(4,456)
Tangible Assets.....					
Investments.....	11	216,022	200,025	201,480	185,961
	12	450	6,754	402	7,070
		212,139	202,446	197,568	188,575
Endowment Asset Investments.....	13	2,447	2,447	2,550	2,550
Current Assets					
Stocks		343	342	412	410
Debtors	14	14,736	20,583	17,607	21,205
Short Term Deposits.....		1,495	240	1,580	1,458
		16,574	21,165	19,599	23,073
Creditors: Amounts Falling Due					
Within One Year.....	15	(31,055)	(28,432)	(29,516)	(27,159)
Net Current Liabilities		(14,481)	(7,267)	(9,917)	(4,086)
Total Assets Less Current Liabilities		200,105	197,626	190,201	187,039
Creditors: Amounts Falling Due					
After More Than One Year	16	(11,391)	(10,371)	(10,000)	(10,650)
Provisions for Liabilities and Charges.....	17	(1,111)	(1,111)	(554)	(554)
Net Assets		187,603	186,144	179,647	175,835

UNIVERSITY OF ULSTER GROUP ACCOUNTS
Balance Sheet as at 31 July 2004 - Continued

	Notes	Group 2004 £000	University 2004 £000	Group 2003 £000	University 2003 £000
Deferred Capital Grants	18	41,467	31,499	34,767	24,623
Endowments					
Specific	19	1,241	1,241	1,873	1,873
General	19	1,206	1,206	677	677
		2,447	2,447	2,550	2,550
Reserves					
Revaluation Reserve	20	116,988	116,893	120,661	120,506
Income and Expenditure Account	21	26,701	35,305	21,669	28,156
Total Reserves		143,689	152,198	142,330	148,662
Total		187,603	186,144	179,647	175,835

The Financial Statements on pages 8 to 34 were approved by the Council on 17 December 2004 and signed on its behalf by:

G D B Harkness MA FCA

Honorary Treasurer

P W Hope

Director of Finance

Professor R R Barnett

Acting Vice Chancellor and Chief Accounting Officer

UNIVERSITY OF ULSTER GROUP ACCOUNTS
Consolidated Cash Flow Statement for the Year Ended 31 July 2004

		Group 2004	Group 2003
		£000	£000
	Note		
Net Cash Inflow from Operating Activities	24	12,351	5,878
Returns on Investments and Servicing of Finance	25	(298)	(82)
Capital Expenditure and Financial Investment	26	(16,106)	(10,193)
Acquisitions	27	—	411
		<hr/>	<hr/>
Cash Outflow before Use of Liquid Resources and Financing		(4,053)	(3,986)
Management of Liquid Resources	28	(207)	641
Financing.....	29	2,469	3,996
		<hr/>	<hr/>
(Decrease)/Increase in Cash.....	30	(1,791)	651
		<hr/>	<hr/>

Reconciliation of Net Cash Flow to Movement in Net Debt

		Group 2004	Group 2003
		£000	£000
	Note		
(Decrease)/Increase in Cash in the Period		(1,791)	651
Decrease in Short Term Deposits.....	28	(85)	(625)
Repayment of capital element of finance lease.....	29	4	4
Increase in bank loans after one year	29	(2,473)	(4,000)
		<hr/>	<hr/>
Change in Net Debt.....		(4,345)	(3,970)
Net Debt at 1 August.....		(11,405)	(7,435)
		<hr/>	<hr/>
Net Debt at 31 July	30	(15,750)	(11,405)
		<hr/>	<hr/>

UNIVERSITY OF ULSTER GROUP ACCOUNTS
Consolidated Statement of Total Recognised Gains and Losses

		Group 2004	Group 2003
		£000	£000
	Note		
Surplus/(Deficit) on continuing operations after depreciation of assets at valuation, disposal of assets and tax.....		1,419	(6,229)
Unrealised (deficit)/surplus on revaluation of fixed assets investments ..	20	(60)	155
Appreciation of endowment asset investments.....	19	79	139
Net withdrawals from endowment asset investments.....	19	(184)	(16)
Endowment income/(loss) retained for year	19	2	(29)
Total recognised gains/(losses) relating to the period		<u>1,256</u>	<u>(5,980)</u>
 Reconciliation of movement in reserves and endowments			
Opening reserves and endowments.....		144,880	150,860
Total recognised gains and losses for the year.....		<u>1,256</u>	<u>(5,980)</u>
Closing reserves and endowments.....		<u>146,136</u>	<u>144,880</u>

UNIVERSITY OF ULSTER GROUP ACCOUNTS

Notes to the Accounts

		Group 2004	Group 2003
		£000	£000
Note			
1	Funding Council Grants		
	Recurrent Grant*	70,425	68,880
	Specific Grants		
	Special Initiatives	3,173	3,924
	Other	1,448	2,527
	Deferred Capital Grants Released in Year (Note 18)		
	Buildings	697	341
	Equipment	28	75
		75,771	75,747
	* Includes a developmental element of Research Grant which is part funded through the EU's European Regional Development Fund.		
2	Academic Fees and Support Grants		
	Full-time students	16,406	18,064
	Full-time students charged overseas fees	1,350	2,205
	Part-time fees	4,965	4,118
	Research Training Support Grants	78	97
	Short Course Fees	2,385	2,274
		25,184	26,758
3	Research Grants and Contracts		
	Research Councils	2,103	1,705
	UK Charities	815	742
	EU Government	4,058	2,058
	Others	10,487	6,899
		17,463	11,404

UNIVERSITY OF ULSTER GROUP ACCOUNTS

Notes to the Accounts - Continued

		Group 2004	Group 2003
		£000	£000
Note			
4	Other Operating Income		
	Residences, Catering and Conferences	4,634	4,591
	Other Services Rendered.....	3,651	6,465
	Other Income	19,407	5,823
		27,692	16,879
5	Endowment Income and Interest Receivable		
	Transferred from Specific Endowments (Note 19).....	27	26
	Income from General Endowment Asset Investments (Note 19)	55	107
	Income from Short Term Investments	147	280
		229	413
6	Staff Costs		
	Wages and Salaries	76,599	73,107
	Social Security Costs	5,995	5,297
	Other Pension Costs (Note 31)	7,813	7,389
		90,407	85,793
	Emoluments of the Vice-Chancellor	219	191
	The University's pension contributions to USS in respect of the Vice-Chancellor are paid at the same rates as for other academic staff and amounted to £25,546 (2003 - £23,851).		
		Group 2004 £000	Group 2003 £000
	Compensation for Loss of Office of Higher Paid Staff	—	58
	Excluding the Vice-Chancellor, remuneration of other Higher Paid Staff, including employer's pension contributions.	Group 2004 Number	Group 2003 Number
	£70,000 - £79,999	24	20
	£80,000 - £89,999	11	10
	£90,000 - £99,999	8	2
	£100,000 - £109,999	1	1
	The average weekly number of persons (including senior post-holders) employed by the University during the year, expressed as full-time equivalents, was:-		
	Academic	1,142	1,118
	Technical	214	224
	Administrative.....	387	372
	Other including Clerical and Manual.....	1,044	1,054
		2,787	2,768

UNIVERSITY OF ULSTER GROUP ACCOUNTS

Notes to the Accounts - Continued

		Group 2004	Group 2003			
		£000	£000			
Note 7	Other Operating Expenses					
	Residences, Catering and Conferences operating expenses	2,407	2,877			
	Consumables and laboratory expenditure	2,912	2,414			
	Equipment not capitalised	3,536	2,797			
	Books and periodicals	157	101			
	Fellowships, scholarships and prizes	84	204			
	Rates	2,856	3,057			
	Heat, light, water and power	2,351	2,026			
	Long term maintenance	3,995	4,303			
	Grants to University of Ulster Students' Union	936	915			
	External Auditors' remuneration	59	82			
	External Auditors' remuneration in respect of non-audit services	32	63			
	Internal Auditors' remuneration	93	77			
	Printing and stationery	1,359	1,594			
	Travel, subsistence and hospitality	5,381	4,677			
	Miscellaneous academic support	2,032	1,479			
	Telephone and postage	1,569	1,505			
	Legal and professional fees	5,542	4,352			
	Advertising and publicity	1,316	981			
	Student Support	4,449	3,558			
	Other expenses	2,178	1,764			
		43,244	38,826			
Note 8	Interest Payable					
	Repayable within 5 years not by instalments	195	240			
	Loans not wholly repayable within five years	334	226			
		529	466			
Note 9	Analysis of 2004 Expenditure by Activity					
		Staff Costs £000	Depreciation £000	Other Operating Expenses £000	Interest £000	Total £000
	Academic Departments	53,516	575	7,949	—	62,040
	Academic Services	9,384	3,060	7,725	—	20,169
	Research Grants & Contracts	6,959	1,438	6,997	—	15,394
	Residences, Catering & Conferences	3,097	549	3,593	—	7,239
	Premises	4,535	4,400	5,944	—	14,879
	Administration	9,590	469	7,697	—	17,756
	Other Expenses	3,326	249	3,339	529	7,443
		90,407	10,740	43,244	529	144,920
			£000			
	The depreciation charged has been funded by:-					
	Release from Deferred Capital Grants		724			
	Release from Research Grants and Contracts		1,689			
	Release from Revaluation Reserve (Note 20)		3,613			
	General income		4,714			
			10,740			

UNIVERSITY OF ULSTER GROUP ACCOUNTS

Notes to the Accounts - Continued

10 Intangible Assets

	Group 2004 £000	University 2004 £000	Group 2003 £000	University 2003 £000
Cost (or valuation)				
At 1 August.....	(4,748)	(4,751)	178	—
Additions				
Northern Ireland Catering college.....	—	—	(4,926)	(4,926)
INCORE Conflict Resolution.....	—	—	—	175
	(4,748)	(4,751)	(4,748)	(4,751)
Amortisation				
At 1 August.....	(434)	(295)	—	—
Charged in year.....	(88)	(123)	(434)	(470)
Impaired in year.....	107	—	—	175
	(415)	(418)	(434)	(295)
Net Book Value				
At 31 July	(4,333)	(4,333)	(4,314)	(4,456)

At the year end, the Group and the University had negative goodwill of £4,333M.

UNIVERSITY OF ULSTER GROUP ACCOUNTS

Notes to the Accounts - Continued

11 Tangible Assets (Group)

	Freehold Land & Buildings £000	Construction In Progress £000	Equipment £000	Library Assets £000	Total £000
Valuation or cost					
At 1 August 2003					
Valuation	134,303	—	—	5,990	140,293
Cost	60,068	18,480	23,203	4,182	105,933
Additions at Cost	5,673	14,211	3,258	2,140	25,282
Transfer CIP	29,061	(29,061)	—	—	—
	229,105	3,630	26,461	12,312	271,508
At 31 July 2004					
Valuation	134,303	—	—	5,990	140,293
Cost	94,802	3,630	26,461	6,322	131,215
	229,105	3,630	26,461	12,312	271,508
Depreciation					
At 1 August 2003.....					
Charge for Year	18,681	—	17,933	8,132	44,746
	5,472	—	3,190	2,078	10,740
	24,153	—	21,123	10,210	55,486
Net Book Value					
At 31 July 2004					
	204,952	3,630	5,338	2,102	216,022
At 31 July 2003					
	175,690	18,480	5,270	2,040	201,480

UNIVERSITY OF ULSTER GROUP ACCOUNTS

Notes to the Accounts - Continued

11 Tangible Assets (University)

	Freehold Land & Buildings £000	Construction In Progress £000	Equipment £000	Total £000
Valuation or cost				
At 1 August 2003				
Valuation	134,303	—	—	134,303
Cost	48,854	16,541	22,588	87,983
Additions at Cost	5,503	13,885	2,960	22,348
Transfer CIP.....	27,080	(27,080)	—	—
	215,740	3,346	25,548	244,634
At 31 July 2004				
Valuation	134,303	—	—	134,303
Cost	81,437	3,346	25,548	110,331
	215,740	3,346	25,548	244,634
Depreciation				
At 1 August 2003.....				
At 1 August 2003.....	18,595	—	17,730	36,325
Charge for Year.....	5,174	—	3,110	8,284
At 31 July 2004	23,769	—	20,840	44,609
Net Book Value				
At 31 July 2004	191,971	3,346	4,708	200,025
At 31 July 2003	164,562	16,541	4,858	185,961

UNIVERSITY OF ULSTER GROUP ACCOUNTS

Notes to the Accounts - Continued

Note	Group 2004 £000	University 2004 £000	Group 2003 £000	University 2003 £000
12 Investments				
Investment in University Challenge Fund...	250	250	250	250
Investment in UUTECH Limited	200	—	160	—
Investment in UUSRPLimited.....	—	414	—	730
Investment in UU Bibliotech Limited	—	5,990	—	5,990
Investment in UU Services Limited	—	100	—	100
	<u>450</u>	<u>6,754</u>	<u>410</u>	<u>7,070</u>
Investment in joint venture				
Share of Gross Assets	—	—	3,084	—
Share of Gross Liabilities	—	—	(3,092)	—
	<u>—</u>	<u>—</u>	<u>(8)</u>	<u>—</u>
Total	<u>450</u>	<u>6,754</u>	<u>402</u>	<u>7,070</u>

The University Challenge Fund is a joint venture with Queen's University, Belfast, to enable the Universities to access seed venture capital funding in order to assist the successful transformation of good research into good business.

UUTECH Limited is a wholly owned subsidiary incorporated in Northern Ireland which manages the commercial use of the University's intellectual property.

UUSRPLimited (University of Ulster Science Research Park) is a wholly owned subsidiary incorporated in Northern Ireland which is a property management and development company for technology transfer.

UU Bibliotech Limited is a wholly owned subsidiary incorporated in Northern Ireland which provides library services to the University.

UU Services Limited is a wholly owned subsidiary incorporated in Northern Ireland which provides food services in the Jordanstown and Magee Campuses.

UU Health Limited is a wholly owned subsidiary incorporated in Northern Ireland which provides education and training for Nursing and Midwifery and Applied Health Professions.

Synergy Centres Limited is a wholly owned subsidiary incorporated in Northern Ireland which develops internet software.

UU-Online.com Limited is a wholly owned subsidiary incorporated in Northern Ireland which was dormant at the year end.

UU Foundation Limited is a wholly owned subsidiary incorporated in Northern Ireland which receives funds from donors exclusively for use within the University.

UUTECH Limited, UU Health Limited, Synergy Centres Limited, UU Foundation Limited, SEV Limited and UU Online.com Limited are held at £Nil cost.

In the prior year the University had a participating interest in SEV Limited, a joint venture with BIFHE. The University's participating interest in this company effectively ceased at 31 July 2003 from which date the University has not been entitled to a share of either any profits or losses generated by SEV Limited. Accordingly, this investment is recorded at £nil value with all losses arising from the University's interest in this joint venture having previously been recorded in the consolidated income and expenditure account.

UNIVERSITY OF ULSTER GROUP ACCOUNTS
Notes to the Accounts - Continued

		Group and University	
		2004	2003
		£000	£000
13	Endowment Asset Investments		
	Balance at 1 August: at cost.....	2,881	2,905
		<hr/>	<hr/>
	at valuation.....	2,550	2,456
	Additions	2,092	812
	Disposals	(2,155)	(758)
	Net (depreciation)/appreciation on disposal and/or revaluation.....	(40)	40
		<hr/>	<hr/>
	Balance at 31 July at valuation.....	2,447	2,550
		<hr/>	<hr/>
	Investments held at the end of the year are detailed as follows:		
	Fixed Interest Stocks	455	570
	UK Equities	1,255	1,102
	Bank Balances	53	66
	Balanced Portfolio	684	812
		<hr/>	<hr/>
	Total Endowment Asset Investments at valuation.....	2,447	2,550
		<hr/>	<hr/>
	Total Endowment Asset Investments at cost	2,552	2,881
		<hr/>	<hr/>

UNIVERSITY OF ULSTER GROUP ACCOUNTS

Notes to the Accounts - Continued

14 Debtors

	Group 2004 £000	University 2004 £000	Group 2003 £000	University 2003 £000
Amounts falling due within one year				
Debtors.....	14,026	11,342	15,044	12,998
Amounts owed by group undertakings				
Subsidiary undertakings.....	—	9,082	—	6,398
Prepayments and accrued income.....	710	159	2,563	1,809
	<u>14,736</u>	<u>20,583</u>	<u>17,607</u>	<u>21,205</u>

15 Creditors: Amounts Falling Due within One Year

	Group 2004 £000	University 2004 £000	Group 2003 £000	University 2003 £000
Bank overdrafts	4,825	3,071	3,047	1,506
Bank loans	1,082	1,082	—	—
Obligations under finance leases	—	—	4	4
Trade creditors.....	18,401	17,919	19,307	18,928
Other taxation and social security	2,854	2,906	2,667	2,720
Accruals.....	3,893	3,454	4,491	4,001
	<u>31,055</u>	<u>28,432</u>	<u>29,516</u>	<u>27,159</u>

16 Creditors: Amounts Falling Due after more than One Year

	Group 2004 £000	University 2004 £000	Group 2003 £000	University 2003 £000
Bank loans	11,391	9,413	10,000	10,000
Amounts owed by group undertakings				
Subsidiary undertakings	—	958	—	650
	<u>11,391</u>	<u>10,371</u>	<u>10,000</u>	<u>10,650</u>

	Group 2004 £000	University 2004 £000	Group 2003 £000	University 2003 £000
Bank loans and overdrafts				
Amounts falling due				
Less than one year (note 15).....	5,907	4,153	3,047	1,506
Between one and two years.....	2,184	2,184	5,000	5,000
Between two and five years.....	2,227	2,227	—	—
Greater than five years.....	6,980	5,002	5,000	5,000
	<u>17,298</u>	<u>13,566</u>	<u>13,047</u>	<u>11,506</u>

A £6m fixed rate loan is secured by a negative pledge on a portion of land on the Jordanstown campus. All other loans are unsecured and the rate of interest payable is 0.35% - 0.65% above the Base Rate.

UNIVERSITY OF ULSTER GROUP ACCOUNTS

Notes to the Accounts - Continued

17 Provision for future pension liabilities

	Group and University 2004 £000	2003 £000
At 1 August.....	554	495
Utilised in Year	(43)	(35)
Charged to Income & Expenditure Account	600	94
At 31 July	1,111	554

The provision relates to the future provision of retirement benefits to certain employees. The calculation of the provision incorporates an assessment of the life expectancy of the individuals concerned. It is anticipated that £59K of this provision will be paid within the next financial year.

18 Deferred Capital Grants - Group

	Department for Employment and Learning £000	Other Grants £000	2004 Total £000	2003 Total £000
At 1 August				
Buildings	5,697	28,843	34,540	21,099
Equipment	—	227	227	769
Total	5,697	29,070	34,767	21,868
Additions				
NIHCC Buildings	—	—	—	201
Total	5,697	29,070	34,767	22,069
Received and Receivable				
Buildings	6,154	1,317	7,471	13,581
Equipment	—	1,642	1,642	338
Total	6,154	2,959	9,113	13,919
Released to Income & Expenditure				
Buildings	232	465	697	341
Equipment	—	1,716	1,716	880
Total	232	2,181	2,413	1,221
At 31 July				
Buildings	11,619	29,695	41,314	34,540
Equipment	—	153	153	227
Total at 31 July	11,619	29,848	41,467	34,767

UNIVERSITY OF ULSTER GROUP ACCOUNTS

Notes to the Accounts - Continued

18 Deferred Capital Grants - University

	Department for Employment and Learning £000	Other Grants £000	2004 Total £000	2003 Total £000
At 1 August				
Buildings	5,697	18,739	24,436	13,299
Equipment	—	187	187	671
Total	5,697	18,926	24,623	13,970
Additions				
NIHCC Buildings	—	—	—	201
INCORE	—	—	—	212
Total	5,697	18,926	24,623	14,383
Received and Receivable				
Buildings	6,154	1,159	7,313	10,979
Equipment	—	1,642	1,642	338
Total	6,154	2,801	8,955	11,317
Released to Income & Expenditure				
Buildings	232	158	390	255
Equipment	—	1,689	1,689	822
Total	232	1,847	2,079	1,077
At 31 July				
Buildings	11,619	19,740	31,359	24,436
Equipment	—	140	140	187
Total at 31 July	11,619	19,880	31,499	24,623

19 Endowments

	Group and University			
	Specific £000	General £000	2004 Total £000	2003 Total £000
At 1 August	1,228	1,322	2,550	2,456
Additions	3	—	3	50
Withdrawals	(30)	(157)	(187)	(66)
Appreciation of endowment asset investments	24	55	79	139
Income for Year	43	41	84	104
Transferred to Income and Expenditure Account (Note 5)	(27)	(55)	(82)	(133)
At 31 July	1,241	1,206	2,447	2,550

UNIVERSITY OF ULSTER GROUP ACCOUNTS
Notes to the Accounts - Continued

20 **Revaluation Reserve**

	Group 2004 £000	University 2004 £000	Group 2003 £000	University 2003 £000
Gross Revaluation surplus				
At 1 August	140,448	134,303	140,293	134,303
Revalued in Year	(60)	—	155	—
	<u>140,388</u>	<u>134,303</u>	<u>140,448</u>	<u>134,303</u>
Contribution to Depreciation				
At 1 August	19,787	13,797	13,179	10,184
Released in year	3,613	3,613	6,608	3,613
	<u>23,400</u>	<u>17,410</u>	<u>19,787</u>	<u>13,797</u>
Net Revaluation Surplus				
At 1 August	<u>120,661</u>	<u>120,506</u>	<u>127,114</u>	<u>124,119</u>
At 31 July	<u>116,988</u>	<u>116,893</u>	<u>120,661</u>	<u>120,506</u>

21 **Income and Expenditure Account Reserve**

	Group 2004 £000	University 2004 £000	Group 2003 £000	University 2003 £000
Balance at 1 August	21,669	28,156	21,290	26,523
Surplus/(Deficit) after depreciation of assets at valuation, before and after tax	1,419	3,536	(6,229)	(2,155)
Release from Revaluation Reserve	3,613	3,613	6,608	3,613
Impairment on acquisition	—	—	—	175
Balance at 31 July	<u>26,701</u>	<u>35,305</u>	<u>21,669</u>	<u>28,156</u>

UNIVERSITY OF ULSTER GROUP ACCOUNTS

Notes to the Accounts - Continued

	Group and University	
	2004	2003
	£000	£000
22 Capital Commitments		
Commitments contracted at 31 July	3,431	9,967
Authorised but not contracted at 31 July	26,567	—
	<u>29,998</u>	<u>9,967</u>

23 Contingent Liabilities

The University council consider that as a result of legal proceedings outstanding at the year end, there is a potential contingent liability in the amount of £250,000. No valuable security has been provided by the University in respect of this contingent liability.

The University holds a contingent liability in respect of a potential clawback of grants made available under a Millennium Commission Agreement for the development of the Community Outreach Centre. This liability would arise if there is a change in the use of this building which is directly connected with the change of control agreement between the University and Belfast Institute for Further and Higher Education.

24 Reconciliation of Consolidated Operating Surplus/(Deficit) to Net Cash Inflows from Operating Activities

	Group	Group
	2004	2003
	£000	£000
Surplus/(Deficit) after depreciation of assets at valuation before tax	1,419	(6,229)
Depreciation (Note 11)	10,740	12,345
Amortisation of Goodwill (Note 10)	19	(434)
Deferred Capital Grants Released to Income (Note 18).....	(2,413)	(1,221)
Investment Income (Note 5).....	(229)	(413)
Loss on Sale of Endowment Assets.....	106	94
Loss on Disposal of Fixed Assets.....	—	4
Interest Payable (Note 8).....	529	466
Decrease/(Increase) in Stocks	69	(55)
Decrease/(Increase) in Debtors	2,871	(3,842)
(Decrease)/Increase in Creditors	(1,317)	5,104
Increase in Provisions.....	557	59
Net Cash Inflow from Operating Activities	<u>12,351</u>	<u>5,878</u>

UNIVERSITY OF ULSTER GROUP ACCOUNTS

Notes to the Accounts - Continued

25 Returns on Investments and Servicing of Finance

	Group 2004 £000	Group 2003 £000
Income from Endowments (Note 19).....	84	104
Income from Short Term Investments (Note 5)	147	280
Interest Paid (Note 8)	(529)	(466)
	(298)	(82)

26 Capital Expenditure and Financial Investment

	Group 2004 £000	Group 2003 £000
Tangible Assets Acquired (Note 11).....	(25,282)	(24,103)
Endowment Asset Investments Acquired (Note 13).....	(2,092)	(812)
	(27,374)	(24,915)
Total Fixed and Endowment Asset Investments Acquired.....	(27,374)	(24,915)
Receipts from Sales of Fixed Assets	—	45
Receipts from Sales of Endowment Assets (Note 13).....	2,155	758
Deferred Capital Grants Received (Note 18)	9,113	13,919
	(16,106)	(10,193)

27 Acquisitions

	Group 2004 £000	Group 2003 £000
Acquisition of Northern Ireland Hotel and Catering College	—	411
	—	411

28 Management of Liquid Resources

	Group 2004 £000	Group 2003 £000
Withdrawals from deposits.....	85	625
Purchase of investments	(108)	—
Withdrawal from endowment funds	(184)	16
	(207)	641

UNIVERSITY OF ULSTER GROUP ACCOUNTS
Notes to the Accounts - Continued

29 **Analysis of Changes in Financing During the Year**

	Mortgages & Loans £000	Finance Leases £000	Group Total £000
Balance at 1 August 2003	10,000	4	10,004
Medium Term bank loans/Capital Repayments	2,473	(4)	2,469
	<u>12,473</u>	<u>—</u>	<u>12,473</u>
Balances at 31 July 2004			

30 **Analysis of Changes in Net Funds/(Debt)**

	At 1 August 2003 £000	Cash Flows £000	At 31 July 2004 £000
Cash at Bank and in Hand			
Endowment Assets	66	(13)	53
Bank Overdraft.....	(3,047)	(1,778)	(4,825)
	<u>(2,981)</u>	<u>(1,791)</u>	<u>(4,772)</u>
Short Term Deposits	1,580	(85)	1,495
Finance leases	(4)	4	—
Bank Loans due after one year	(10,000)	(2,473)	(12,473)
	<u>(8,424)</u>	<u>(2,554)</u>	<u>(10,978)</u>
Total	<u>(11,405)</u>	<u>(4,345)</u>	<u>(15,750)</u>

UNIVERSITY OF ULSTER GROUP ACCOUNTS

Notes to the Accounts - Continued

31 Pension Schemes

The University participates in four pension schemes. The two principal schemes are the Universities Superannuation Scheme (USS) and the Northern Ireland Local Government Officers Superannuation Committee Pension Fund (NILGOSC). A small number of employees belong to two other schemes, the Teachers Superannuation Scheme (TSS) and Health and Personal Social Services Superannuation Scheme (HPSS). All of these schemes are defined benefit schemes, which are externally funded and contracted out of the State Second Pension. The assets of each scheme are held in a separate trustee-administered fund. It is not possible to identify each institutions share of the underlying assets and liabilities of the scheme and hence contributions to the schemes are accounted for as if they were a defined contribution scheme. The cost recognised within the surplus for the year in the income and expenditure account is equal to the contributions payable to the scheme for the year.

The last actuarial valuations of the USS scheme was at 31 March 2002 and the NILGOSC Fund at 31 March 2001. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments and the rates of increase in salary and pensions.

USS Scheme

It was assumed that the valuation rate of interest would be 5% per annum, salary increases would be 3.7% per annum and pensions would increase by 2.7% per annum. In relation to the future service liabilities it was assumed that the valuation rate of interest would be 6.0% per annum including an additional investment return assumption of 1% per annum, salary increases would be 3.7% per annum and pensions would increase by 2.7% per annum. The valuation was carried out using the projected unit method.

At the valuation date, the market value of the assets of the scheme was £19,938 million and the value of the past service liabilities was £19,776 million leaving a surplus of assets of £162 million. The assets therefore were sufficient to cover 101% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The University contribution rate required for future service benefits alone at the date of the valuation was 14.25% of salaries but it was agreed that the University contribution rate will be maintained at 14% of salaries. To fund this reduction of 0.25% for the period of 12 years from the date of valuation (the average outstanding working lifetime of the current members of the scheme) required the use of £82.5 million of the surplus.

This left the past service surplus of £79.5 million (including the supplementary section) to be carried forward.

Surpluses or deficits which arise at future valuations may impact on the University's future contribution commitment. The next formal actuarial valuation is due as at 31 March 2005 when the above rates will be reviewed.

NILGOSC Fund

A valuation of the fund was carried out at 31 March 2001. The principal actuarial assumptions adopted for the valuation were as follows:-

Inflation rate	2.3%
Rate of increase in pensionable salaries	3.8%
Rate of pension increases	2.3%
Rate of investment return pre retirement	6.3%
Rate of investment of investment returnpost retirement	5.3%

At the valuation date, the market value of the assets of the scheme was £2,294 million and the value of the past service liabilities was £1,881 million leaving a surplus of assets of £413 million. The assets therefore were sufficient to cover 121% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The University contribution rate required for future service benefits alone at the date of the valuation was 4.6% of salaries.

UNIVERSITY OF ULSTER GROUP ACCOUNTS

Notes to the Accounts - Continued

Surpluses or deficits which arise at future valuations may impact on the University's future contribution commitment. The next formal actuarial valuation was due as at 31 March 2004 and the above rates will be reviewed.

The total pension cost for the University was:-

	Group 2004 £000	Group 2003 £000
The total pension cost for the University was:		
Contributions to USS.....	7,094	6,678
Contributions to NILGOSC.....	697	688
Contributions to TSS	20	22
Contributions to HPSS	2	1
	7,813	7,389

32 Student Support Funds

	Group and University	
	2004 £000	2003 £000
□		
Balance Carried Forward.....	28	12
Funding Council Grants	945	877
Disbursed to Students.....	(856)	(861)
	117	28

DEL Student Support grants are available solely for students: the University acts only as paying agent. The grants and related disbursements are therefore excluded from the Income and Expenditure Account.

UNIVERSITY OF ULSTER GROUP ACCOUNTS

Notes to the Accounts - Continued

33 Subsidiary Company Information

There are eight companies which are subsidiary companies of the University:

- UU Health Limited
- UUTECH Limited
- UUSR Limited
- UU Bibliotech Limited
- Synergy Centres Limited
- UU ONLINE.com Limited
- UU Services Limited
- UU Foundation Limited

The companies are controlled by the University. Synergy Centres Limited and UU Foundation Limited are limited by guarantee.

The companies are all registered and operate in Northern Ireland. UU HEALTH Limited provides education and training for Nursing and Midwifery and Applied Health Professions. UUTECH Limited is a company established to develop intellectual property rights by patenting and licensing, and to arrange consultancy activities. UUSR Limited (University of Ulster Science Research Park) is a property management and development company for technology transfer. Synergy Centres Limited develops e-learning software packages and rents incubator units. UU Bibliotech Limited is a company established to provide library services to the University. UU ONLINE.com Limited is a dormant company. UU Services Limited trades as a food retail outlet. UUF Limited's purpose is to receive funds from donors and to distribute them to the University.

All companies are 100% owned by the University.

UNIVERSITY OF ULSTER GROUP ACCOUNTS

Notes to the Accounts - Continued

34 Joint Venture Information

The University has a joint venture with IRTU, Queens University of Belfast and Loughry College in Manufacturing Technology Partnership (MTP) Limited, a company limited by guarantee. Its principal place of business is located at Springvale Business Park, Belfast.

This joint venture has not been included in the consolidated financial statements on the grounds of materiality.

35 Other Investments

The University holds 33% of the issued ordinary share capital of the University Challenge Fund. In addition, through UUTECH Limited, its wholly owned subsidiary, the University holds 25% of the issued share capital in CDC Limited, 2.5% in SLDi, 13.1% in Axis Three, 6.14% in Datactics and 10% in Crescent Capital II LP. The University does not hold a participating interest in these entities and therefore accounts for them as investments.

The University has through its investment in subsidiary and associated companies holdings in the following companies:-

Gendel	7.1%
8over8	0.8%
Sensory Technologies & Devices Ltd	10%
Propertyfriend.com	16.7%
Eyesyfx Ltd	13.1%
EZ-DSP Ltd	5%
Gazer Technology Research Ltd	10%
EFMB Ltd	50%
Amphibiotics Ltd	2.5%
TECHNICO Logix	10%

These investments are carried at £Nil cost and are not consolidated since no control is exercised over them.

36 Related Party Transactions

Due to the nature of the University's operations and the composition of the University's Council (being drawn from local public and private sector organisations), it is inevitable that transactions will take place with organisations in which a member of the Council may have an interest. All transactions involving organisations in which a member of the Council may have an interest are conducted at arms length and in accordance with the University's financial regulations and normal procurement procedures. Apart from the disclosures in Notes 33 to 35 above, no transactions were identified which require to be disclosed under Financial Reporting Standard 8: 'Related Party Disclosures'.