

## Financial Statements (Abstract of Accounts) for the year ended 31 July 2003

### TREASURER'S REPORT

#### Scope of the Financial Statements

The consolidated financial statements include the teaching and research activities of the University, and do not include the accounts of the Cambridge University Press or the Local Examinations Syndicate. The accounts of the Cambridge University Press and the Local Examinations Syndicate are published separately, including in the *Reporter*. They are summarized in the Appendix to these Financial Statements.

The consolidated financial statements include the results of the University's subsidiary companies, which undertake activities which for legal or commercial reasons are more appropriately carried out by limited companies. Certain trusts, which support the activities of the University and its students, are not included. The basis of preparation is explained more fully in the Statement of Principal Accounting Policies.

Looking forward, the Council have agreed that the consolidated financial statements for 2003–04 will include the accounts of the Local Examinations Syndicate and of certain trusts supporting the activities of the University by providing scholarships and otherwise. The Council have authorized discussions with the Cambridge University Press about the possibility of, in due course, amending University Statutes to permit inclusion of the accounts of the Press in the consolidated financial statements of the University prepared under its Statute F, I, 1(d).

#### Accounting treatment

The accounting treatment of balances referred to as special funds has been changed and comparative figures adjusted accordingly. These balances were previously classified as specific endowments. Where donors specified a restricted purpose, but did not specify that the donation was to be invested long-term to generate an income stream, the balances have been reclassified as current liabilities. Where donors specified neither a restricted purpose nor invested long-term investments to generate an income stream the balances have been reclassified as reserves. The effect of this latter change is to add £40.9m to opening reserves. The details are described in notes 15 and 16 to the financial statements.

#### Results for the year

The consolidated results for the year ended 31 July 2003 are summarized as follows:

	2002–03	2001–02	Change
	£m	£m	%
Income	464.8	446.8	+4.0%
Expenditure	(467.0)	(450.6)	+3.6%
Deficit for the year	(2.2)	(3.8)	

*Consolidated income* for the University and its subsidiary companies increased by £18.0m (+4.0%) to £464.8m.

*Grant income* from the Higher Education Funding Council for England (HEFCE) and the Teacher Training Agency increased by £6.6m (+4.8%) to a total of £145.4m. The core recurrent grant from HEFCE/TTA increased by only £3.0m (+2.3%) but was enhanced by specific grants of £1.4m and transfers from grants for capital purposes.

*Academic Fees and Support Grants* grew by £3.1m (+5.7%) of which much was from steady growth in masters courses.

*Research grants and contracts income* increased by a healthy £13.2m (+8.9%) to £162.2m. It has increased by over a quarter over the last two years and continues to grow as a proportion of total income, putting additional strain on infrastructure. There was particularly strong growth from industrial sponsors.

*Other operating income* increased by £9.4m, mainly because of general donations received. The improved analysis given in note 4 to the financial statements discloses the levels of general donations received in the year, and income recognized as expenditure is charged to specific donations.

*Endowment and investment income* declined by £14.3m primarily because of reduced spending against spendable endowment, reversing a trend, and because of the impact of lower interest rates.

*Staff costs* overall increased by £23.0m (+10.1%) over the previous year. Excluding the direct staff costs of research grants and contracts (which are funded directly by research sponsors) staff costs increased by 9.0%, principally because of general inflationary reviews, increases in national insurance rates and promotions, but with only small growth in staff numbers.

*Other operating expenses* at £189.7m were £8.6m (4.3%) lower than in 2001–02, reflecting in part the reduced use of spendable income in trust and specific funds. Savings have been made where possible. Premises other operating costs were £5.8m lower from savings on utilities and in timing of buildings maintenance expenditure.

*Depreciation* has increased in line with the capital expenditure on new buildings, on major improvements and on equipment, especially that equipment funded from research grants.

The *Deficit* at £(2.2)m is improved slightly on last year. The continued significant increase in staff costs has been offset by non-pay savings, some of which will have been deferred to future years and may not be repeatable. Once again we note the marginal increase in core recurrent funding by the funding council against increasing staff costs.

### **Balance Sheet**

There has been major capital expenditure in the year totalling £114.5m, of which land and buildings were £93.4m. The focus of new building projects has been on the continuing development of West Cambridge, Sidgwick Avenue, and Addenbrooke's sites. Most of this expenditure has been funded from external capital grants.

Further endowment was received, and a small amount of investment income retained. Endowment assets at 31 July 2003 were £413.4m, after the reclassification and transfers to reserves and to deferred capital grants, which is explained fully in note 16 to the financial statements.

Overall net assets have increased by £113.6m to £1,321.8m, of which now half is tangible fixed assets (land, buildings, and equipment).

### **Investment performance**

The majority of the University's endowment assets, and certain of those of associated bodies, are invested in the University's Amalgamated Fund. The objectives of the Fund are to produce future growth of income at a rate at least equal to the rise in University costs, and the maximum total return which is consistent with this objective and with an acceptable risk exposure. Performance is compared with the FTSE All Share and FTSE World indices and the WM Charity Universe. The Amalgamated Fund's non-property holdings are managed by Foreign & Colonial Investment Management Limited, and its property portfolio by LaSalle Investment Management Limited. The University's short-term cash is managed by Barclays Global Investors and directly by the University.

The securities portfolio declined by 5.7% over the twelve months to the end of June 2003, outperforming the WM Charity index, which fell by 6.3%. The portfolio's overweight position in cash and bonds and underweight position in UK equities were the main reasons for the relative performance. The property element, which comprises approximately one-sixth of the Fund's assets, returned 10.7% in the 12 months to 31 December 2002, outperforming the IPD Benchmark of 9.9%.

The capital value of a unit of the Fund ended the year where it started at £24.91. A distribution of 130 pence per unit was made in 2002–03 (2001–02: 127.0 pence). This was equivalent to distribution yield of 5.2% on the opening and closing unit values, and 4.5% based on the average of the year-end unit values for the past three years. For 2003–04 the distribution will be reduced to 116.34p per unit, following the removal of a special dividend which has been made for the last three years.

### **Financial management and systems**

Financial management is being enhanced steadily at School, Faculty, and Department level with new posts and further training. Improved budgeting and control procedures were put in place during the year and are being developed further. The financial accounting system, based on Oracle software, has now been operating for three years and is well accepted. There is a programme of continuing development of the system.

### **Conclusion**

The key financial highlights for the year ending 31 July 2003 are steady real growth in research and fee income. Significant increases in staff costs above growth in income were offset in the year by reductions in other operating costs. Total capital expenditure of £115m was the highest ever: over £400m has been spent on tangible fixed assets over the past five years, funded mainly from external sources.

The continuing deficit remains of concern. The significant cost savings achieved in 2002–03, which contained the deficit, may not be sustainable without damaging our academic activities and infrastructure. There are increasing pressures on salaries, and significant increases in pension costs are likely. A working party was established during the year to advise on how to reverse the trend of deficits; in its report of March 2003 it recommended that the University takes a number of measures to ease the current problems and to reverse the trend over a longer period. Programmes are underway to develop improved financial information, planning and budgeting, understanding of our cost structures, and to introduce mechanisms such as the proposed resource allocation model, all of which will improve financial decisions and implementation.

The state of world stockmarkets appears to have steadied although there is no expectation of the dramatic gains seen over the last decade. The University relies greatly on its endowment income and is fortunate in having a base of endowment and reserves which, although small in comparison to our international peers, helps maintain the quality of our teaching and research.

### **Retiring Treasurer**

Finally, I would like to express thanks to Mrs Joanna Womack who retired as Treasurer on 30 September 2003 for the major contribution she made to the University, and in particular to developing its finance and accounting activities.

Professor TONY MINSON  
*Acting Treasurer*

## CORPORATE GOVERNANCE

1. The following Statement is provided by the Council to enable readers of the Financial Statements to obtain a better understanding of the arrangements in the University for the management of its resources and for audit.

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

3. Under the Statutes the Governing Body of the University is the Regent House which comprises the resident senior members of the University and the Colleges, together with the Chancellor, the High Steward, the Deputy High Steward, and the Commissary. Subject to the Regent House, the Council of the University are the principal executive and policy-making body of the University, with general responsibility for the administration of the University, for the planning of its work, and for the management of its resources. The General Board of the Faculties are responsible, subject to the Regent House and to the responsibilities of the Council, for the academic and educational policy of the University.

4. The Council are advised in carrying out their duties by a number of Committees, including the Planning and Resources Committee, the Finance Committee, the Audit Committee, and the Risk Steering Committee. The Planning and Resources Committee is a joint committee of the Council and the General Board, currently chaired by the Vice-Chancellor. Its responsibilities include the development and oversight of the University's Strategic Plan, and the preparation of the University's budget. The Finance Committee is chaired by the Vice-Chancellor and advises the Council on the management of the University's assets, including real property, monies and securities, and on the care and maintenance of all University sites and buildings. The membership of the Finance Committee includes members of the Regent House and members external to the University. The terms of reference and membership of the Planning and Resources Committee and the Finance Committee are currently under review to confirm lines of accountability and responsibility. The Audit Committee governs the work of the Internal and External Auditors, reporting on these matters directly to the Council. The Risk Steering Committee is responsible to the Council for the identification of the major corporate risks and their management.

5. The Vice-Chancellor is, *de facto*, the principal academic and administrative officer of the University. Under the terms of the Financial Memorandum between the University and the Higher Education Funding Council for England the Vice-Chancellor is the Designated Officer of the University.

6. Under Statutes, it is the duty of the Council, acting on the advice of the Finance Committee, to exercise general supervision over the finances of all institutions in the University other than the University Press; to keep under review the University's financial position and to make a report thereon to the University at least once in each year; to recommend bankers for appointment by the Regent House; to prepare and publish an abstract of the annual accounts of the University, excluding the accounts of the University Press and of such other accounts as may be specified by Ordinance.

7. It is the duty of the Audit Committee to keep under review the effectiveness of the University's internal systems of financial and other controls; to advise the Council on the appointment of external and internal auditors; to consider reports submitted by the Auditors, both external and internal; to monitor the implementation of recommendations made by the Internal Auditors; to satisfy themselves that satisfactory arrangements are adopted throughout the University for promoting economy, efficiency, and effectiveness; to establish appropriate performance measures and to monitor the effectiveness of external and internal audit; to make an annual report to the Council, the Vice-Chancellor, and the Higher Education Funding Council for England; to receive reports from the National Audit Office and the Higher Education Funding Council for England. The Registry is Secretary to the Audit Committee. Membership of the Audit Committee includes four external members, appointed by Council with regard to their professional expertise and experience in comparable roles in corporate life. The University has approved an amendment to the Statutes to provide for the inclusion of two external members on the Council, one of whom would chair the Audit Committee. The amendment is currently before the Privy Council.

8. The University maintains a Register of Interests of Members of the Council, the General Board, the Finance Committee, and the Audit Committee, and of the Senior Administrative Officers, which may be consulted by arrangement with the Registry.

9. The Cambridge University Press is established by Statute of the University and has its own charitable status separate from that of the University. It is an educational charitable enterprise dedicated to printing and publishing in the advancement of knowledge, education, and learning. The University of Cambridge Local Examinations Syndicate is established under the Statutes of the University as a charitable enterprise whose primary work is the conduct and administration of examinations in schools and for persons who are not members of the University. The University publishes separately for each of the Press and the Syndicate an Annual Report and Accounts.

## STATEMENT OF INTERNAL CONTROL

1. The Council have responsibility for maintaining a sound system of internal control that supports the achievement of policies, aims, and objectives, while safeguarding the public and other funds and assets for which we are responsible, in accordance with the Statutes and Ordinances and the Financial Memorandum with the HEFCE.

2. 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.

3. The system of internal control is based on an on-going 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. Continuing improvements in the system of internal control were made during the year ended 31 July 2003.

4. The Council have responsibility for reviewing the effectiveness of the system of internal control. The following processes have been established:

- (a) The Council meet ten times throughout the year to consider the plans and strategic direction of the University.
- (b) The Council receive periodic reports from the Chairman of the Audit Committee concerning internal control and receives the minutes of all meetings of the Audit Committee.
- (c) The Council established a Risk Steering Committee in 2001–02 to oversee risk management. The Council receive periodic reports from the Chairman of the Risk Steering Committee and receive the minutes of all meetings of the Risk Steering Committee.
- (d) The Audit Committee receive regular reports from the internal auditors, which include the internal auditors' independent opinion on the adequacy and effectiveness of the University's system of internal control and risk management, together with recommendations for improvement.
- (e) The risk awareness training that commenced in 2002 is continuing and courses on risk awareness and management will be included in the 2003–04 Staff Development Programme.
- (f) A system of key risk indicators and early warning mechanisms has been developed for the University's fundamental risks.
- (g) A risk prioritization methodology based on risk ranking and cost-benefit analysis has been established.
- (h) The University-wide risk register, developed in 2001–02, has been maintained and has been developed and is reviewed regularly. Fundamental risks are being assigned to risk owners and risk reporting channels are being established.

5. The Council's review of the effectiveness of the system of internal control is informed by the work of the internal auditors RSM Robson Rhodes LLP. They operate to the standards defined in the HEFCE Audit Code of Practice.

6. The Council's review of the effectiveness of the system of internal control is also informed by the work of the senior officers and the risk owners within the University, 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.

## STATEMENT OF RESPONSIBILITIES OF THE COUNCIL

1. Under the University's Statutes it is the duty of the Council, acting on the advice of its Finance Committee, to prepare, and to publish an abstract of, the annual accounts of the University, excluding the accounts of the University Press, and of such other accounts as may be specified by Ordinance.

2. The Council are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the University.

3. In preparing the financial statements the Council are required to:

- (a) Select suitable accounting policies and then apply them consistently;
- (b) Make judgements and estimates that are reasonable and prudent;
- (c) State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- (d) Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the University will continue to operate;
- (e) Ensure that income has been applied in accordance with the University's Statutes and Ordinances, and its Financial Memorandum with the HEFCE and the funding Agreement with the Teacher Training Agency; and
- (f) Safeguard the assets of the University and take reasonable steps to prevent and detect fraud and other irregularities.

## INDEPENDENT AUDITORS' REPORT TO THE COUNCIL

We have audited the financial statements of the University of Cambridge for the year ended 31 July 2003 which comprise the consolidated income and expenditure account, the balance sheets, the consolidated cash flow statement, the statement of total recognised gains and losses, the statement of principal accounting policies and the related notes 1 to 27. These financial statements have been prepared under the accounting policies set out in the Statement of Principal Accounting Policies.

This report is made solely to the Council, as a body, in accordance with the University's financial memorandum with the Higher Education Funding Council for England. Our audit work has been undertaken so that we might state to the Council those matters we are required to state to them in an auditors' 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 University and the Council as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective Responsibilities of the Council and independent auditors**

The responsibilities of the Council under the University Statutes with respect to the preparation of financial statements are set out in the Statement of Responsibilities of the Council. In fulfilling those responsibilities, the Council has determined what shall be included in the financial statements of the University and of the Group, which do not include certain constituent parts of the corporation or associated trusts as stated in the Statement of Principal Accounting Policies.

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements, United Kingdom auditing standards and the requirements of the Audit Code of Practice issued by the Higher Education Funding Council for England.

We report to you our opinion as to whether the financial statements are properly prepared in accordance with the accounting policies set out in the Statement of Principal Accounting Policies and with the University's Statutes and Ordinances. We also report to you whether, in all material respects, income from the Higher Education Funding Council for England and from the Teacher Training Agency and grants and income for specific purposes and from other restricted funds administered by the University have been applied only for the purposes for which they were received, and whether, in all material respects, income has been applied in accordance with the University's Statutes and Ordinances and where appropriate with the Financial Memorandum with the Higher Education Funding Council for England and with the Funding Agreement with the Teacher Training Agency.

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 or if we have not received all the information and explanations that we require for our audit.

We read the other information contained in the Treasurer's Report, the Corporate Governance Statement, the Statement of Internal Control and the Statement of Responsibilities of the Council and consider the implications for our report if we become aware of any apparent misstatements within them.

### **Basis of Audit Opinion**

We conducted our audit in accordance with United Kingdom 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 Council in the preparation of the financial statements, and of whether the accounting policies selected by the Council are appropriate to the circumstances of the University and the group, consistently applied and adequately disclosed.

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

#### *Basis of preparation of the financial statements*

In forming our opinion, we have considered the appropriateness of the accounting policies adopted by the Council, which are disclosed in the Statement of Principal Accounting Policies. In fulfilment of its responsibility under the University Statutes to prepare and to publish an abstract of the annual accounts of the University, excluding the accounts of the University Press, the Council has drawn up financial statements showing the state of affairs and deficit of the University's and group's teaching and research activities. The Council has adopted accounting policies, as required by the Statutes or which the Council has determined appropriate. These policies do not permit the financial statements to comply with applicable United Kingdom accounting standards, in that the entities set out in the basis of preparation note which forms part of the Statement of Principal Accounting Policies, and works of art, have not been included. Our engagement requires us to report only on whether the financial statements comply with the accounting policies determined by the Council of the University and disclosed therein.

### **Opinion**

In our opinion:

- (i) the financial statements have been properly prepared in accordance with the accounting policies set out in the Statement of Principal Accounting Policies and with the University's Statutes and Ordinances;
- (ii) in all material respects, income from the Higher Education Funding Council for England and from the Teacher Training Agency and grants and income for specific purposes and from other restricted funds administered by the University have been applied for the purposes for which they were received; and

- (iii) in all material respects, income has been applied in accordance with the University's Statutes and Ordinances and where appropriate with the Financial Memorandum with the Higher Education Funding Council for England and with the Funding Agreement with the Teacher Training Agency.

Deloitte & Touche LLP  
*Chartered Accountants and Registered Auditors*  
Cambridge  
15 December 2003

## CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 JULY 2003

		Year ended 31 July 2003	Year ended 31 July 2002 <i>Restated</i>
	<i>Note</i>	<b>£m</b>	£m
<b>Income</b>			
Funding Council and Teacher Training Agency grants	<i>1</i>	<b>145.4</b>	138.8
Academic fees and support grants	<i>2</i>	<b>57.7</b>	54.6
Research grants and contracts	<i>3</i>	<b>162.2</b>	149.0
Other income	<i>4</i>	<b>73.2</b>	63.8
Endowment and investment income	<i>5</i>	<b>26.3</b>	40.6
<b>Total income</b>		<b>464.8</b>	446.8
<b>Expenditure</b>			
Staff costs	<i>6, 7</i>	<b>250.8</b>	227.8
Other operating expenses	<i>7</i>	<b>189.7</b>	198.3
Depreciation	<i>7</i>	<b>26.5</b>	24.5
<b>Total expenditure</b>	<i>7</i>	<b>467.0</b>	450.6
<b>Deficit on continuing operations</b>	<i>8</i>	<b>(2.2)</b>	(3.8)

The income and expenditure account is in respect of continuing activities.

No consolidated statement of historical cost surpluses and deficits is presented as explained in the statement of principal accounting policies.

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 JULY 2003

	Year ended 31 July 2003	Year ended 31 July 2002 <i>Restated</i>
	£m	£m
Deficit on income and expenditure account	(2.2)	(3.8)
Increase / (decrease) in market value of investments		
Endowments	1.8	(72.2)
Reserves	(1.2)	(17.8)
New endowment capital	31.8	7.7
Endowment income retained for the year	5.5	23.9
Total recognised gains / (losses) relating to the year	<u>35.7</u>	<u>(62.2)</u>
<b>Reconciliation</b>		
Opening reserves and endowments as previously stated	1,061.8	
Prior year adjustment: Transfer from endowments to creditors (see note 16)	(29.9)	
	<u>1,031.9</u>	
Reclassification of balances at 1 August 2002		
Transfer from endowments to deferred capital grants (see note 15)	(44.7)	
Total recognised gains relating to the year	<u>35.7</u>	
Closing reserves and endowments	<u>1,022.9</u>	



**BALANCE SHEETS AS AT 31 JULY 2003**

	Group 31 July 2003	Group 31 July 2002 <i>Restated</i>	University 31 July 2003	University 31 July 2002 <i>Restated</i>
<i>Note</i>	<b>£m</b>	£m	<b>£m</b>	£m
<b>Fixed assets</b>				
Tangible assets	9	659.4	571.5	664.3
Investments	10	118.9	120.4	118.9
		<u>778.3</u>	<u>691.9</u>	<u>783.2</u>
<b>Endowment asset investments</b>	11	413.4	460.4	411.9
<b>Current assets</b>				
Stocks		0.7	0.6	0.2
Debtors	12	110.3	105.4	109.5
Investments				
University	13	160.3	98.6	160.3
Held on behalf of others	13	184.3	171.3	184.3
Cash at bank and in hand		2.7	2.4	0.2
		<u>458.3</u>	<u>378.3</u>	<u>454.5</u>
<b>Creditors: amounts falling due within one year</b>	14	(328.2)	(322.4)	(324.1)
<b>Net current assets</b>		<u>130.1</u>	<u>55.9</u>	<u>130.4</u>
<b>Total assets less current liabilities</b>		<u>1,321.8</u>	<u>1,208.2</u>	<u>1,325.5</u>
<b>Total net assets</b>		<u>1,321.8</u>	<u>1,208.2</u>	<u>1,325.5</u>
<b>Represented by:</b>				
<b>Deferred capital grants</b>	15	298.9	176.3	298.9
<b>Endowments</b>				
Specific endowments	16	407.7	454.7	406.2
General endowments	16	5.7	5.7	5.7
	16	413.4	460.4	411.9
<b>Reserves</b>				
General reserves	17	396.0	350.7	401.2
Revaluation reserve	17	213.5	220.8	213.5
	17	609.5	571.5	614.7
<b>Total funds</b>		<u>1,321.8</u>	<u>1,208.2</u>	<u>1,325.5</u>

The financial statements on pages 351 to 366 were approved by the Council on 15 December 2003 and signed on its behalf by:

Professor ALISON RICHARD  
*Vice-Chancellor*

Professor TONY MINSON  
*Acting Treasurer and Pro-Vice-Chancellor*

## CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 JULY 2003

	<i>Note</i>	<b>Year ended 31 July 2003 £m</b>	Year ended 31 July 2002 £m
Net cash inflow/(outflow) from operating activities	<i>18</i>	<b>8.0</b>	(7.2)
Returns on investments:			
Interest and dividends received on investments		<b>28.0</b>	30.6
Capital expenditure and financial investment	<i>19</i>	<b>(33.1)</b>	(21.2)
Cash inflow before use of liquid resources		<b>2.9</b>	2.2
Management of liquid resources:			
Increase in short-term deposits		<b>(1.5)</b>	(4.1)
Increase/(decrease) in cash in the year	<i>20</i>	<b>1.4</b>	(1.9)
<b>Reconciliation of net cash flow to movement in net funds</b>			
Increase/(decrease) in cash		<b>1.4</b>	(1.9)
Cash inflow from liquid resources		<b>1.5</b>	4.1
Movement in net funds in the year		<b>2.9</b>	2.2
Net funds at 1 August		<b>170.1</b>	167.9
Net funds at 31 July	<i>20</i>	<b>173.0</b>	170.1

## STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

### **Basis of preparation**

The financial statements, as prepared, are intended to show the state of affairs of the University's and group's teaching and research activities. As noted below the consolidated financial statements do not include the accounts of Cambridge University Press (CUP), the University of Cambridge Local Examinations Syndicate (UCLES), nor those of the Cambridge Foundation, the Cambridge Commonwealth Trust, the Cambridge Overseas Trust, the Cambridge European Trust and the Gates Cambridge Trust and certain other trusts supporting the activities of the University by providing scholarships and otherwise (the Associated Trusts). Transactions with these entities, and with the Colleges, are disclosed in the notes to the financial statements. Insofar as these activities are excluded, and as a result of the University's accounting policy on works of art, the financial statements do not disclose all assets and liabilities of the corporation known as the University of Cambridge, do not include all income and expenditure of that corporation and do not comply with certain United Kingdom accounting standards and as such, do not comply with the Statement of Recommended Practice Accounting for Further and Higher Education (the SORP). In other respects the financial statements have been prepared in accordance with applicable United Kingdom accounting standards and the SORP.

This basis of preparation follows the Council's decision to prepare financial statements that they consider to be consistent with University Statute F,I,1(d). The Council is currently undertaking a review of the basis of preparation in respect of entities not currently included.

### **Basis of accounting**

The financial statements have been prepared under the historical cost convention, modified in respect of the treatment of investments and certain operational properties which are included at valuation.

### **Exclusion of Cambridge University Press, the University of Cambridge Local Examinations Syndicate and the Associated Trusts**

The financial statements exclude the accounts of CUP and UCLES, constituent parts of the corporation known as the University of Cambridge. The consolidated financial statements also exclude the subsidiary undertakings of UCLES. Transactions with CUP and UCLES and with the subsidiary undertakings of UCLES are treated in the financial statements as transactions with related third parties.

The consolidated financial statements do not include the accounts of the Associated Trusts, each of which is a separately constituted charity. Transactions with the Associated Trusts are treated in the financial statements as transactions with related third parties.

### **Basis of consolidation**

Except for the exclusion of CUP, UCLES, and the Associated Trusts as noted above, the consolidated financial statements include the University and its subsidiary undertakings. Details of the subsidiary undertakings included are given in note 24. Intra-group transactions and balances are eliminated on consolidation.

The consolidated financial statements do not include the accounts of the 30 Colleges and one Approved Society in the University ('the Colleges'), each of which is an independent corporation. Transactions with the Colleges are disclosed in note 26.

The consolidated financial statements do not include the accounts of Cambridge University Students Union as it is a separate body in which the University has no financial interest and over whose policy decisions it has no control.

### **Recognition of income**

Restricted income is income which can only be applied to specific purposes designated by the grantor or donor. Income falling under this category includes research grants and contracts and specific endowments. Unspent endowments are shown as endowment reserves, whilst unspent specific donations are shown as deferred income. Restricted income is brought into the income and expenditure account to the extent of the relevant expenditure incurred and expensed in the year.

Grants received in respect of the acquisition or construction of tangible fixed assets are treated as deferred capital grants and brought into income over the expected useful life of the respective assets on a basis consistent with the depreciation policy.

All other income is brought into the income and expenditure account on a receivable basis.

Permanent endowments and, where applicable, donations and other income are credited to endowments as received.

### **Foreign currency translation**

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at year-end rates. Translation differences are taken to the income and expenditure account.

### **Tangible Fixed Assets:**

#### *Land and buildings*

Operational land and buildings are included in the financial statements at their 1994 valuation with subsequent additions at cost. No depreciation is provided on land and assets in construction. Buildings are written off over their estimated useful lives. These lives have been estimated as 20 years for laboratory buildings, 15 years for buildings held for commercial use and 50 years for all other buildings.

*Equipment and books*

Equipment costing less than £10,000 per individual item is written off in the year of purchase. All other equipment is capitalised and depreciated so that it is written off over four years, except where it is purchased from a research grant when it is written off over the remaining life of the grant. Expenditure on books and similar items is charged to revenue as incurred.

*Works of art*

The University owns a considerable number of works of art, including paintings, drawings, sculptures, and manuscripts. Most are on display around the University and have been donated or bequeathed to the University. These works of art are not included in the financial statements, because it is considered, in view of the restrictive nature of the acquisitions, that no meaningful value can be attributed to them.

**Investments**

Fixed asset investments, endowment asset investments and current asset investments are included in the balance sheet at market value. Properties held for investment purposes are valued annually on the basis of estimated open market values on an existing use basis by LaSalle Investment Management. Marketable securities are valued at mid-market valuation on 31 July. Non-marketable securities are included at valuation by the Treasurer.

**Historical cost surpluses and deficits**

Differences arise between the surplus or deficit on continuing operations as reported in the consolidated income and expenditure account and its historical cost equivalent. Depreciation is charged on pre- 1994 buildings based on their valuation at that date; the effect cannot be quantified as the historical cost of buildings is unavailable. Fixed asset investments are included in the balance sheet at market value and increases or decreases are taken directly to general reserves. Realised gains or losses within the total increase or decrease in value of investments are not separately calculated. Therefore no consolidated statement of historical cost surpluses and deficits is presented.

**Stocks**

Stocks of goods held for resale are stated at the lower of cost and net realisable value. Expenditure on consumable materials for use in teaching and research activities is charged to revenue as incurred.

**Pensions**

The two principal pension schemes for the University's staff are the Universities Superannuation Scheme (USS) and the University of Cambridge Contributory Pension Scheme (CPS). The schemes are defined benefit schemes which are contracted out of the State Earnings Related Pension Scheme. The Funds are valued every three years by professionally qualified independent actuaries, the rates of contribution payable being determined by the trustees on the advice of the actuaries. Pension costs are accounted for on the basis of charging the cost of providing pensions over the employees' service lives.

## NOTES TO THE FINANCIAL STATEMENTS

	2003 £m	2002 £m
<b>1 Funding Council and Teacher Training Agency grants</b>		
Higher Education Funding Council for England (HEFCE)		
Recurrent grant	128.0	124.0
Specific grants	9.1	7.7
Deferred capital grant released in year (note 15)		
Equipment	3.1	2.3
Buildings	2.1	0.7
	<hr/>	<hr/>
<b>HEFCE total</b>	<b>142.3</b>	134.7
<b>Teacher Training Agency</b>		
Recurrent grant	3.1	4.1
	<hr/>	<hr/>
	<b>145.4</b>	138.8
	<hr/>	<hr/>
<b>2 Academic fees and support grants</b>		
Full-time home students	19.8	19.0
Full-time overseas students	22.6	21.0
Part-time course fees	13.6	12.8
Research Training Support Grants	1.7	1.8
	<hr/>	<hr/>
	<b>57.7</b>	54.6
	<hr/>	<hr/>
<b>3 Income: research grants and contracts</b>		
Research councils	62.0	59.0
UK based charities	49.0	45.7
Other bodies	51.2	44.3
	<hr/>	<hr/>
	<b>162.2</b>	149.0
	<hr/>	<hr/>
<b>4 Other income</b>		<i>Restated</i>
Other services rendered	15.9	14.2
Health and hospital authorities	8.0	7.1
Catering	2.8	2.6
AHRB museum grant	1.5	1.4
DTI grant	0.6	1.0
University companies	5.1	5.2
Released from deferred capital grants (note 15)	3.9	4.2
Transferred from UCLES (see note 25)	3.9	3.8
General donations	9.5	3.4
Specific donations released in the year	7.2	8.1
Value Added Tax rebate (excluding exceptional item)	2.5	2.8
Other	12.3	6.3
	<hr/>	<hr/>
Total before exceptional item	73.2	60.1
Exceptional item: VAT rebate relating to earlier years	–	3.7
	<hr/>	<hr/>
	<b>73.2</b>	63.8
	<hr/>	<hr/>
<b>5 Endowment and investment income</b>		<i>Restated</i>
Transferred from specific endowments	17.7	31.6
Transferred from general endowments	0.3	0.3
Other income from investments and interest receivable	8.3	8.7
	<hr/>	<hr/>
	<b>26.3</b>	40.6
	<hr/>	<hr/>
<b>6 Staff costs</b>		
Wages and salaries	213.3	194.2
Social security costs	17.0	15.4
Pension costs	20.5	18.2
	<hr/>	<hr/>
	<b>250.8</b>	227.8
	<hr/>	<hr/>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

	2003 £000	2002 £000
<b>Emoluments of the Vice-Chancellor</b>		
Emoluments excluding employer's pension contributions	137	134
Employer's pension contributions	19	18
	<u>156</u>	<u>152</u>

The University's pension contributions to USS in respect of the Vice-Chancellor are paid at the same rates as for other academic staff.

<b>Compensation for loss of office to higher paid staff</b>		
Termination payments	404	–
Payment to USS for enhanced pension benefits	317	–
	<u>721</u>	<u>–</u>

**Remuneration of higher paid staff, excluding employer's pension contributions:**

	Clinical		Non-Clinical		Total number	
	2003	2002	2003	2002	2003	2002
£70,001–£80,000	40	25	26	22	66	47
£80,001–£90,000	15	12	6	1	21	13
£90,001–£100,000	3	14	4	4	7	18
£100,001–£110,000	13	–	2	–	15	–
£110,001–£120,000	1	11	–	–	1	11
£120,001–£130,000	13	3	2	2	15	5
£130,001–£140,000	6	6	1	1	7	7
£140,001–£150,000	4	5	–	–	4	5
£150,001–£160,000	3	–	1	1	4	1

The above statistics include additional payments to employees of the University on behalf of NHS bodies.

**7 Analysis of expenditure by activity**

	Staff costs £m	Other operating expenses £m	Depreciation £m	2003 Total £m	2002 Restated £m
Academic departments	123.3	28.5	5.4	157.2	151.8
Academic services	13.5	9.0	0.6	23.1	22.7
Payments to colleges (see note 26)	–	30.1	–	30.1	29.4
Research grants and contracts	78.0	58.5	5.2	141.7	130.8
Other activities:					
Services rendered	4.9	10.0	0.1	15.0	13.0
University companies	1.0	3.6	–	4.6	4.2
Catering	1.5	3.7	0.1	5.3	4.7
Other activities total	7.4	17.3	0.2	24.9	21.9
Administration and central services:					
Administration	16.2	7.1	0.1	23.4	21.9
General educational	1.3	12.6	–	13.9	12.9
Staff and student facilities	2.0	0.4	–	2.4	2.4
Development office	1.3	2.1	–	3.4	3.0
Other	–	3.6	–	3.6	4.7
Administration and central services total	20.8	25.8	0.1	46.7	44.9
Premises	7.8	20.5	15.0	43.3	49.1
<b>Total per income and expenditure account</b>	<b>250.8</b>	<b>189.7</b>	<b>26.5</b>	<b>467.0</b>	<b>450.6</b>

The depreciation charge has been funded by:

Deferred capital grants (note 15)	14.3
Revaluation reserve (note 17)	7.3
General income	4.9
	<u>26.5</u>

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

<b>Auditors' remuneration</b>	<b>2003</b>	2002
	<b>£000</b>	£000
Other operating expenses include:		
Audit fees payable to the University's external auditors	124	95
Audit fees payable to the University's external auditors:		
adjustment to fee for the previous year	43	–
Other fees payable to the University's external auditors	12	9
Audit fees payable to the University's previous external auditors	–	44
Audit fees payable to other firms in relation to subsidiary undertakings	4	22
Other fees payable to subsidiary undertakings' external auditors	–	2
	<u>          </u>	<u>          </u>

These amounts include related irrecoverable VAT.

<b>8 Deficit on continuing operations for the year</b>	<b>2003</b>	2002
	<b>£m</b>	£m
The deficit on continuing operations for the year is made up as follows:		
University's deficit for the year	(3.2)	(5.0)
Surplus generated by subsidiary undertakings and transferred to the University under gift aid	2.1	2.2
	<u>          </u>	<u>          </u>
Deficit dealt with in the accounts of the University	(1.1)	(2.8)
Deficit retained in subsidiary undertakings	(1.1)	(1.0)
	<u>          </u>	<u>          </u>
	<b>(2.2)</b>	<b>(3.8)</b>

<b>9 Tangible fixed assets</b>	<b>Land and buildings</b>	<b>Assets in construction</b>	<b>Equipment</b>	<b>2003 Total</b>	2002
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	£m
<i>Group</i>					
<b>Cost or valuation</b>					
At 1 August	533.8	65.5	77.5	676.8	600.3
Additions at cost	13.7	79.7	21.1	114.5	78.5
Transfers	54.1	(54.1)	–	–	–
Disposals	–	–	(0.3)	(0.3)	(2.0)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
At 31 July	601.6	91.1	98.3	791.0	676.8
<b>Depreciation</b>					
At 1 August	49.5	–	55.8	105.3	82.3
Charge for the year	14.9	–	11.6	26.5	24.5
Elimination on disposals	–	–	(0.2)	(0.2)	(1.5)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
At 31 July	64.4	–	67.2	131.6	105.3
<b>Net book value</b>					
At 31 July	537.2	91.1	31.1	659.4	571.5
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
At 1 August	484.3	65.5	21.7	571.5	518.0
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<i>University</i>					
<b>Cost or valuation</b>					
At 1 August	537.6	65.5	77.4	680.5	603.2
Additions at cost	13.7	80.9	21.0	115.6	79.3
Transfers	55.3	(55.3)	–	–	–
Disposals	–	–	(0.3)	(0.3)	(2.0)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
At 31 July	606.6	91.1	98.1	795.8	680.5
<b>Depreciation</b>					
At 1 August	49.5	–	55.7	105.2	82.2
Charge for the year	14.9	–	11.6	26.5	24.5
Elimination on disposals	–	–	(0.2)	(0.2)	(1.5)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
At 31 July	64.4	–	67.1	131.5	105.2
<b>Net book value</b>					
At 31 July	542.2	91.1	31.0	664.3	575.3
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
At 1 August	488.1	65.5	21.7	575.3	521.0
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

Land and buildings includes land totalling £67.7m (2002: £59.7m) which is not depreciated.

The cost to the group of buildings and assets in construction consists of the cost incurred by the University less the surplus recorded in the accounts of Lynxvale Limited and eliminated on consolidation.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

<b>10 Fixed asset investments</b>	<b>Group 2003 £m</b>	<b>Group 2002 £m</b>	<b>University 2003 £m</b>	<b>University 2002 £m</b>
Opening balance	<b>120.4</b>	133.7	<b>120.4</b>	133.7
(Disposals) / additions in the year	<b>(0.8)</b>	0.6	<b>(0.8)</b>	0.6
Decrease in market value of investments	<b>(0.7)</b>	(13.9)	<b>(0.7)</b>	(13.9)
	<hr/>	<hr/>	<hr/>	<hr/>
Closing balance	<b>118.9</b>	120.4	<b>118.9</b>	120.4
	<hr/>	<hr/>	<hr/>	<hr/>
Represented by:				
Property	<b>31.9</b>	29.7	<b>31.9</b>	29.7
Securities	<b>79.2</b>	81.6	<b>79.2</b>	81.6
Money market investments	<b>6.3</b>	6.1	<b>6.3</b>	6.1
Cash in hand and at investment managers	<b>1.0</b>	2.8	<b>1.0</b>	2.8
Other	<b>0.5</b>	0.2	<b>0.5</b>	0.2
	<hr/>	<hr/>	<hr/>	<hr/>
	<b>118.9</b>	120.4	<b>118.9</b>	120.4
	<hr/>	<hr/>	<hr/>	<hr/>
<b>11 Endowment asset investments</b>	<b>Group 2003 £m</b>	<b>Group 2002 £m</b>	<b>University 2003 £m</b>	<b>University 2002 £m</b>
		<i>Restated</i>		<i>Restated</i>
Long-term Investments				
Property	<b>58.5</b>	58.3	<b>58.5</b>	58.3
Securities	<b>287.0</b>	281.8	<b>287.0</b>	282.6
Money market investments	<b>25.7</b>	25.0	<b>25.7</b>	25.0
Cash in hand and at investment managers	<b>0.1</b>	0.1	<b>0.1</b>	0.1
	<hr/>	<hr/>	<hr/>	<hr/>
	<b>371.3</b>	365.2	<b>371.3</b>	366.0
Short-term deposits	<b>40.5</b>	93.8	<b>40.6</b>	93.8
Bank balances	<b>1.6</b>	1.4	–	–
	<hr/>	<hr/>	<hr/>	<hr/>
	<b>413.4</b>	460.4	<b>411.9</b>	459.8
	<hr/>	<hr/>	<hr/>	<hr/>
<b>12 Debtors</b>				
Research grants recoverable	<b>74.8</b>	63.8	<b>74.8</b>	63.8
Amounts due from subsidiary undertakings	–	–	<b>2.4</b>	2.4
Other debtors	<b>35.5</b>	41.6	<b>32.3</b>	37.0
	<hr/>	<hr/>	<hr/>	<hr/>
	<b>110.3</b>	105.4	<b>109.5</b>	103.2
	<hr/>	<hr/>	<hr/>	<hr/>
<b>13 Current asset investments</b>				
Property	<b>24.7</b>	23.4	<b>24.7</b>	23.4
Securities	<b>118.1</b>	112.8	<b>118.1</b>	112.8
Money market investments	<b>11.0</b>	10.3	<b>11.0</b>	10.3
Short-term deposits	<b>190.8</b>	123.4	<b>190.8</b>	123.4
	<hr/>	<hr/>	<hr/>	<hr/>
	<b>344.6</b>	269.9	<b>344.6</b>	269.9
	<hr/>	<hr/>	<hr/>	<hr/>
Representing:				
University	<b>160.3</b>	98.6	<b>160.3</b>	98.6
Held on behalf of related parties and other associated bodies (see note 14)	<b>184.3</b>	171.3	<b>184.3</b>	171.3
	<hr/>	<hr/>	<hr/>	<hr/>
	<b>344.6</b>	269.9	<b>344.6</b>	269.9
	<hr/>	<hr/>	<hr/>	<hr/>

Current asset investments include investments held on behalf of related parties (see note 25) and other associated bodies. The book value of these investments is included in creditors due within one year.



**NOTES TO THE FINANCIAL STATEMENTS (continued)**

<b>14 Creditors: amounts falling due within one year</b>	<b>Group 2003 £m</b>	<b>Group 2002 £m</b>	<b>University 2003 £m</b>	<b>University 2002 £m</b>
Bank overdraft	4.1	5.0	4.0	4.9
Research grants received in advance	58.5	48.9	58.5	48.9
Amounts due to subsidiary undertakings	–	–	–	2.0
Other creditors	81.3	97.2	77.3	90.6
Investments held on behalf of related parties and other associated bodies (see note 13)	184.3	171.3	184.3	171.3
	<b>328.2</b>	<b>322.4</b>	<b>324.1</b>	<b>317.7</b>

**15 Deferred capital grants**

<i>Group and University</i>	<b>Funding Council £m</b>	<b>Research Grants £m</b>	<b>Other Grants £m</b>	<b>2003 Total £m</b>	<b>2002 £m</b>
Balance 1 August					
Buildings	22.3	–	137.9	160.2	130.6
Equipment	3.0	12.0	1.1	16.1	13.2
	25.3	12.0	139.0	176.3	143.8
Reclassification of fund balances at 1 August 2002: Transfer from endowments to deferred grants for buildings (see note 16)	41.4	–	3.3	44.7	–
Grants received					
Buildings	11.8	–	62.7	74.5	33.9
Equipment	9.1	7.4	1.2	17.7	9.5
	20.9	7.4	63.9	92.2	43.4
Released to income and expenditure for depreciation					
Buildings	(2.1)	–	(3.3)	(5.4)	(4.2)
Equipment	(3.1)	(5.2)	(0.6)	(8.9)	(6.7)
	(5.2)	(5.2)	(3.9)	(14.3)	(10.9)
Balance 31 July					
Buildings	73.4	–	200.6	274.0	160.3
Equipment	9.0	14.2	1.7	24.9	16.0
	<b>82.4</b>	<b>14.2</b>	<b>202.3</b>	<b>298.9</b>	<b>176.3</b>

In previous years some capital grants received in relation to assets in construction were held in specific endowments pending the completion of the related projects. Accounting practice has been revised so that capital grants received in relation to expenditure included in tangible fixed assets are credited to deferred capital grants when received. Capital grants received in previous financial years relating to assets in construction at 31 July 2002 have been transferred from specific endowments to deferred capital grants.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 16 Endowments

<i>Group</i>	<b>Specific £m</b>	<b>General £m</b>	<b>2003 Total £m</b>	2002 Total £m
Balance 1 August				
As previously stated	<b>484.6</b>	<b>5.7</b>	<b>490.3</b>	526.4
Prior year adjustment: Transfer to deferred income (see note below)	<b>(29.9)</b>	–	<b>(29.9)</b>	(25.4)
Restated opening balance	<b>454.7</b>	<b>5.7</b>	<b>460.4</b>	501.0
Reclassification of fund balances at 1 August 2002:				
Transfer to reserves (see note below)	<b>(41.4)</b>	–	<b>(41.4)</b>	–
Transfer to deferred capital grants (see note 15)	<b>(44.7)</b>	–	<b>(44.7)</b>	–
Permanent endowments received	<b>31.8</b>	–	<b>31.8</b>	7.7
Income receivable from endowment asset investments	<b>19.3</b>	<b>0.3</b>	<b>19.6</b>	21.9
Donations and other income	<b>3.9</b>	–	<b>3.9</b>	67.8
Transfer to deferred capital grants	–	–	–	(33.9)
Transfer to income and expenditure account	<b>(17.7)</b>	<b>(0.3)</b>	<b>(18.0)</b>	(31.9)
Increase / (decrease) in market value of investments	<b>1.8</b>	–	<b>1.8</b>	(72.2)
Balance 31 July	<b>407.7</b>	<b>5.7</b>	<b>413.4</b>	460.4
<i>University</i>			<b>2003 Total £m</b>	2002 Total £m
Balance 1 August				
As previously stated	<b>484.0</b>	<b>5.7</b>	<b>489.7</b>	524.7
Prior year adjustment: Transfer to deferred income (see note below)	<b>(29.9)</b>	–	<b>(29.9)</b>	(25.4)
Restated opening balance	<b>454.1</b>	<b>5.7</b>	<b>459.8</b>	499.3
Reclassification of fund balances at 1 August 2002:				
Transfer to reserves (see note below)	<b>(41.4)</b>	–	<b>(41.4)</b>	–
Transfer to deferred capital grants (see note 15)	<b>(44.7)</b>	–	<b>(44.7)</b>	–
Permanent endowments received	<b>31.8</b>	–	<b>31.8</b>	7.7
Income receivable from endowment asset investments	<b>19.3</b>	<b>0.3</b>	<b>19.6</b>	21.8
Donations and other income	<b>3.1</b>	–	<b>3.1</b>	67.6
Transfer to deferred capital grants	–	–	–	(33.9)
Transfer to income and expenditure account	<b>(17.5)</b>	<b>(0.3)</b>	<b>(17.8)</b>	(31.7)
Increase / (decrease) in market value of investments	<b>1.5</b>	–	<b>1.5</b>	(71.0)
Balance 31 July	<b>406.2</b>	<b>5.7</b>	<b>411.9</b>	459.8
<b>Representing:</b>			<b>2003 Total £m</b>	2002 Total £m
Trust Funds:				
Permanent capital	<b>293.7</b>	–	<b>293.7</b>	283.8
Current accounts	<b>76.0</b>	–	<b>76.0</b>	74.0
Special Funds	<b>36.5</b>	–	<b>36.5</b>	51.5
Donations for buildings	–	–	–	44.8
Other	–	<b>5.7</b>	<b>5.7</b>	5.7
University total	<b>406.2</b>	<b>5.7</b>	<b>411.9</b>	459.8
Subsidiary undertakings	<b>1.5</b>	–	<b>1.5</b>	0.6
Group total	<b>407.7</b>	<b>5.7</b>	<b>413.4</b>	460.4

During the year the University has reviewed the accounting treatment of balances referred to as “special funds” and ‘donations for buildings’. In previous years these were classified as specific endowments, with a total balance held at 31 July 2002 of £79.6m and £46.6m respectively. Following a review, individual account balances have been reclassified where appropriate.

Where donors specified a restricted purpose but did not specify that the donation was to be invested long-term to generate an income stream, unspent balances have been reclassified as deferred income and included in current liabilities. This is a change of accounting policy and has been dealt with as a prior year adjustment. There is no impact on the deficit for the year or on the deficit for the preceding year. Comparative figures have been restated accordingly. Funds received in relation to expenditure included in tangible fixed assets have been transferred from specific endowments to deferred capital grants (as explained in note 15).

Where donors specified neither a restricted purpose nor long-term investment to generate an income stream, unspent special fund balances have been transferred from specific endowments to reserves (see note 17).

The distinction between endowment asset investments and current asset investments has been adjusted accordingly.

**NOTES TO THE FINANCIAL STATEMENTS (continued)****17 Reserves***Group*

	<b>General reserves £m</b>	<b>Revaluation reserve £m</b>	<b>2003 Total £m</b>	2002 £m
Balance 1 August	350.7	220.8	571.5	593.1
Reclassification of fund balances at 1 August 2002: transfer from endowments (see note 16)	41.4	–	41.4	–
Deficit on ordinary activities	(2.2)	–	(2.2)	(3.8)
Transfer in respect of depreciation on revalued operational properties	7.3	(7.3)	–	–
Decrease in market value of investments	(1.2)	–	(1.2)	(17.8)
Balance 31 July	<u>396.0</u>	<u>213.5</u>	<u>609.5</u>	<u>571.5</u>

*University*

	<b>General reserves £m</b>	<b>Revaluation reserve £m</b>	<b>2003 Total £m</b>	2002 £m
Balance 1 August	354.8	220.8	575.6	596.1
Reclassification of fund balances at 1 August 2002: transfer from endowments (see note 16)	41.4	–	41.4	–
Deficit on ordinary activities	(1.1)	–	(1.1)	(2.8)
Transfer in respect of depreciation on revalued operational properties	7.3	(7.3)	–	–
Decrease in market value of investments	(1.2)	–	(1.2)	(17.7)
Balance 31 July	<u>401.2</u>	<u>213.5</u>	<u>614.7</u>	<u>575.6</u>

	<b>2003 £m</b>	2002 £m
<b>18 Reconciliation of consolidated operating deficit to net cash (outflow) / inflow from operating activities</b>		
Deficit on continuing operations	(2.2)	(3.8)
Depreciation	26.5	24.5
Deferred capital grants released to income	(14.3)	(10.9)
Deficit on disposal of tangible fixed assets	–	0.5
Investment income	(8.6)	(7.9)
Specific endowments - excess of income over expenditure/(expenditure over income)	17.9	(10.1)
	<u>19.3</u>	<u>(7.7)</u>
Increase in stocks	(0.1)	(0.1)
Increase in debtors	(4.9)	(24.6)
(Decrease)/increase in creditors	(6.3)	25.2
Net cash inflow/(outflow) from operating activities	<u>8.0</u>	<u>(7.2)</u>

	<b>2003 £m</b>	2002 £m
<b>19 Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	(114.5)	(78.5)
Donations for buildings and other deferred capital grants received	92.2	66.8
Net (purchase) of long-term investments (excluding investments held on behalf of related parties and other associated bodies)	(10.8)	(9.5)
Net cash outflow from capital expenditure and financial investment	<u>(33.1)</u>	<u>(21.2)</u>

**NOTES TO THE FINANCIAL STATEMENTS (continued)****20 Analysis of the balances of cash and bank overdraft as shown in the balance sheet**

	<b>Group 2003 £m</b>	Group 2002 £m	<b>University 2003 £m</b>	University 2002 £m
Bank overdraft	<b>(4.1)</b>	(5.0)	<b>(4.0)</b>	(4.9)
Bank balances held directly by trust funds	<b>1.6</b>	1.4	–	–
Cash at bank and in hand	<b>2.7</b>	2.4	<b>0.2</b>	0.7
	<b>0.2</b>	(1.2)	<b>(3.8)</b>	(4.2)
Add short term deposits:				
Endowment asset investments	<b>40.5</b>	93.8	<b>40.6</b>	93.8
Current asset investments (excluding those held on behalf of related parties and other associated bodies)	<b>132.3</b>	77.5	<b>132.2</b>	77.5
Net funds	<b>173.0</b>	170.1	<b>169.0</b>	167.1

The bank overdraft includes cheques totalling £6.3m (2002: £6.6m) which have been drawn but not presented against the University's bank account as at 31 July. The management of cash resources provides for a transfer of funds from short term deposits to meet cheques as and when they are presented.

**21 Capital commitments**

	<b>2003 £m</b>	2002 £m
Commitments contracted at 31 July	<b>133.5</b>	98.6
Authorised but not contracted at 31 July	–	4.6

Of the capital expenditure committed at 31 July 2003, approximately 75% (2002: 67%) will be funded by specific grants and donations.

**22 Contingent liabilities**

The financial statements do not include the accounts of the Cambridge University Press Syndicate and the Local Examinations Syndicate. In the event of either of them not having sufficient assets to meet their liabilities, those liabilities would fall to be met by the University as a whole. At 31 December 2002 and 30 September 2002, the dates of their respective latest audited balance sheets, they had total assets which were in excess of their total liabilities. The possibility of the University's liability crystallising is therefore regarded by Council as remote.

**23 Pension schemes**

The two principal pension schemes for the University's staff are the Universities Superannuation Scheme (USS) and the University of Cambridge Contributory Pension Scheme (CPS). The assets of the schemes are held in separate trustee-administered funds. The USS and CPS are not closed, nor is the age profile of their active membership rising significantly.

The schemes are defined benefit schemes which are valued every three years using the projected unit method, by professionally qualified actuaries, the rates of contribution payable being determined by the trustees on the advice of the actuaries. Surpluses or deficits which arise at future valuations may impact on the University's future contribution commitments. The latest valuations for both schemes do not affect the employers' contribution rate.

The University's contributions to the USS and CPS are affected by a surplus or deficit in these schemes but the University is unable to identify its share of the underlying assets and liabilities in the schemes on a reasonable and consistent basis. The University therefore accounts for its contributions to these pension schemes as if they were defined contribution schemes as permitted by FRS17.

The assumptions and other data which have the most significant effect on the determination of the contributions levels are as follows:

	<b>USS March 2002</b>	<b>CPS July 2000</b>
Latest actuarial valuations		
Investment returns per annum	<b>5.0%</b>	<b>9.0%</b>
Salary scale increases per annum	<b>3.7%</b>	<b>7.0%</b>
Pension increases per annum	<b>2.7%</b>	<b>6.0%</b>
Market value of assets at date of last valuation	<b>£19,938m</b>	<b>£265m</b>
Proportion of members' accrued benefits covered by the actuarial value of the assets	<b>101%</b>	<b>135%</b>

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

The University also has a small number of staff in other pension schemes: the Federated Superannuation Scheme for Universities (FSSU) and the National Health Service Superannuation Scheme (NHSSS). In addition the University makes payments to supplement the pensions of retired members of FSSU.

The total pension cost for the year was:	<b>2003</b>	2002
	<b>£m</b>	£m
Contributions to USS	<b>19.4</b>	17.2
Contributions to CPS	<b>0.4</b>	0.4
Contributions to other pension schemes	<b>0.7</b>	0.6
	<b>20.5</b>	18.2

**24 Subsidiary undertakings**

The following companies, all registered in England and Wales, were wholly-owned subsidiary companies throughout the year ended 31 July 2003:

<b>Name</b>	<b>Principal activity</b>
Lynxvale Limited	Provision of construction and development services
Cambridge University Technical Services Limited	Consultancy services and commercial exploitation of intellectual property
Cambridge Manufacturing Industry Links Limited	
Fitzwilliam Museum Enterprises Limited	
The University of Cambridge Challenge Fund Limited	Providing funds to promote the transfer of research to business
The University of Cambridge Challenge Fund Trading Company Limited	
Cambridge University Environmental Projects Limited	Environmental projects

The accounting reference date for all subsidiary undertakings is 31 July, except for Fitzwilliam Museum Enterprises Limited, which has an accounting reference date of 31 January for commercial reasons. The effect of this is not material to the consolidated accounts.

In addition, the University is one of two equal members of Cambridge-MIT Institute Limited (CMI), a joint venture company limited by guarantee whose principal activity is the support of research and educational programmes. At 31 July 2003 and 2002 CMI had nil net assets. In the year ended 31 July 2003 it funded expenditure of £14.8m (2001/02: £7.7m) and its profit after tax was nil (2001/02: nil). During the year CMI reimbursed the University £6.6m (2001/02: £1.9m) for expenditure incurred on projects. As at 31 July 2003 the University was owed £1,418,000 (2002: £662,000) by CMI.

**25 Related party transactions**

During the year ended 31 July 2003 the University of Cambridge Local Examinations Syndicate transferred £3.9m (2001/2002: £3.8m), and the Cambridge University Press Syndicate transferred £0.5m (2001/02: £0.4m) to the University, both of whom are established and regulated by University Statute. These amounts are included in other income.

During the year the University contributed £2.8m in total (2001/02: £2.5m) to the Cambridge Commonwealth Trust, the Cambridge Overseas Trust and the Cambridge European Trust. This expenditure is included in General educational expenditure (note 7). These trusts, together with the Gates Cambridge Trust, in providing scholarships and otherwise, contributed approximately £5.5m (2001/02: £6.0m) to the University in academic fees.

At 31 July the University held the following investments on behalf of related parties	<b>2003</b>	2002
	<b>£m</b>	£m
University of Cambridge Local Examinations Syndicate	<b>101.7</b>	98.0
Cambridge University Press	<b>10.7</b>	9.0
Associated Trusts	<b>62.4</b>	62.6
Total included within current asset investments – see note 13	<b>174.8</b>	169.6

**NOTES TO THE FINANCIAL STATEMENTS (continued)****26 Colleges**

There are 30 Colleges and one Approved Society (the Colleges) each of which is an independent corporation with its own property and income. The individual audited accounts of the Colleges, in a form specified by the University, are published in the *Cambridge University Reporter*.

During the year payments were made by the University from HEFCE funding in respect of the College fees of publicly-funded undergraduates of £30.1m (2001/02: £29.4m).

During the year the University completed the purchase of land from a College at a cost of £8.0m. During the year certain Colleges made donations to fund University buildings and activities totalling £0.4m (2001/02: £1.5m).

<b>Colleges fund</b>	<b>2003</b>	<b>2002</b>
	<b>£m</b>	<b>£m</b>
Balance at 1 August	<b>0.3</b>	0.5
Contributions received from Colleges	<b>2.9</b>	3.6
Interest earned	–	0.1
Payments to Colleges	<b>(3.2)</b>	(3.9)
	<hr/>	<hr/>
Balance at 31 July included in creditors	–	0.3
	<hr/>	<hr/>

The Colleges Fund is administered by the University on behalf of the Colleges, who make all contributions to and receive all allocations from the Fund. The transactions on the Colleges Fund are not included in the income and expenditure account.

<b>27 Access funds</b>	<b>2003</b>	<b>2002</b>
	<b>£000</b>	<b>£000</b>
Funding Council grants	<b>588</b>	588
Interest earned	<b>4</b>	13
	<hr/>	<hr/>
Disbursed to students	<b>592</b>	601
	<b>(592)</b>	(601)
	<hr/>	<hr/>
Balance unspent at 31 July	–	–
	<hr/>	<hr/>

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

**APPENDIX****CAMBRIDGE UNIVERSITY PRESS AND  
UNIVERSITY OF CAMBRIDGE LOCAL EXAMINATIONS  
SYNDICATE**

The totals below show a summary financial position at the year end for each body.  
The accounting periods are not co-terminous.

	Press Syndicate	Local Examinations Syndicate
	31 December 2002	30 September 2002
	£m	£m
<b>INCOME AND EXPENDITURE</b>		
Income	129.2	133.5
Expenditure	131.7	131.9
	<hr/>	<hr/>
Net (outgoing) / incoming resources for the year	(2.5)	1.6
	<hr/>	<hr/>
<b>BALANCE SHEET</b>		
<b>Fixed Assets</b>		
Intangible fixed assets	–	3.2
Tangible fixed assets	45.9	28.4
Invested funds	28.0	64.6
	<hr/>	<hr/>
	73.9	96.2
	<hr/>	<hr/>
<b>Current Assets</b>		
Stock and work in progress	34.5	0.9
Debtors	26.1	23.8
Investments	–	24.2
Bank balances etc	11.2	1.2
	<hr/>	<hr/>
	71.8	50.1
	<hr/>	<hr/>
<b>Creditors</b>		
Amounts falling due within one year	(28.5)	(29.9)
	<hr/>	<hr/>
<b>Net Current Assets</b>	43.3	20.2
	<hr/>	<hr/>
<b>Total assets less current liabilities</b>	117.2	116.4
Long-term financing	(5.2)	–
Provisions for liabilities and charges	–	(0.9)
	<hr/>	<hr/>
<b>TOTAL NET ASSETS</b>	112.0	115.5
	<hr/>	<hr/>
<b>Represented by:</b>		
General reserve	102.3	101.9
Designated funds	9.7	0.9
Restricted funds	–	12.7
	<hr/>	<hr/>
<b>TOTAL FUNDS</b>	112.0	115.5
	<hr/>	<hr/>

The above figures are extracted from the financial statements as published. The University of Cambridge Local Examinations Syndicate accounts for the year ended 30 September 2002 were published in *Cambridge University Reporter* Special number 14 (2 May 2003).

The *Cambridge University Reporter* appears each Wednesday during Term. Special Numbers are also published from time to time.

*Editorial*

Notices for publication in the *Reporter* should be sent to Rachael Tuley, Editor, Cambridge University Reporter, Secretariat, The Old Schools, Cambridge, CB2 1TN (tel. 01223 332305; fax 01223 332332; e-mail: rlt23@admin.cam.ac.uk). Copy should be sent as early as possible in the week before publication; short notices will be accepted up to **4 p.m. on Thursday** for publication the following Wednesday. Inclusion is subject to availability of space.

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