

Financial Statements

for the year to 31 July 2006

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Report of the Treasurer & Director of Finance on the Accounts for the year ended 31 July 2006

Scope of the Financial Statements

The Financial Statements presented to the Council comprise the consolidated results of the College, and its subsidiary undertakings KCL Enterprises Ltd, Closeworld Ltd, College Facilities Ltd, Doublerace Ltd and KCL Library and Archive Services Ltd.

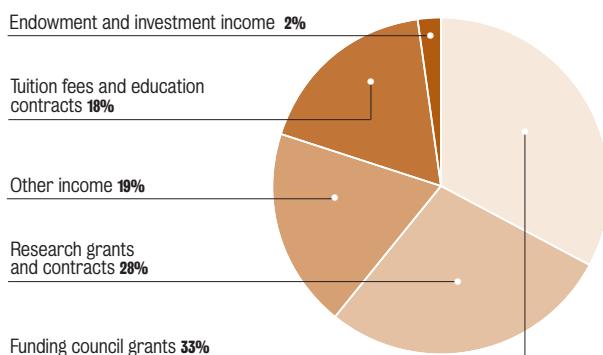
KCL Enterprises Ltd undertakes activities associated with the promotion of research contracts, intellectual property rights and other marketable activity which, for legal or commercial reasons, are more appropriately channelled through a limited company. Taxable profits of KCL Enterprises Ltd are gift aided back to the College.

KCL Library and Archive Services Ltd provides library and related services to parts of the College. The remaining subsidiary companies are associated with the delivery of major building projects, related services and letting activity.

Results for the Year

Total income for the year increased by 6.6% to £388.0m (2004/05 £364.0m). Total expenditure for the year increased

Income



by 6.2% to £376.0m (2004/05 £354.0m), giving a surplus on normal operations of £12.0m (2004/05 £10m plus a £1.2m profit on the disposal of Cobham Sportsground) as follows:

	2005/06 £'000	2004/05 £'000
Income	387,951	363,976
Expenditure	(375,961)	(353,918)
Surplus on normal operations	11,990	10,058
Surplus on disposal of property	-	1,215
Taxation	(1)	(9)
Surplus after depreciation of assets at cost and tax	<u>11,989</u>	<u>11,264</u>

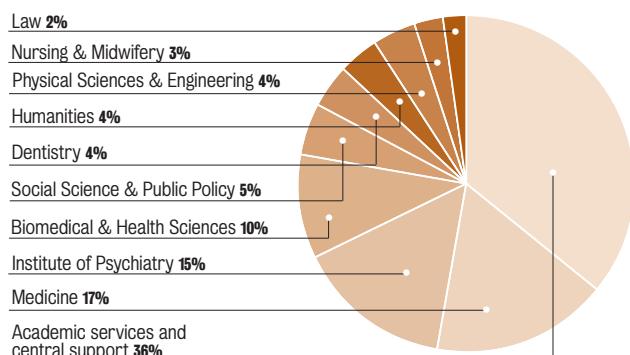
The results for the year are consistent with management's expectations and can be further analysed as follows:

	2005/06 £'000	2004/05 £'000
Surplus on operating activities	5,145	3,307
Impact of FRS 17	151	64
Surplus on departmental activities	3,919	4,522
Other non-recurring gains	2,775	2,165
	<u>11,990</u>	<u>10,058</u>
Surplus as a % of total income	3.1%	2.7%

The Accounting Standard FRS 17 relating to retirement benefits was implemented in full during 2005/06 resulting in a net credit to the income and expenditure account of £0.151m with recognition of the £9.5m net pensions liability on the balance sheet with matching reduction in reserves. The financial statements for 2004/05 have also been re-stated on a comparable basis the effect of which has been to increase the surplus by £0.064m to £11.264m under FRS 17, and to reduce balance sheet reserves by £4.6m as at 31 July 2005.

The £5.1m surplus for the year on operating activities compares with a break-even budget after planned investment during the year. Whilst this falls some way short of the Strategic Plan objective of a 3% surplus on operating

Expenditure



activities, it is pleasing to be able to report an increasing level of surplus at a time of significant investment in new academic initiatives and in the face of increasing cost pressures.

The operating result masks a number of variances both positive and negative. Tuition fee income was down £0.8m against budget; similarly indirect cost recoveries on research grants and contracts were down £0.5m against budget, although this represents an improvement over the previous year with total research income up 9%. Investment income was up £2.1m against budget due to both higher than budgeted interest rates and higher average cash balances through the year. There were also significant savings in planned expenditure but with some virement between pay and non-pay budget heads.

The shortfall between the operating result and the Strategic Plan target surplus has been made good by some £2.8m of non-recurring gains relating to timing differences between actual and planned recurrent investment and other one-off receipts, and a £3.9m surplus on departmental activities.

The £3.9m surplus on departmental activities is credited to departmental reserves, which increased to £32.5m at 31 July 2006 including a £1.7m transfer from revenue reserves relating to the former Institute of Applied Health and Social Policy.

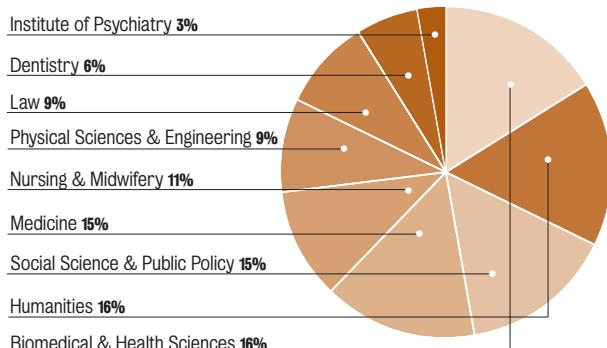
An analysis of the College's income by funding source together with a breakdown of expenditure by the Schools of the College is given on page 2.

An analysis of student load which decreased by 1.8% compared with 2005, and total staff which increased by 0.8% from 2005 levels, is given below.

Capital Projects

During the year the College made further progress towards achieving its estates strategic aims, investing some £36.4m (2004/05 £53.8m), in buildings and equipment replacement and renewal.

Student Load



The first phase of the Strand redevelopment project was completed largely to time and budget and was officially opened by the Chancellor of the University of London in spring 2006, with the second phase now underway. Similarly the first phase of the redevelopment of the Institute of Psychiatry main building at Denmark Hill was successfully completed, with the second phase proceeding to plan.

The College made good progress with the remainder of its capital programme with plans for further significant investment in research facilities at both the Guy's and St Thomas' campuses. In addition the new Centre for Cell and Integrative Biology at Denmark Hill is now expected to open in early 2007.

Philanthropy has also played a part in realising the College's estates ambitions during the year, with some £7.0m of development funding committed to supporting the new Cicely Saunders Institute of Palliative Care at Denmark Hill, and fundraising continues in earnest for the proposed Clinical Neuroscience Institute in conjunction with King's College Hospital.

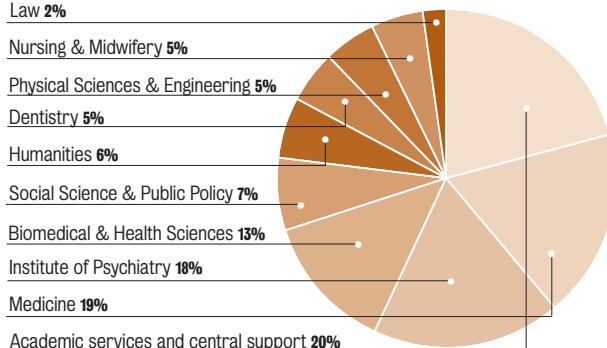
There were positive developments in relation to other aspects of the College's estates strategy, in particular proposals to establish new clinical research facilities across the three clinical campuses and developing opportunities around the Strand Campus.

Planning permission for the redevelopment of the Honor Oak Park sportsground was granted shortly after the year end, including the provision of two all-weather pitches, a new pavilion and associated improvements to landscaping and parking. Heads of terms have also been agreed for the sale of part of the Hampstead Campus with completion anticipated in early 2007, which will finance further improvement in the College's residential stock.

Cash Reserves & Long-Term Liabilities

Cash inflow from operating activities during the year was £17.1 (2004/05 £20.8m) with year end cash balances reducing slightly to £68.9m (2004/05 £69.4m). The College

Staff



drew down £10.8m of funding from National Australia Bank in relation to the Strand Phase I redevelopment project and the Centre for Cell and Integrative Biology, although a similar sum was placed in a sinking fund such that net debt remained largely unchanged at £49.9m (2004/05 £49.3m). There were no other changes to the College's long-term borrowing levels or banking facilities during the year.

Endowment Assets & Investment Performance

The College continues to move towards a 'total return' basis of investment under the supervision of the Investment Sub-Committee with investment advice and monitoring provided by Cambridge Associates. The move to total return is likely to take a number of years given the need first to establish an adequate investment cushion, and in the meantime the College has adapted an intermediary position which moves the College towards a total return investment mix but ensures the College's need for income is satisfied within a more diversified portfolio.

The Investment Sub-Committee meets regularly during the year to review performance of the investment managers with regular re-balancing of the portfolio to maintain the diversification benefits of the asset allocation strategy.

During the year the market value of investments increased to £111.8m (2004/05 £103.3m), including £0.2m new capital received from benefactors. The total return achieved by the investment managers was 11.2%, including income yield of 3.1%, with the portfolio out performing the College's weighted benchmark index for both income yield and capital growth.

Conclusion

The financial statements reflect the continuing improvement in the College's finances over recent years, and it is particularly pleasing to be able to report a surplus in line with Strategic Plan expectations at a time of unprecedented investment in the academic infrastructure of the College.

However despite these recent gains the resource base of the College still falls some way short of that available in the world's leading research-intensive universities. Whilst the additional funding anticipated from 'top up' fees and full economic costing is welcome, this income alone will not enable the College to realise its ambitions in an increasingly competitive and global higher education marketplace.

If the College is to succeed in this environment it will need to be ever more resourceful and innovative, with a

greater focus on performance and delivery. The aspiration and ambition will need to be translated into detailed plans and action.

The College will need to generate significant additional income from full fee-paying students (both postgraduate and overseas), fundraising, commercialisation and knowledge transfer, and efficiency gains – particularly improved utilisation of the physical estate.

Only then will the College be able to generate the additional resource needed to finance investment in the people, systems and infrastructure necessary to compete at the highest international levels and for King's to become a truly world-class institution.

The finance team deserves high praise for the level of financial discipline and respect that has been created within the College amongst both academics and administrators. A key to this is the visibility of the investments that we have been able to make as a result of the generation of a surplus, or as we prefer to call it 'the funds for re-investment'. Another key factor is our ability to invest (academically, in plant and equipment development) at our own discretion and according to our own priorities.

This again demonstrates the ability of the College to run its own affairs both financially and from a governance viewpoint. We hope that Government will realise that excessive control, direction and inspection run the risk of wasting time and money which would be far better directed to our mission of teaching and research.

David Potter
Treasurer

Stephen Large
Director of Finance

Corporate governance

The following statement is provided to enable readers of the financial statements of the College to obtain a better understanding of the governance and legal structure of the College.

The College endeavours to conduct its business:

- (a) in accordance with the seven principles identified by the Nolan Committee on standards in public life (selflessness; integrity; objectivity; accountability; openness; honesty; leadership) and
- (b) in the light of the guidance to universities that has been provided by the Committee of University Chairmen in its Guide for Members of Governing Bodies of Universities in England and Wales.

The College is an independent corporation whose legal status derives from a Royal Charter originally granted in 1829. Its objects, powers and framework of governance are set out in the Charter and supporting Statutes.

The Charter and Statutes require the College to have two bodies, the Council and the Academic Board, each with clearly defined functions and responsibilities, to oversee and manage its activities.

The Council is the executive governing body responsible for the finance, property, investment and conduct of all affairs of the College including the strategic direction of the institution. The Council comprises lay members, from whom its Chairman and Vice Chairman must be drawn, but also included in its membership are representatives of the staff of the College and the student body. None of the lay members receives any payment, apart from the reimbursement of expenses, for the work that they do for the College.

The Academic Board is the academic authority of the College and draws its membership mainly from the academic staff and the students of the institution. It is the body responsible for the academic work of the College in teaching, examining and research.

Although the Council meets at least three times each academic year, most of its detailed business is handled by committees, in particular an Amenities Committee, an Audit Committee, an Estates Strategy Committee, a Finance Committee, Remuneration Committees, a Safety Policy Committee and a Staffing Policy Committee. Each of these committees is formally constituted with written terms of reference and specified membership, including a

significant proportion of lay members, from whom its Chairman is drawn; each reports regularly to the Council.

The Finance Committee *inter alia* recommends to Council the College's annual revenue and capital budgets and monitors performance in relation to the approved budgets.

The Remuneration Committees determine the annual remuneration of professorial and senior administrative staff.

The Audit Committee is responsible for meeting, at least once annually, with the External Auditors, to discuss audit findings, and with the Internal Auditors, to consider detailed internal audit reports and recommendations for the improvement of the College's systems of internal control, together with management's response and implementation plans. They receive and consider reports from the Higher Education Funding Council for England and the Training and Development Agency for Schools as they affect the College's business and monitor adherence with the regulatory requirements. They also approve comprehensive Financial Regulations for the conduct of the financial affairs of the College and review the College's annual financial statements together with the accounting policies.

The principal academic and administrative officer of the College is the Principal, who is responsible to the Council for securing the implementation of the decisions of the Council and maintaining and promoting the efficiency and good order of the College. The Principal is also, under the terms of the formal Financial Memorandum between the College and the Higher Education Funding Council, the designated Accounting Officer of the College and in that capacity can be summoned to appear before the Public Accounts Committee of the House of Commons.

The Statutes of the College specify that the College Secretary should act as Secretary of the Council and the Academic Board, and any enquiries about the constitution and governance of the College should be addressed to the College Secretary.

Full statement of internal control

The Council, as the governing body of the College, has 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 the Council is responsible, in accordance with the responsibilities assigned to the governing body in the charter and statutes and the Financial Memorandum with HEFCE.

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 evaluate the nature and extent of those risks; and to manage them efficiently and effectively. This process was in place for the year ended 31 July 2006 and up to the date of the approval of the financial statements, and accords with HEFCE guidance.

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

- The Council considers the plans and strategic direction of the College on an annual basis.
- The Council has delegated to the Audit Committee responsibility for reviewing the effectiveness of internal control systems and the risk management process.
- The Council receives periodic reports from the Chairman of the Audit Committee concerning issues of risk, internal controls and their effectiveness, which are informed by regular reports from vice-principals and other managers on the steps they are taking to manage risks in their areas of responsibility, including progress reports on key projects.
- The Audit Committee reports to Council its findings in respect of the effectiveness of the risk management process. This is informed by the categorisation of risks and the maintenance of a College-wide risk register.
- The Audit Committee receives regular reports from the head of internal audit on the effectiveness of internal controls based on work undertaken in accordance with its approved audit plan.
- The Principal's central team is the focal point within the College for the enhancement of the risk

management process and receives regular reports from heads of schools and departments in support of this.

- The business planning process requires heads of schools and departments to identify and keep up-to-date the record of risks facing the College and to report on internal control activities.
- A programme of risk awareness training is underway.
- A system of key performance and risk indicators has been developed to enable the Council to monitor progress towards the achievement of strategic objectives.
- A research project aimed at enhancing management decision-making in the area of risk management through the development of practices at the operational level is underway and is actively seeking to embed risk management into all of the College's activities.

The College has an internal audit department, which operates to standards defined in the HEFCE Code of Practice on Audit and Accountability and which was last reviewed for effectiveness by the HEFCE Audit Service in December 2003. The internal audit department submits regular reports to the Audit Committee, that include the head of internal audit's independent opinion on the adequacy and effectiveness of the College's system of internal control, together with recommendations for improvement.

The Council's full review of the effectiveness of the system of internal control for the year ended 31 July 2006 was informed by the Audit Committee, the work of the internal audit department and the executive managers within the College 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.

Responsibilities of the College Council

In accordance with the Royal Charter, the Council of King's College London is responsible for the administration and management of the affairs of the College; it requires audited financial statements to be presented for each financial year.

The Council is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the College and which enable it to ensure that the financial statements are prepared in accordance with the Royal Charter, the Statement of Recommended Practice on Accounting for Further and Higher Education Institutions and other relevant accounting standards. In addition, within the terms and conditions of the Financial Memorandum and of the Funding Agreement agreed between the Higher Education Funding Council for England and Training and Development Agency for Schools respectively and the Council of the College, 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 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;
- financial statements are prepared on the going concern basis unless it is inappropriate to presume that the College will continue in operation.

The Council has taken reasonable steps to:

- ensure that funds from the Higher Education Funding Council for England and Training and Development Agency for Schools are used only for the purposes for which they have been given and in accordance with the Financial Memorandum and the Funding Agreement with these bodies;
- ensure that professional financial management is in place in terms of numbers of staff and their quality;
- 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 College and prevent and detect fraud;
- secure the economical, efficient and effective management of the College's resources and expenditure.

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

- clear definitions of the responsibilities of, and the authority delegated to, heads of academic and administrative departments;
 - a comprehensive medium- and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets;
 - regular reviews of academic and non-academic performance and quarterly 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 according to approval levels set by the Council;
 - comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Audit Committee;
 - a professional independent internal audit team whose annual programme is approved by the Audit Committee and endorsed by the Council and whose head provides the Council with a report on internal audit activity within the College and an opinion on the adequacy and effectiveness of the College's system of internal control, including internal financial control.
- Any system of internal financial control can, however, only provide reasonable, but not absolute, assurance against material misstatement or loss.

Independent auditors' report to the Council of King's College London

We have audited the Group and College financial statements (the "financial statements") of King's College London for the year ended 31 July 2006 which comprise the consolidated Income and Expenditure Account, the consolidated and College Balance Sheets, the consolidated Cash Flow Statement, the consolidated statement of total recognised gains and losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Council, in accordance with the Charter and Statutes of the College. 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 College Council and the Auditors

The College Council is responsible for preparing the Treasurer's Report and the consolidated financial statements in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education, applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Responsibilities on page 7.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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: Accounting for Further and Higher Education. We also report to you whether income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the College have been properly applied only for the purposes for which they were received and whether, in all material respects, income has been applied in accordance with the Statutes and, where appropriate, with the Financial Memorandum with the Higher Education Funding Council for England, and the Training and Development Agency for Schools. We also report to you whether in our opinion the Treasurer's Report is not consistent with the financial statements, if the College has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the Treasurer's Report and the Corporate Governance Statement and consider the implications for our report if we become aware of any apparent misstatements within them or material inconsistencies with the financial statements.

Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 College Council in the preparation of the financial statements and of whether the accounting policies are appropriate to the Group and College's circumstances, 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.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the College and the group as at 31 July 2006 and of the group's surplus of income over expenditure for the year then ended;
- the financial statements have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education;
- in all material respects, income from the Higher Education Funding Council for England, and the Training and Development Agency for Schools, grants and income for specific purposes and from other restricted funds administered by the College during the year ended 31 July 2006 have been applied for the purposes for which they were received; and
- in all material respects, income during the year ended 31 July 2006 has been applied in accordance with the College's statutes and, where appropriate, with the financial memorandum with the Higher Education Funding Council for England, and the funding agreement with the Training and Development Agency for Schools.

12 December 2006

KPMG LLP

Chartered Accountants, Registered Auditor

1 Forest Gate, Brighton Road, Crawley, West Sussex, RH11 9PT

Disclaimer

- 1 The maintenance and integrity of the King's College London's website is the responsibility of the Council; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements or audit report since they were initially presented on the website.
- 2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ to legislation in other jurisdictions.

Statement of principal accounting policies

1. Accounting convention

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of Endowment Asset Investments, and in accordance with both the Statement of Recommended Practice on Accounting for Further and Higher Education Institutions (SORP) and applicable Accounting Standards.

2. Basis of consolidation

The consolidated financial statements consolidate the financial statements of the College and all its subsidiary undertakings for the financial year to 31 July.

The consolidated financial statements do not include those of the King's College London Students' Union, in which the College has no financial interest and no control or significant influence over policy decisions.

3. Recognition of income

Income from General and Specific Endowments, 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 is credited to the Income and Expenditure Account on a receivable basis.

4. Pension schemes

The two principal pension schemes in which the College participates are the Universities Superannuation Scheme (USS), and the Superannuation Arrangements of the University of London (SAUL). The schemes are defined benefit schemes which are externally funded and contracted out of the Second State Pension. The schemes are valued every three years by professionally qualified and independent actuaries using the projected unit method, the rates of contribution payable being determined by the trustees on the advice of the actuaries. In the intervening years, the actuaries review the progress of the scheme. Pension costs are assessed in accordance with the advice of the actuaries, based on the latest actuarial valuations of the schemes, and are accounted for on the basis of charging the cost of providing pensions over the period during which the College benefits from the employees' services.

The College has fully adopted accounting standard FRS17 Retirement Benefits during the year. Previously the transitional disclosures of that standard have been followed. The impact of this standard has been reflected throughout the financial statements. Prior year comparatives have been restated where appropriate.

The difference between the fair value of the assets held in the College's defined benefit pension schemes and the scheme's liabilities measured on an actuarial basis using the projected unit method are recognised in the College's balance sheet as a pension scheme liability. The pension scheme balance is recognised net of any related deferred tax balance.

Changes in the defined benefit pension scheme liability arising from factors other than cash contribution by the College are charged to the income and expenditure account or the statement of total recognised surpluses and deficits in accordance with FRS17 Retirement Benefits.

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 either at year-end rates or, where there are related forward foreign exchange contracts, at contract 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 & buildings

Land and buildings are stated at cost. Buildings are depreciated over their expected useful lives of 50 years, and 100 years in respect of new build property, and leasehold land over the life of the lease.

In respect of the new property, where buildings are acquired with the aid of specific grants they are capitalised and depreciated as above. The related grants are treated as deferred capital grants and released to income over the expected useful life of the buildings. Freehold assets during the course of construction are not depreciated.

8. Furniture & equipment

Furniture and equipment, including computers and software, costing less than £10,000 per individual item or group of related items is written off in the year of acquisition. All other furniture and equipment is capitalised.

Capitalised furniture and equipment, including motor vehicles, is stated at cost and depreciated over its expected useful life of five years.

Where furniture and equipment is acquired with the aid of specific grants it is capitalised and depreciated as above. The related grant is treated as a grant received in advance and released to income over the expected useful life of the equipment.

9. Investments

Endowment Asset Investments are included in the Balance Sheet at market value. Current Asset Investments are included at the lower of cost or net realisable value.

10. Cash flows & 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. No investments, however liquid, are included as cash.

Liquid resources comprise assets held as a readily disposable store of value. They include term deposits, government securities and loan stock held as part of the College's treasury management activities. They exclude any such assets held as Endowment Asset Investments.

11. Maintenance of premises

The College has a five-year rolling maintenance plan which is reviewed on an annual basis. The cost of routine corrective maintenance is charged to the Income and Expenditure Account as incurred.

12. Taxation status

The College 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 College 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 College receives no similar exemption in respect of Value Added Tax.

The College's subsidiary companies are subject to

corporation tax and VAT in the same way as any other commercial organisation. However, no provision has been made for deferred tax on the grounds that the taxable profits of the subsidiary companies are gift aided back to the College.

13. Related party transactions

The College has taken advantage of the exemption that is conferred by Financial Reporting Standard Number 8, Related Party Disclosures, which allows it not to disclose transactions with Group undertakings that are eliminated on consolidation.

14. Endowments

Endowment income from investments that has not been transferred to the College's Income and Expenditure Account is shown as unexpended endowment income under creditors.

15. Provisions

Provisions are recognised when the College has a present legal or constructive obligation as a result of a past event, it is probable that a transfer of economic benefit will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Consolidated Income and Expenditure Account

For the year ended 31 July 2006

	Note	2005/06 £000	2004/05 Restated £000
Income			
Funding Council grants	1	127,824	120,233
Tuition fees and education contracts	2	68,384	65,557
Research grants and contracts	3	110,637	101,463
Other operating income	4	73,089	69,843
Endowment income and interest receivable	5	8,017	6,880
Total income		<u>387,951</u>	<u>363,976</u>
Expenditure			
Staff costs	6	237,541	225,924
Depreciation	11	14,828	14,756
Other operating expenses	7	113,700	103,606
Interest payable	8	9,892	9,632
Total expenditure	10	<u>375,961</u>	<u>353,918</u>
Surplus on ordinary activities		<u>11,990</u>	<u>10,058</u>
Surplus on disposal of property		<u>-</u>	<u>1,215</u>
Surplus after depreciation of assets at cost and before tax		<u>11,990</u>	<u>11,273</u>
Taxation	9	<u>1</u>	<u>9</u>
Surplus after depreciation of assets at cost, disposal of property and tax		<u>11,989</u>	<u>11,264</u>

The consolidated income and expenditure of the College and its subsidiaries relates wholly to continuing operations.

There is no difference between the surplus stated above and the historical cost equivalent.

Statement of Consolidated Total Recognised Gains and Losses

For the year ended 31 July 2006

	<i>Note</i>	2005/06 £000	2004/05 Restated £000
Surplus after depreciation of assets at cost and tax		11,989	11,264
Change in value of endowment asset investments	<i>20</i>	8,115	13,705
Endowment income movement for the year	<i>20</i>	366	(415)
New endowments	<i>20</i>	367	669
Actuarial loss on pension schemes	<i>29</i>	(5,052)	(371)
(Increase)/Decrease in unexpended endowment income	<i>15</i>	(315)	1,150
Total recognised gains relating to the year		15,470	26,002
Prior year adjustment	<i>31</i>	(4,329)	-
Total gains recognised since the last annual report		11,141	26,002

Reconciliation

Opening reserves and endowments		234,580	208,578
Prior year adjustment		4,329	-
Total recognised gains for the year		11,141	26,002
Closing reserves and endowments		250,050	234,580

Consolidated and College Balance Sheets

As at 31 July 2006

	<i>Note</i>	Consolidated		College	
		2006 £'000	2005 Restated £'000	2006 £'000	2005 Restated £'000
Fixed assets					
Tangible assets	11	565,582	543,986	431,486	407,756
Investments	12	48	48	89,728	89,728
		<u>565,630</u>	<u>544,034</u>	<u>521,214</u>	<u>497,484</u>
Endowment asset investments	13	111,854	103,321	111,854	103,321
Current assets					
Debtors	14	32,991	38,029	87,061	92,839
Cash at bank and in hand		68,879	69,440	66,704	66,785
		<u>101,870</u>	<u>107,469</u>	<u>153,765</u>	<u>159,624</u>
Creditors: amounts falling due within one year	15	(100,622)	(103,960)	(107,704)	(109,131)
Net current assets		<u>1,248</u>	<u>3,509</u>	<u>46,061</u>	<u>50,493</u>
Total assets less current liabilities		678,732	650,864	679,129	651,298
Creditors: amounts falling due after more than one year	16	(118,113)	(119,444)	(115,638)	(116,143)
Provisions for liabilities and charges	18	(1,792)	(4,350)	(1,792)	(4,350)
Net assets excluding pensions liability		<u>558,827</u>	<u>527,070</u>	<u>561,699</u>	<u>530,805</u>
Net pensions liability	21	(9,537)	(4,636)	(9,537)	(4,636)
Total net assets including pensions liability		<u>549,290</u>	<u>522,434</u>	<u>552,162</u>	<u>526,169</u>
Deferred capital grants	19	299,240	287,854	299,240	287,854
Endowments	20	111,854	103,321	111,854	103,321
Reserves					
Income and expenditure account excluding pension reserve	21	147,733	135,895	150,605	139,630
Pension reserve		(9,537)	(4,636)	(9,537)	(4,636)
		<u>138,196</u>	<u>131,259</u>	<u>141,068</u>	<u>134,994</u>
Total funds		<u>549,290</u>	<u>522,434</u>	<u>552,162</u>	<u>526,169</u>

The financial statements on pages 13 to 29 were approved by the Council on 12 December 2006 and signed on its behalf by:

Professor Richard Trainor
*Principal*David Potter
Treasurer

Consolidated Cash Flow Statement

For the year ended 31 July 2006

	<i>Note</i>	2005/06 £000	2004/05 Restated £000
Net cash inflow from operating activities	23	17,080	20,787
Returns on investments and servicing of finance	24	2,927	963
Capital expenditure and financial investment	25	(16,196)	(16,142)
Cash inflow before use of liquid resources and financing		3,811	5,608
Management of liquid resources	26	258	3,455
Financing	27	(4,630)	(4,135)
Increase in cash	28	<u>(561)</u>	<u>4,928</u>

Reconciliation of net cash flow to movement in net debt

	<i>Note</i>	2005/06 £000	2004/05 £000
Increase in cash in the year		(561)	4,928
Cash outflow from liquid resources		(258)	(3,455)
Increase in debt		<u>182</u>	<u>(1)</u>
Movement in net debt in the year		637	1,472
Net debt at 1 August		(49,283)	(50,755)
Net debt at 31 July	28	<u>(49,920)</u>	<u>(49,283)</u>

Notes to the accounts

For the year ended 31 July 2006

	2005/06 £000	2004/05 £000
1. FUNDING COUNCIL GRANTS		
Higher Education Funding Council for England grants		
Recurrent grant	114,905	107,966
Specific grants:		
Human resource supplement	-	-
Other	4,365	3,624
Deferred capital grants released in the year:		
Buildings (<i>note 19</i>)	2,908	2,889
Equipment (<i>note 19</i>)	1,754	1,593
	<u>123,932</u>	<u>116,072</u>
Joint Information Systems Committee grants	2,634	2,841
Training and Development Agency for Schools		
Recurrent grant	1,183	1,198
Specific grants	75	122
	<u>1,258</u>	<u>1,320</u>
Total Funding Council and Agency grants	<u>127,824</u>	<u>120,233</u>
2. TUITION FEES & EDUCATION CONTRACTS	2005/06 £000	2004/05 £000
Full-time students charged home fees	16,917	16,525
Full-time students charged overseas fees	23,830	22,795
Regional health authorities contracted student fees	20,365	19,951
Part-time fees	3,249	2,679
Special and short course fees	3,962	3,554
Research training support grants	61	53
	<u>68,384</u>	<u>65,557</u>
3. RESEARCH GRANTS & CONTRACTS	2005/06 £000	2004/05 £000
Research councils	26,593	21,046
UK central government, local authorities, health and hospital authorities	24,513	19,879
UK industry, commerce and public corporations	11,372	10,769
UK charitable bodies	36,152	35,960
EU government and other bodies	5,051	5,126
Other overseas	6,191	6,830
Other	765	1,853
	<u>110,637</u>	<u>101,463</u>

Notes to the accounts *continued*

For the year ended 31 July 2006

4. OTHER INCOME

	2005/06 £000	2004/05 £000
Academic departments' costs reimbursed by NHS	16,681	14,350
Distinction and merit awards reimbursed by NHS	8,628	8,377
Residences, catering and conferences	13,322	12,938
Services rendered to NHS and related bodies	7,473	5,472
Self-financing activities	14,655	16,188
Released from deferred capital grants	2,206	2,155
Other income	10,124	10,363
	<u>73,089</u>	<u>69,843</u>

5. ENDOWMENT & INVESTMENT INCOME

	2005/06 £000	2004/05 Restated £000
Transferred from specific endowments (<i>note 20</i>)	3,586	3,402
Pension scheme investment income	294	4
Other interest receivable	4,137	3,474
	<u>8,017</u>	<u>6,880</u>

6. STAFF

	2005/06 £000	2004/05 £000
Staff costs:		
Wages and salaries	199,791	190,359
Social security costs	16,652	15,449
Other pension costs (<i>note 29</i>)	21,098	20,176
	<u>237,541</u>	<u>225,984</u>

Emoluments of the Principal:

Other emoluments	215	169
Benefits-in-kind	5	4
	<u>220</u>	<u>173</u>
Pension scheme contributions	36	34
	<u>256</u>	<u>207</u>

Emoluments of the Acting Principal:

Other emoluments	-	14
Benefits-in-kind	-	-
	<u>-</u>	<u>14</u>
Pension scheme contributions	-	1
	<u>-</u>	<u>15</u>
Total emoluments of the Principal and Acting Principal	<u>256</u>	<u>222</u>

Emoluments of the Principal reflect the appointment of the Principal on the 1 September 2004 and the Acting Principal who served until the 31 August 2004.

The pension contributions for the Principal and the Acting Principal in respect of employer's contributions to the Universities Superannuation Scheme are paid at the same rate as for other employees. Contributions were also paid to a FURBS pension arrangement in respect of the Principal.

Notes to the accounts *continued*

For the year ended 31 July 2006

6. STAFF (CONTINUED)	2005/06 Number	2004/05 Number
Average staff numbers, expressed as full-time equivalents:		
Academic/clinical, including research contract staff	2,505	2,511
Administrative and related staff	736	685
Technical	346	362
Clerical	843	846
Other	142	130
	4,572	4,534

Remuneration of higher paid staff, excluding employer's pension contributions but including payments made on behalf of the NHS in respect of its contractual obligations to College staff under separate NHS contracts of employment and which are included in the College's Income and Expenditure Account from 1 August 1994:

	2005/06 Number	2004/05 Number
£ 70,001 - £ 80,000	72	77
£ 80,001 - £ 90,000	39	43
£ 90,001 - £ 100,000	39	36
£ 100,001 - £ 110,000	25	37
£ 110,001 - £ 120,000	20	22
£ 120,001 - £ 130,000	20	31
£ 130,001 - £ 140,000	17	12
£ 140,001 - £ 150,000	9	1
£ 150,001 - £ 160,000	13	10
£ 160,001 - £ 170,000	13	5
£ 170,001 - £ 180,000	8	5
£ 180,001 - £ 190,000	8	2
£ 190,001 - £ 200,000	10	2
£ 200,001 - £ 210,000	3	3
£ 210,001 - £ 220,000	5	4
£ 220,001 - £ 230,000	3	-
£ 230,001 - £ 240,000	1	-
£ 240,001 - £ 250,000	2	-
£ 300,001 - £ 310,000	1	-

The Accounts include severance payments (including the cost of additional pension benefits purchased by the College) amounting to £391,000 (2005 - £109,000) for four (2005 - three) higher paid employees.

7. OTHER OPERATING EXPENSES	2005/06 £'000	2004/05 £'000
Research grants and contracts	38,471	35,826
Residences, catering and conferences operating expenses	5,807	5,802
Books and periodicals	2,754	2,628
Heat, light, water and power	5,742	5,091
Repairs and general maintenance	10,946	11,123
University of London charges	1,657	1,721
Services rendered to NHS and related bodies	2,988	2,474
Self-financing activities	3,435	4,469
Equipment items below £10,000 from general funds	2,368	1,952
Grants to King's College Students' Union	1,066	881
Communications, advertising and other services	9,180	7,134
Travelling, conference and related costs	3,189	3,011
Rents	3,397	3,428
Laboratory costs	1,891	2,979
Security and cleaning	7,429	6,699
Business rates and other premises costs	1,673	1,670

Notes to the accounts *continued*

For the year ended 31 July 2006

7. OTHER OPERATING EXPENSES (CONTINUED)

	2005/06 £000	2004/05 £000
Auditors' remuneration	95	90
Auditors' remuneration in respect of non-audit services	54	68
Other expenses	<u>11,558</u>	6,560
	<u>113,700</u>	<u>103,606</u>

8. INTEREST PAYABLE

	2005/06 £000	2004/05 £000
Loans not wholly repayable within five years	7,966	7,959
Finance leases	<u>1,926</u>	1,673
	<u>9,892</u>	<u>9,632</u>

9. TAXATION

	2005/06 £000	2004/05 £000
UK corporation tax payable on the profits of subsidiary companies	<u>1</u>	<u>9</u>

The tax charge arises from taxable profits that were not paid under gift aid by subsidiary companies to King's College London. The Council does not believe that the College is liable for any corporation tax arising out of its activities during the year.

10. ANALYSIS OF 2006 EXPENDITURE BY ACTIVITY

	Staff costs £000	Depreciation £000	Other operating expenses £000	Interest payable £000	Total £000
Academic departments	103,214	2,757	13,228	-	119,199
Academic departments costs reimbursed by NHS	15,887	-	679	-	16,566
Distinction and merit awards reimbursed by NHS	8,743	-	-	-	8,743
Academic services	15,922	1,475	7,993	-	25,390
Research grants and contracts	55,078	2,293	38,471	-	95,842
Residences, catering and conferences	3,308	-	5,807	4,207	13,322
Premises	6,572	8,180	28,198	-	42,950
Administration	15,816	79	4,594	-	20,489
Staff and student facilities	1,318	38	4,289	-	5,645
General education expenditure	341	3	1,660	-	2,004
University of London federal subscription	-	-	734	-	734
Services rendered to NHS and related bodies	4,522	-	2,309	-	6,831
Self-financing activities	6,524	-	3,435	-	9,959
Pension costs	143	-	-	-	143
Other	153	3	2,303	5,685	8,144
Total per income and expenditure account	<u>237,541</u>	<u>14,828</u>	<u>113,700</u>	<u>9,892</u>	<u>375,961</u>

The depreciation charge has been funded by:

Deferred capital grants released (<i>note 19</i>)	9,161
General income	5,667
	<u>14,828</u>

Notes to the accounts *continued**For the year ended 31 July 2006*

11. TANGIBLE ASSETS							
Consolidated	Land and buildings			Furniture and equipment £000	Leased equipment £000	Assets in the course of construction £000	Total £000
	Freehold £000	Long leasehold £000	Short leasehold £000				
Cost							
At 1 August 2005	265,261	265,426	7,095	54,865	13,568	41,781	647,996
Additions	4,187	384	523	5,404	10,825	15,111	36,434
Transfers	17,816	60	27	-	-	(17,903)	-
Disposals	-	-	-	(3,010)	-	-	(3,010)
At 31 July 2006	<u>287,264</u>	<u>265,870</u>	<u>7,645</u>	<u>57,259</u>	<u>24,393</u>	<u>38,989</u>	<u>681,420</u>
Depreciation							
At 1 August 2005	31,473	28,830	2,771	38,276	2,660	-	104,010
Charge for year	3,624	3,971	408	6,825	-	-	14,828
Eliminated on disposals	-	-	-	(3,000)	-	-	(3,000)
At 31 July 2006	<u>35,097</u>	<u>32,801</u>	<u>3,179</u>	<u>42,101</u>	<u>2,660</u>	<u>-</u>	<u>115,838</u>
Net book value							
At 31 July 2006	<u>252,167</u>	<u>233,069</u>	<u>4,466</u>	<u>15,158</u>	<u>21,733</u>	<u>38,989</u>	<u>565,582</u>
At 1 August 2005	<u>233,788</u>	<u>236,596</u>	<u>4,324</u>	<u>16,589</u>	<u>10,908</u>	<u>41,781</u>	<u>543,986</u>
College	Land and buildings			Furniture and equipment £000	Leased equipment £000	Assets in the course of construction £000	Total £000
	Freehold £000	Long leasehold £000	Short leasehold £000				
Cost							
At 1 August 2005	210,141	175,266	7,095	54,348	13,568	41,781	502,199
Additions	4,445	384	535	5,369	10,825	15,139	36,697
Transfers	17,816	60	27	-	-	(17,903)	-
Disposals	-	-	-	(2,993)	-	-	(2,993)
At 31 July 2006	<u>232,402</u>	<u>175,710</u>	<u>7,657</u>	<u>56,724</u>	<u>24,393</u>	<u>39,017</u>	<u>535,903</u>
Depreciation							
At 1 August 2005	28,180	22,908	2,771	37,924	2,660	-	94,443
Charge for year	3,069	2,775	408	6,706	-	-	12,958
Eliminated on disposals	-	-	-	(2,984)	-	-	(2,984)
At 31 July 2006	<u>31,249</u>	<u>25,683</u>	<u>3,179</u>	<u>41,646</u>	<u>2,660</u>	<u>-</u>	<u>104,417</u>
Net book value							
At 31 July 2006	<u>201,153</u>	<u>150,027</u>	<u>4,478</u>	<u>15,078</u>	<u>21,733</u>	<u>39,017</u>	<u>431,486</u>
At 1 August 2005	<u>181,961</u>	<u>152,358</u>	<u>4,324</u>	<u>16,424</u>	<u>10,908</u>	<u>41,781</u>	<u>407,756</u>

Notes to the accounts *continued*

For the year ended 31 July 2006

11. TANGIBLE ASSETS (CONTINUED)

The total amount of interest included in assets above amounted to £1,740,000 (2005 - £1,740,000). Included within freehold and long leasehold land and buildings are a number of properties that are shared with third parties where title documentation may not exist at the present time. The net book value of these are £2,211,000 and £26,545,000 respectively.

Some of the assets have been funded from Treasury sources. Should these assets be sold, the College would either have to surrender part of the proceeds to the Treasury or use them in accordance with the Financial Memorandum with the Higher Education Funding Council for England.

Included in the above are assets with a net book value of £299,240,000 (2005 - £287,854,000) funded by capital grants (*note 19*).

12. INVESTMENTS

	Consolidated		College	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Investment in subsidiary companies at cost	-	-	89,680	89,680
Other fixed asset investments	48	48	48	48
	48	48	89,728	89,728

The College owns 100 per cent of the issued share capital of KCL Enterprises Limited, Doublerace Limited, Closeworld Limited and College Facilities Limited which are all companies registered in England and operating in the United Kingdom.

13. ENDOWMENT ASSET INVESTMENTS

	Consolidated and College	
	2006 £'000	2005 £'000
Balance at 1 August	103,321	88,212
Additions	27,984	31,448
Disposals	(19,978)	(23,473)
Revaluation	785	10,589
Decrease in cash balances	(258)	(3,455)
Balance at 31 July	111,854	103,321
Fixed interest stocks	28,835	25,247
Equities	81,410	76,207
Bank balances	1,609	1,867
Total endowment asset investments	111,854	103,321
Fixed interest and equities at cost	91,286	83,871

14. DEBTORS

	Consolidated		College	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Trade debtors	7,538	13,453	7,538	13,453
Other debtors	1,338	1,304	765	1,051
Research grant debtors	11,988	13,414	11,988	13,414
Research grant work in progress	7,538	6,534	7,538	6,534
Prepayments and accrued income	4,589	3,324	4,365	3,100
Amounts owed by Group undertakings	-	-	54,867	55,287
	32,991	38,029	87,061	92,839

Included within College Group debtors is £54,087,000 (2005 - £55,287,000) payable over more than one year.

Notes to the accounts *continued*

For the year ended 31 July 2006

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Consolidated		College	
	2006 £000	2005 £000	2006 £000	2005 £000
Trade creditors	13,751	15,520	12,434	14,507
Payments received on account	45,655	43,539	45,815	43,732
Other creditors and accruals	25,126	31,610	22,429	25,883
Social security and other taxation payable	8,893	6,732	5,550	5,082
Amounts owed to group undertakings	-	-	14,279	13,368
Obligations under finance leases (<i>note 17</i>)	2,169	1,966	2,169	1,966
Unexpended endowment income	2,427	2,112	2,427	2,112
Current element of long term liabilities (<i>note 17</i>)	2,601	2,481	2,601	2,481
	100,622	103,960	107,704	109,131

16. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Consolidated		College	
	2006 £000	2005 £000	2006 £000	2005 £000
Obligations under finance leases (<i>note 17</i>)	35,508	25,055	35,508	25,055
Term deposits for loan repayments	(22,892)	(12,020)	(22,892)	(12,020)
	12,616	13,035	12,616	13,035
Loans (<i>note 17</i>)	103,022	103,108	103,022	103,108
Total long term borrowings	115,638	116,143	115,638	116,143
Capital goods scheme VAT	2,475	3,301	-	-
Total	118,113	119,444	115,638	116,143

Loans are secured on a portion of the freehold land and buildings of the College.

17. BORROWINGS

	Consolidated and College			
	Finance leases		Loans	
	2006 £000	2005 £000	2006 £000	2005 £000
Obligations under finance leases fall due and loans are repayable as follows:				
Between one and two years	2,169	2,011	2,727	2,604
Between two and five years	6,506	6,034	9,047	8,618
Total between one and five years	8,675	8,045	11,774	11,222
Over five years	26,833	17,010	91,248	91,886
Total over one year (<i>note 16</i>)	35,508	25,055	103,022	103,108
Within one year (<i>note 15</i>)	2,169	1,966	2,601	2,481
	37,677	27,021	105,623	105,589

Loans amounting to £43,022,000 are repayable by instalments falling due between 1 August 2007 and 17 September 2027; the remaining loan is repayable by a single instalment on 31 July 2031.

Notes to the accounts *continued**For the year ended 31 July 2006***18. PROVISIONS FOR LIABILITIES & CHARGES**

**Consolidated and College
Restructuring
£000**

At 1 August 2005	4,350
Utilised in year	(2,558)
At 31 July 2006	<u>1,792</u>

The restructuring provision relates to costs arising in order to achieve the College's strategic plan.

As explained in the accounting policies note, no provision has been made for the deferred tax on the grounds that the subsidiary companies transfer their taxable profits by Gift Aid to the College and therefore no deferred tax assets or liability will be realised.

19. DEFERRED CAPITAL GRANTS

**Consolidated and College
Other**

Funding Council £000	grants & benefactions £000	Total £000
-------------------------------------	---	-----------------------

At 1 August 2005		
Buildings	168,765	101,935
Equipment	11,932	5,222
Total	<u>180,697</u>	<u>107,157</u>

Cash received

Buildings	10,840	6,243	17,083
Equipment	1,456	2,008	3,464
Total	<u>12,296</u>	<u>8,251</u>	<u>20,547</u>

Released to income and expenditure

Buildings (<i>note 1</i>)	(2,908)	(2,022)	(4,930)
Equipment (<i>note 1</i>)	(1,754)	(2,477)	(4,231)
Total (<i>note 10</i>)	<u>(4,662)</u>	<u>(4,499)</u>	<u>(9,161)</u>

At 31 July 2006

Buildings	176,697	106,156	282,853
Equipment	11,634	4,753	16,387
Total	<u>188,331</u>	<u>110,909</u>	<u>299,240</u>

Notes to the accounts *continued*

For the year ended 31 July 2006

20. ENDOWMENTS

	Consolidated and College		
	Specific £000	General £000	Total £000
At 1 August 2005	105,433	-	105,433
Additions	367	-	367
Change in value of endowment asset investments	8,115	-	8,115
Income for year	3,952	-	3,952
Transferred to income and expenditure account (<i>note 5</i>)	(3,586)	-	(3,586)
At 31 July 2006	114,281	-	114,281
Creditors (<i>note 15</i>)	2,427	-	2,427
Endowment capital	111,854	-	111,854
	114,281	-	114,281
Representing:			
Fellowships and scholarships	12,347	-	12,347
Prize funds	4,636	-	4,636
Chairs and lectureships	86,840	-	86,840
Other funds	8,031	-	8,031
	111,854	-	111,854

21. RESERVES

	Consolidated £000	College £000
Balance at 1 August 2005 as previously stated	135,895	139,630
Prior year adjustment in respect of FRS17 (<i>note 31</i>)	(4,636)	(4,636)
Balance at 1 August 2005 as restated	131,259	134,994
Surplus after depreciation of assets at cost and tax	11,989	11,126
Actuarial loss on pension scheme liability	(5,052)	(5,052)
Balance at 31 July 2006	138,196	141,068

The reserves are allocated to:

The income and expenditure account which is nominally allocated to:			
Departmental reserves	32,465	32,465	
Revenue reserve	115,268	118,140	
Income and expenditure account	147,733	150,605	
Pension reserve	(9,537)	(9,537)	
	138,196	141,068	

22. CAPITAL COMMITMENTS

	Consolidated	College
	2006 £000	2005 £000
	2006 £000	2005 £000
Commitments contracted at 31 July	50,100	28,400
Authorised but not contracted at 31 July	9,400	88,800
	59,500	117,200
	59,500	117,200

Notes to the accounts *continued**For the year ended 31 July 2006***23. RECONCILIATION OF CONSOLIDATED OPERATING SURPLUS
TO NET CASH FROM OPERATING ACTIVITIES**

	2005/06 £000	2004/05 Restated £000
Surplus before tax	11,989	11,264
Depreciation (<i>note 11</i>)	14,828	14,756
Deferred capital grants released to income (<i>note 19</i>)	(9,161)	(9,087)
Investment income (<i>note 5</i>)	(8,017)	(6,880)
Interest payable (<i>note 8</i>)	9,892	9,632
Pension scheme income and costs	(151)	(64)
Deficit/(surplus) on disposal of tangible fixed assets	10	(1,215)
Decrease in debtors	5,038	1,335
(Decrease)/increase in creditors	(3,964)	4,792
Decrease in capital goods scheme VAT (<i>note 16</i>)	(826)	(825)
Decrease in provisions	(2,558)	(2,921)
Net cash inflow from operating activities	17,080	20,787

24. RETURNS ON INVESTMENTS & SERVICING OF FINANCE

	2005/06 £000	2004/05 Restated £000
Income from endowments (<i>note 20</i>)	3,952	2,987
Pension scheme investment income (<i>note 5</i>)	294	4
Interest received (<i>note 5</i>)	4,137	3,474
Interest paid	(5,456)	(5,502)
Net cash inflow from returns on investments and servicing of finance	2,927	963

25. CAPITAL EXPENDITURE & FINANCIAL INVESTMENT

	2005/06 £000	2004/05 £000
Tangible assets acquired (<i>note 11</i>)	(36,434)	(53,812)
Endowment asset investments acquired (<i>note 13</i>)	(27,984)	(31,448)
Total tangible and investment assets acquired	(64,418)	(85,260)
Receipts from sale of tangible assets	-	1,280
Receipts from sale of endowment assets	27,308	26,589
Deferred capital grants received (<i>note 19</i>)	20,547	40,580
Endowments received (<i>note 20</i>)	367	669
Net cash outflow from capital expenditure and financial investment	(16,196)	(16,142)

26. MANAGEMENT OF LIQUID RESOURCES

	2005/06 £000	2004/05 £000
Movement in endowment assets	258	3,455
Net cash movement from management of liquid resources	258	3,455

27. ANALYSIS OF CHANGES IN CONSOLIDATED FINANCING DURING THE YEAR

	2005/06 £000	2004/05 £000
Borrowings repaid	(2,481)	(2,365)
New long term loans	10,818	10,880
Repayment of capital element of finance leases	(12,967)	(12,650)
Net cash outflow from financing	(4,630)	(4,135)

Notes to the accounts *continued*

For the year ended 31 July 2006

28. ANALYSIS OF CHANGES IN NET DEBT

	At 1 August 05 £000	Cash flows £000	Other changes £000	At 31 July 06 £000
Cash at bank and in hand	69,440	(561)	-	68,879
Endowment asset investments (<i>note 13</i>)	1,867	(258)	-	1,609
	<hr/>	<hr/>	<hr/>	<hr/>
Debt due within one year	(4,447)	4,576	(4,899)	(4,770)
Debt due after one year	(116,143)	54	451	(115,638)
Net debt	<hr/>	<hr/>	<hr/>	<hr/>
	(49,283)	3,811	(4,448)	(49,920)

29. PENSIONS

The two principal pension schemes in which the College participates are the Universities Superannuation Scheme (USS), and the Superannuation Arrangements of the University of London (SAUL). USS provides benefits based on final pensionable salary for academic and related employees of all UK universities and some other employers. SAUL provides similar benefits for non-academic staff. These are externally funded centralised defined benefit schemes which are contracted out of the Second State Pension. The assets of the schemes are held in separate trustee-administered funds. It is not possible to identify the College's share of the underlying assets and liabilities of the schemes. Therefore contributions are accounted for as if the schemes were defined contribution schemes and pension costs are based on the amounts actually paid in accordance with paragraphs 8-12 of FRS 17.

Universities Superannuation Scheme (USS)

The latest actuarial valuation of the scheme was as at 31 March 2005 using the projected unit method. The assumptions that have the most significant effect on the result of the valuation and the valuation results are set out below.

	Past service	Future service
Valuation rate of interest	4.5%	6.2%
Salary scale increases per annum	3.9%	3.9%
Pensions increases per annum	2.9%	2.9%
Market value of assets at date of last valuation	£21,740 million	
Value of past service liabilities at date of last valuation	£28,308 million	
Deficit of assets at date of last valuation	£6,568 million	
Proportion of members' accrued benefits covered by the actuarial value of the assets	77%	

The College's contribution rate required for future service benefits alone at the date of the valuation was 14.3% of pensionable salaries but the trustee company, on the advice of the actuary, decided to maintain the College's contribution rate at 14% of pensionable salaries.

The next formal triennial actuarial valuation is due as at 31 March 2008. The contribution rate will be reviewed as part of each valuation.

Superannuation Arrangements of the University of London (SAUL)

The last available actuarial valuation of the scheme was as at 31 March 2005 using the projected unit credit method. The assumptions that have the most significant effect on the result of the valuation and the valuation results are set out below.

	Past service	Future service
Investment returns on liabilities per annum before retirement	5.50%	6.50%
Investment returns on liabilities per annum after retirement	4.50%	4.50%
Salary scale increases per annum	4.15%	4.15%
Pensions increases per annum	2.65%	2.65%
Market value of assets at date of last valuation	£982 million	
Proportion of members' accrued benefits covered by the actuarial value of the assets	93%	

Notes to the accounts *continued*

For the year ended 31 July 2006

29. PENSIONS (CONTINUED)

Employers have agreed to contribute 13.0% of salaries from August 2006 (previously 10.5% of salaries), an increase of 2.5% of salaries.

Members contributions are also to increase, by 1.0% of salaries to 6% with effect from the same date.

Employers who have recently joined SAUL and certain employee groups (as agreed by the Trustee of SAUL), pay 19.2% of salaries from August 2006 until the second actuarial valuation after entry (or some other period as agreed with the Trustee).

The next formal actuarial valuation is due as at 31 March 2008 when the above rates will be reviewed.

Federated Pension Scheme (FPS) and Local Government Pension Scheme (LGPS)

The pension scheme offered to non-academic staff at United Medical and Dental Schools of Guy's and St Thomas' Hospitals (UMDS) was the Federated Pension Scheme for UMDS (FPS). The pension scheme offered to staff at Chelsea College was the Local Government Pension Scheme (LGPS). No new members are admitted to these schemes.

FPS and LGPS are defined benefit schemes; the last triennial valuations were undertaken on 31 March 2003 and 31 March 2004 respectively.

For the purposes of reporting under FRS 17 projected unit method valuations were carried out as at 31 July 2006. The assumptions used and the valuation results are set out below.

	Federated Pension Scheme			Local Government Pension Scheme		
	31 July 2006	31 July 2005	31 July 2004	31 July 2006	31 July 2005	31 July 2004
Price increases per annum	2.80%	2.50%	2.75%	3.1%	2.8%	2.9%
Salary increases per annum	4.50%	4.00%	4.25%	4.6%	4.3%	4.4%
Pensions increases per annum	3.00%	2.50%	2.75%	3.1%	2.8%	2.9%
Discount rate per annum	5.20%	5.00%	5.75%	5.1%	5.0%	5.8%

Federated Pension Scheme

The assets and liabilities in the scheme and the expected rate of return are:

	31 July 2006		31 July 2005		31 July 2004	
	Rate of return	£000	Rate of return	£000	Rate of return	£000
Equities	6.85%	33,245	6.75%	28,660	7.00%	24,381
Annuities	5.20%	2,041	5.00%	1,845	5.75%	1,806
Bonds	4.80%	3,653	5.50%	5,474	5.25%	2,700
Cash	4.75%	1,244	4.00%	50	4.00%	1,193
Total market value of assets		40,183		36,029		30,080
Actuarial value of scheme liabilities		(48,106)		(39,221)		(33,630)
Deficit in the scheme		<u>(7,923)</u>		<u>(3,192)</u>		<u>(3,550)</u>

Notes to the accounts *continued*

For the year ended 31 July 2006

29. PENSIONS (CONTINUED)

History of experience gains and losses

	31 July 2006	31 July 2005	31 July 2004	31 July 2003	31 July 2002
	£000	£000	£000	£000	£000
Difference between expected and actual return on scheme assets:					
Amount	2,444	3,885	17	(10)	(6,464)
Percentage of scheme assets	6%	11%	0%	0%	(26%)
Experience gains and losses on scheme liabilities:					
Amount	0	(376)	(2,987)	(93)	(124)
Percentage of the present value of scheme liabilities	0%	(1.0%)	(9.0%)	(0.3%)	(0.5%)
Total amount recognised in statement of total recognised gains and losses:					
Amount	(4,893)	301	2,206	(2,108)	(7,512)
Percentage of the scheme liabilities	10%	1%	7%	(6%)	(27%)
Employer contribution to scheme					
	631	674	540	518	533
Percentage of salary contributed	19.00%	19.00%	19.00%	13.25%	13.25%
Percentage of salary contributed 1 August 2003 to 31 March 2004				13.25%	

Local Government Pension Scheme

The assets and liabilities in the scheme and the expected rate of return are:

	31 July 2006		31 July 2005		31 July 2004	
	Rate of return	£000	Rate of return	£000	Rate of return	£000
Equities	7.7%	185,100	7.3%	233,400	7.9%	186,591
Cashflow matching	4.4%	1,105,700	-	-	-	-
Bonds	-	-	4.7%	1,121,400	5.4%	1,121,368
Cash	4.8%	43,700	4.5%	99,900	4.5%	39,204
Total market value of assets for whole fund	<u>1,334,500</u>		<u>1,454,700</u>		<u>1,347,163</u>	
Estimated employer share of assets	4,284		4,459		4,779	
Present value of scheme liabilities	(5,233)		(5,228)		(4,889)	
Present value of unfunded liabilities	(665)		(675)		(669)	
Total value of liabilities	(5,898)		(5,903)		(5,558)	
Net pension liabilities	<u>(1,614)</u>		<u>(1,444)</u>		<u>(779)</u>	

Notes to the accounts *continued*

For the year ended 31 July 2006

29. PENSIONS (CONTINUED)

History of experience gains and losses

	31 July 2006	31 July 2005	31 July 2004	31 July 2003	31 July 2002
	£000	£000	£000	£000	£000
Difference between the expected and actual return on scheme assets:					
Amount	(42)	365	(12)	75	(178)
Percentage of scheme assets	(1.0%)	8.2%	(0.3%)	1.5%	(3.6%)
Experience gains and losses on scheme liabilities:					
Amount	(7)	(690)	(9)	(84)	(57)
Percentage of present value of scheme liabilities	(0.1%)	(11.7%)	(0.2%)	(1.5%)	1.2%
Total amount recognised in the statement of total recognised gains and losses:					
Amount	(159)	(672)	(26)	(310)	(4,644)
Percentage of the scheme liabilities	(2.7%)	(11.4%)	(0.5%)	(5.5%)	(2.9%)
Employer contribution to the scheme					
	7	5	4	4	3
Percentage of salary contributed					
	22.0%	15.3%	15.3%	15.3%	15.3%

The movements in the schemes' (deficit)/surplus during the year is:

	Federated Pension Scheme		Local Government Pension Scheme	
	31 July 2006	31 July 2005	31 July 2006	31 July 2005
	£000	£000	£000	£000
Deficit in scheme at beginning of year	(3,192)	(3,550)	(1,444)	(779)
Movement in year:				
Current service cost	(806)	(669)	(7)	(5)
Employer's contribution	631	674	7	5
Past service cost	(23)	-	-	-
Contributions in respect of unfunded benefits	-	-	55	55
Net return on assets	360	52	(66)	(48)
Actuarial gain/(loss)	(4,893)	301	(159)	(672)
Deficit in scheme at end of year	<u>(7,923)</u>	<u>(3,192)</u>	<u>(1,614)</u>	<u>(1,444)</u>

The above statements are made in compliance with FRS17. However, under current legislation, the College's obligation to fund the pension scheme is defined by the Minimum Funding Requirement (MFR). At the time of the last actuarial valuation of the pension scheme and at the time the appropriate Schedule of Contributions was prepared following that valuation, the pension schemes had an MFR funding level in excess of 100%.

Notes to the accounts *continued*

For the year ended 31 July 2006

29. PENSIONS (CONTINUED)

National Health Service Pension Scheme (NHSPS)

The College also operates the National Health Service Pension Scheme which is available to staff who immediately prior to appointment at the College were members of that scheme. This is a statutory, unfunded, multi-employer, defined benefit scheme which the College is unable to identify its share of the underlying liabilities and assets and is therefore accounted for on a contributions basis.

The total pension cost for the College and its subsidiaries was:

	Consolidated		College	
	2005/06 £000	2004/05 £000	2005/06 £000	2004/05 £000
Contributions to USS	14,583	13,614	14,478	13,489
Contributions to SAUL	2,181	2,301	2,181	2,301
Contributions to NHSS	3,439	3,394	3,439	3,394
Contributions to other pension schemes	895	867	895	867
Total pension cost (<i>note 6</i>)	<u>21,098</u>	<u>20,176</u>	<u>20,993</u>	<u>20,051</u>

30. ACCESS FUNDS & TRAINING SALARIES

	Consolidated and College			
	Access funds 2005/06 £000	2004/05 £000	Training salaries 2005/06 £000	2004/05 £000
Balance unspent at 1 August	128	49	218	100
Funding Council and Training and Development Agency for Schools grants	605	880	1,214	1,335
Interest earned	5	9	-	-
	<u>610</u>	<u>889</u>	<u>1,214</u>	<u>1,335</u>
Disbursed to students	(734)	(784)	(1,363)	(1,217)
Administrative expenses	(18)	(26)	-	-
	<u>(752)</u>	<u>(810)</u>	<u>(1,363)</u>	<u>(1,217)</u>
Balance unspent at 31 July	<u>(14)</u>	<u>128</u>	<u>69</u>	<u>218</u>

Funding Council and Training and Development Agency for Schools grants are available solely for students. The College acts only as paying agent. The grants and related disbursements are therefore excluded from the Income and Expenditure Account.

31. PRIOR YEAR ADJUSTMENT

The prior year adjustment relates to the first time adoption of FRS17 Retirement Benefits. The Adoption of FRS17 has resulted in an increase in staff costs of £143,000 (2005: decrease of £60,000), an increase in endowment income and interest receivable of £294,000 (2005: £4,000), an increase in surplus for the year of £151,000 (2005: £64,000) and a decease in the total recognised gains and losses of £9,230,000 (2005: £307,000).

Analysis of prior year adjustment	£000
Adjustment to opening reserves at 1 August 2004	(4,329)
Adjustment to income and expenditure for the year ended 31 July 2005	64
Adjustment to statement of total recognised surpluses and deficits for the year ended 31 July 2005	(371)
Total prior year adjustment	<u>(4,636)</u>