

UNIVERSITY OF MALTA

Annual Report and Consolidated Financial Statements  
30 September 2010

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## LETTER OF TRANSMITTAL

The Hon Dolores Cristina B.A., (Hons), M.P.  
Minister of Education, Employment and the Family  
Casa Leone  
476, St Joseph High Street  
Sta Venera SVR 1012

Dear Minister

In accordance with section 73(7) of the Education Act, Cap 327, I have the honour to transmit the Annual Report and Consolidated Financial Statements of the University of Malta for the year ended 30 September 2010.

Yours sincerely



Rector  
University of Malta  
Tal-Qroqq  
Msida

19 May 2011

## Governing body of the University

### Council

The Council is the supreme governing body of the University. Its functions are defined in the Education Act, Section 77.

Council consists of twenty-six members, including the President. The members of Council are listed hereunder:

#### PRO-CHANCELLOR – PRESIDENT (ex officio)

Professor David Attard LL.D. D.Phil

Ms Bernardine Mizzi B.Ed (Hons.)

up to 05.04.2011

from 05.04.2011

#### RECTOR – VICE PRESIDENT (ex officio)

Professor Juanito Camilleri B.Sc. (Hons.) (Kent), Ph.D. (Cantab)

#### REPRESENTATIVES OF SENATE

Professor Dominic Fenech B.A. (Hons) D. Phil

Professor Richard Muscat B.Sc. (Hons.) (Liv) M.Sc.(Lond.) Ph.D. (Lond.) – Pro-Rector

Professor Alfred Vella B.Sc. M.Sc. Ph.D. C.Sci. C.Chem. F.R.S.C – Pro-Rector

Professor Alex Torpiano B.E.&A.(Hons), M.Sc.(Lond), Ph.D.(Bath), D.I.C.,

M.I.Struct.E., C.Eng., Eur.Ing., Perit

#### MEMBERS ELECTED BY THE ACADEMIC STAFF

Professor Peter G Xuereb LL.D. LL.M(London) Ph.D. (Cambridge)

Prof Robert Ghirlando B.Sc.(Eng.),M.Eng.,Ph.D.,F.I.Mech.E.,Eur.Ing.

Dr George Cassar B.A. (Educ), M.Ed, Ph.D

up to 19.05.2011

from 19.05.2011

#### MEMBERS ELECTED BY THE NON-ACADEMIC STAFF

Mr Elton Baldacchino

Mr Noel Caruana

Mr. George Vella B.A.(Hons)

up to 07.04.2011

from 07.04.2011

#### STUDENT REPRESENTATIVES

Ms Nerissa Pace

Mr Benjamin Pule

#### MEMBER APPOINTED BY THE MINISTER OF EDUCATION, YOUTH AND EMPLOYMENT

Dr James Calleja BA (Hons)(Educ); D.Ed (Padua), PhD Bradford

from 01.01.2011

#### MEMBER APPOINTED BY THE COUNCIL OF THE FOUNDATION FOR THEOLOGICAL STUDIES

Rev Anthony Gouder M.S.Th.

## **Governing body of the University - continued**

### **Council - continued**

#### **MEMBERS APPOINTED BY THE PRIME MINISTER TO REPRESENT THE GENERAL INTEREST OF THE COUNTRY**

|  |                  |
|--|------------------|
| Mr Paul A Attard Dip. Educ.(Admin.& Mgt.)  |                  |
| Ms Sina Bugeja MSc (Wales), FRSH, MIM  |                  |
| Ms Angela Callus M.Q.R., B.A.  |                  |
| Mr Joseph Camilleri B.A. (Hons), PGCE, MQR   |                  |
| Mr Alan Caruana M.B.A.(Bath), F.I.A., I.S.A.C.A., I.M.I.S., C.P.A.                     |                  |
| Mr Godfrey Grima   |                  |
| Ms Bernie Mizzi B.Ed (Hons)  | up to 04.04.2011 |
| Mr Anthony J. Tabone Dip. MRS.,MCIM  |                  |
| Ms Catherine Vassallo SRP, MSc   |                  |
| Dr Sue Vella Ph.D (York), MSc (London), B.A. (Hons), Diploma in Applied Social Studies |                  |
| Mr Winston Zahra M.O.M.  |                  |
| Ms Claire Flores   | from 18.03.2011  |
| Dr Mario Tabone MOM, MD, DO RCP (Lond), RCS (Eng), MRC Ophth                           | from 01.03.2011  |

A Statement of responsibilities of the Council in respect of the financial statements is set out on page 8.

The Council has established a number of Committees with specific responsibilities as follows:

Student Affairs Committee (including Travel Grants, Bursaries, Scholarships)  
Staff Scholarship and Bursaries Committee  
Staff Affairs Committee  
Academic Resources Funds Committee  
Further Training / Work Resources Fund Committee for Support Staff  
Committee to consider extension of appointments of Academic Staff  
Finance Committee  
Board of the IT Services Centre  
ICT Strategy Work Group  
University Community Welfare Committee  
Safety Committee  
Committee for Gender Issues

### **Senate**

The Senate is responsible for the general direction of the academic matters of the University and deals with any matter of an academic nature arising in the administration of the University. Senate regulates studies and research in the University; it establishes by regulations the conditions for admission into the University; makes regulations governing all courses leading to University awards, and approves programmes of studies constituting such courses. It advises the Council on matters of an academic nature even if of such a nature only in part.

## **Governing body of the University - continued**

### **Senate - continued**

A number of Joint Committees of Senate and Council have been established with specific responsibilities as follows:

Honoris Causa Committee  
Research Fund Committee  
ACCESS: Disability Support Committee  
Visiting Staff and External Examiners Committee

The Chairman of all Joint Committees of Senate and Council is the Rector or one of the Pro-Rectors or a delegate specifically nominated by the Rector.

### **Faculty board**

The Faculty Board directs the academic tasks of the Faculty. The Board determines the studies, teaching and research and distributes tasks within the Faculty. It makes bye-laws concerning its courses and presents them for the approval of Senate. It prepares plans for the development of the Faculty and presents them to the Senate and the Council.

## Financial and operating review

### Operational review

#### The University

The University continued in the expansion and upgrading of its operations and during this financial year there were several positive developments as follows:

The University launched the first International Masters Programmes offered jointly with American Universities. These two programmes attracted some 35 students from different nationalities, which is considered a success for the first year. There was also the first cohort of Kuwaiti students sponsored by the Kuwaiti Government to study at the University and this resulted in a substantial increase in the revenue from students. This financial year was also the first year of implementation of the new evening courses fee-structure, resulting in a boost in student revenue.

Thanks to the STEPS initiative, the University has seen quite an increase in its number of Doctoral students, who are pursuing research in various fields. This was very positive as the University would not have been able to sustain the numbers through its own funding. The University also managed to secure various consultancy projects mainly in the areas of sustainable energy, agriculture and manufacturing.

On the research front, the University had various EU funded projects closing-off, while it bid on other projects under the various calls issued. As a result of these bids the University managed to secure ten projects under the Italia-Malta call to the tune of around €3 million; in three of which it is the lead partner. Another development is the strengthening of the conferences unit at the Valletta Campus. Through this set-up, and with the help of staff within the Institute of Criminology, the University has been able to secure a number of training seminars, meetings and conferences financed by Frontex. This activity is a new line of revenue for the University.

#### The AIMS project

In 2010 the first deliverable of the Administrative Information Management System (AIMS) project was received: the finance part of the Agresso system has been setup and is currently in use. In tandem with this the student invoicing part of the SITS system has been interfaced to Agresso so that all invoicing and debtor chasing is now being handled through the Agresso system. During the next financial year it is envisaged that the online procurement and human resources modules be rolled out, together with the project financing module, to start providing key processes and information to the relevant users in a timely and efficient manner.

#### ERDF/ESF projects

ERDF/ESF project implementation continued during this financial year and a number of these projects were at their final stages of completion by the financial year end. As a result of this a number of laboratories have been refurbished and upgraded with state-of-the-art equipment; a global atmospheric research station, a super-computing cluster and various simulation and prototyping systems have also been set up. These projects have resulted in enhanced research capacity, particularly at postgraduate and postdoctoral level.

This financial year also saw the implementation of the library ESF project which has resulted in a better library information system and in better trained staff.

These developments are reflected in this year's financial statements through the capitalisation of the fixed assets acquired through these funds. In the meantime the University is also gearing up to prepare for the next ERDF/ESF calls in order to continue in its efforts to improve its facilities and augment its resources.

## **Financial and operating review - continued**

### **Operational review - continued**

#### Externally funded projects

In these financial statements, externally-funded projects have been treated in a different manner than in prior years. In a bid to show a clearer picture of the University's activities, the accounting for these projects has been changed to an income statement approach rather than a balance sheet approach, thus the income and expenditure on these projects are now being accounted for in the income statement.

On a different note, the University is committed to expanding the Project Support Office and its services to cater better for the bidding and implementation of these projects. The Office will be augmented with new employees to cater for the increasing number of projects, while a project management function will be set up in order to provide more administrative support to academic staff.

#### Other highlights

During 2010, the Procurement function of the University of Malta has been detached from the Finance function and a Director for Procurement employed. This decision has proved to be very beneficial to the University as it enabled it to meet all the procurement requirements generated by the ERDF/ESF projects apart from the normal day-to-day procurement requirements of the University.

The University continued with its various building and refurbishment projects financed through its own funds and the capital allocation given by the Government, apart from those being financed through ERDF funding. It is worth mentioning the refurbishment of the canteen area, the building of a new engineering laboratory, the refurbishment of another floor at the Library and the refurbishment of other facilities at all of the University campuses and the Junior College. The restructuring and the strengthening of the staff complement of various faculties, institutes and centres continued to ensure that the range and quality of teaching and research programmes they undertake improves.

#### The group companies

During this financial period the group CEO was replaced by Mr. Gianfranco Selvaggi and a new financial controller was employed. There are projects in the pipeline which are expected to improve the financial picture of the group in the coming years.

In line with the group restructuring exercise, the 25% interest held by third parties in Surface Engineering Ltd. has been acquired by Malta University Holding Company Ltd. The operations under this company have been transferred to the University's Metallurgy and Materials department under the Faculty of Engineering.

## **Financial performance**

### Key financial highlights

The year's results show that the University as an entity has made a surplus of €1.29 million as opposed to last year's deficit of €45,290. This was as a result of two factors: on the one hand income generated by the University increased by €1.83 million, a 31% increase over last year's income; on the other hand operating expenditure, excluding depreciation and pensions costs, has only increased by €511,276, a 4% increase over last year. These results show that the University has been very proactive and the past initiatives taken by it are now bearing the expected results.

## Financial and operating review - continued

### Financial performance - continued

#### Key financial highlights - continued

This by no means excludes the fact that the University cannot operate without the Government's financial support. In fact, had it not been for the Government's increase in the funds allocated to the University and Junior College, the University would not have been able to meet its increase in staff costs of €5.75 million over last year's bill of €36.25 million. Also, without the Government's support the University would not be able to meet its liability for pensions.

The working capital situation of the University is still in the negative and has decreased slightly to €2.4 million from last year's €2.89 million. However, one has to take into consideration that in actual fact in current liabilities there is deferred income related to the Government allocation of €1.26 million (2008-09: €1.01 million) which deferred income is resulting from the timing difference between income and expenditure of the University. Once this is eliminated, the University's working capital for 2009-10 will result in a negative working capital of €1.148 million as opposed to last year's negative working capital of €1.88 million. This is mitigated by the fact that in current liabilities there are funds amounting to €10.01 million (2008-09: €9.32 million) held in the name of the different departments, which funds can only be spent at the discretion of the University administration, which can ensure that this spending is staggered in accordance to the working capital available.

#### Way forward

Whilst the University is committed to acquire external funds (apart from Government grants), it is imperative that Government continues to provide its financial support in order to ensure that the University improves the quality and range of services offered, improves its standing in the higher education market and also to wipe out the deficit in the net current liabilities. Meanwhile, the University Group is in the process of exploring new ventures and business opportunities with a view to improving its financial situation in order to be able to partially generate its own funds in particular in those areas which may yield commercial ventures. Moreover, the University will continue to tap into EU Funds to support its members of staff in participating in research activities as well as collaborative initiatives with other EU institutions.

The University is committed to support its current projects and to embark on new initiatives in order to improve campus life for its employees, its students as well as other stakeholders.

This report was authorised for issue by the Council and was signed on its behalf by:



Prof Juanito Camilleri  
Rector



Mr Mark Debono  
Director of Finance

19 May 2011

## **Statement of responsibilities of the Council**

The Council is responsible through the Finance Office for the preparation of financial statements which give a true and fair view of the state of affairs of the University and the Group as at the end of each financial period and of the surplus or deficit for that period.

In preparing these financial statements, the Council is responsible for:

- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances;
- stating which comprehensive basis of accounting has been followed, subject to any material departures disclosed and explained in the accounts;
- ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the University and the Group will continue their activities as a going concern.

The Council is also responsible for designing, implementing and maintaining internal control relevant to the preparation and the fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the relevant provisions of Statute 6.2.4 of the Education Act, Cap. 327. The Council is also responsible for safeguarding the assets of the University and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **Independent auditor's report Issued under section 73(6) of the Education Act, Cap. 327**

To the Council of the University

### **Report on the Financial Statements**

We have audited the financial statements of the University on pages 10 to 45 which comprise the statements of financial position as at 30 September 2010 and the income and expenditure accounts, the statements of total recognised gains and losses and statements of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

#### *Council's Responsibility for the Financial Statements*

The Council of the University through the Finance Officer, is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting policies described on pages 15 to 23. As described in the statement of responsibilities of the Council on page 8, this responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. These financial statements have been prepared broadly taking into account International Financial Reporting Standards (IFRSs) as adopted by the EU and the UK SORP published in 2007 except for certain departures as disclosed in accounting policy A – "Basis of accounting".

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Council, as well as evaluating the overall presentation of the financial statements.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the University and the Group as at 30 September 2010 and of their financial performance and of their cash flows for the year then ended in accordance with the accounting policies and notes described on pages 15 to 45.

**Independent auditor's report**  
**Issued under section 73(6) of the Education Act, Cap. 327 - continued**

*Emphasis of matter*

Without qualifying our opinion, we draw attention to Note 2 to the financial statements that discloses the steps that Council is taking to address the University's net current liability position as at 30 September 2010. The University's ability to sustain its operations is dependant on the successful completion of these steps.

**PricewaterhouseCoopers**

167 Merchants Street  
Valletta  
Malta



Simon Flynn  
Partner

19 May 2011

## Income and expenditure accounts

|                                       |       | Year ended 30 September |            |                         |            |
|---------------------------------------|-------|-------------------------|------------|-------------------------|------------|
|                                       | Notes | Group<br>2010<br>€      | 2009<br>€  | University<br>2010<br>€ | 2009<br>€  |
| <b>Income</b>                         | 3     | <b>75,817,064</b>       | 52,100,707 | <b>74,255,652</b>       | 50,169,424 |
| <b>Expenditure</b>                    |       |                         |            |                         |            |
| Staff costs                           | 4     | 57,824,188              | 36,874,112 | 57,276,811              | 36,252,838 |
| Other operating expenses              | 5     | 16,196,829              | 14,058,936 | 14,861,562              | 12,715,050 |
| Net allocation to funds               | 14    | 825,829                 | 1,246,826  | 825,829                 | 1,246,826  |
|                                       |       | <b>74,846,846</b>       | 52,179,874 | <b>72,964,202</b>       | 50,214,714 |
| <b>Surplus/(deficit) before tax</b>   |       | <b>970,218</b>          | (79,167)   | <b>1,291,450</b>        | (45,290)   |
| Tax expense                           | 6     | (13,493)                | (8,166)    | -                       | -          |
| <b>Surplus/(deficit) for the year</b> |       | <b>956,725</b>          | (87,333)   | <b>1,291,450</b>        | (45,290)   |
| <b>Attributable to:</b>               |       |                         |            |                         |            |
| Owners                                |       | 958,505                 | (88,671)   | 1,291,450               | (45,290)   |
| Non-controlling interest              | 23    | (1,780)                 | 1,338      | -                       | -          |
|                                       |       | <b>956,725</b>          | (87,333)   | <b>1,291,450</b>        | (45,290)   |

## Statements of total recognised gains and losses

|  |  | Year ended 30 September |           |                         |           |
|--|--|-------------------------|-----------|-------------------------|-----------|
|  |  | Group<br>2010<br>€      | 2009<br>€ | University<br>2010<br>€ | 2009<br>€ |
| Surplus/(deficit) for the year   |  | 958,505                 | (88,671)  | 1,291,450               | (45,290)  |
| <b>Total recognised gains/(losses) for the year</b>  |  | <b>958,505</b>          | (88,671)  | <b>1,291,450</b>        | (45,290)  |
| <b>Reconciliation</b>  |  |                         |           |                         |           |
| Opening funds and equity   |  | 602,166                 | 620,908   | (968,790)               | (993,429) |
| Effect of reclassification from funds designated for specific purposes to specific endowment funds |  | -                       | 68,554    | -                       | 68,554    |
| Opening funds and equity   |  | 602,166                 | 689,462   | (968,790)               | (924,875) |
| Total recognised gains/(losses) for the year   |  | 958,505                 | (88,671)  | 1,291,450               | (45,290)  |
| Increase in specific endowment funds   |  | -                       | 1,375     | -                       | 1,375     |
| Acquisition of non-controlling interest shareholders   |  | 41,832                  | -         | -                       | -         |
| <b>Closing funds and equity</b>  |  | <b>1,602,503</b>        | 602,166   | <b>322,660</b>          | (968,790) |


## Statements of financial position

| As at 30 September                  |       |                    |                   |                         |                   |
|-------------------------------------|-------|--------------------|-------------------|-------------------------|-------------------|
|                                     | Notes | Group<br>2010<br>€ | 2009<br>€         | University<br>2010<br>€ | 2009<br>€         |
| <b>ASSETS</b>                       |       |                    |                   |                         |                   |
| <b>Non-current assets</b>           |       |                    |                   |                         |                   |
| Property, plant and equipment       | 7     | 19,425,926         | 7,977,972         | 18,960,273              | 7,378,678         |
| Investments in university companies | 9     | -                  | -                 | 772,073                 | 772,073           |
| Deferred tax                        | 19    | 47,356             | 47,356            | -                       | -                 |
| Investments held-to-maturity        | 8     | 476,171            | 476,171           | 476,171                 | 476,171           |
| Available-for-sale investments      | 10    | 24,080             | 24,080            | -                       | -                 |
| Trade and other receivables         | 12    | 7,273,537          | -                 | 7,273,537               | -                 |
| Total non-current assets            |       | 27,247,070         | 8,525,579         | 27,482,054              | 8,626,922         |
| <b>Current assets</b>               |       |                    |                   |                         |                   |
| Inventories                         | 11    | 81,873             | 108,113           | 20,056                  | 20,056            |
| Capital projects funding            | 15    | 845,770            | 385,567           | 845,770                 | 385,567           |
| Trade and other receivables         | 12    | 17,286,988         | 3,974,038         | 17,446,282              | 4,172,351         |
| Current tax assets                  |       | 89,981             | 146,756           | -                       | -                 |
| Short term deposits                 | 13    | 683,492            | 776,667           | -                       | -                 |
| Cash and cash equivalents           | 24    | 16,460,629         | 15,852,946        | 15,111,772              | 14,436,000        |
| Total current assets                |       | 35,448,733         | 21,244,087        | 33,423,880              | 19,013,974        |
| <b>Total assets</b>                 |       | <b>62,695,803</b>  | <b>29,769,666</b> | <b>60,905,934</b>       | <b>27,640,896</b> |

**Statements of financial position - continued**

|   |       | <b>As at 30 September</b> |             |                   |             |
|---|-------|---------------------------|-------------|-------------------|-------------|
|   | Notes | <b>Group</b>              |             | <b>University</b> |             |
|   |       | <b>2010</b>               | <b>2009</b> | <b>2010</b>       | <b>2009</b> |
|   |       | <b>€</b>                  | <b>€</b>    | <b>€</b>          | <b>€</b>    |
| <b>FUNDS AND LIABILITIES</b>            |       |                           |             |                   |             |
| <b>Funds and equity</b>                 |       |                           |             |                   |             |
| Specific endowment funds                | 20    | <b>360,969</b>            | 360,969     | <b>360,969</b>    | 360,969     |
| <b>Other funds</b>                      |       |                           |             |                   |             |
| Capital fund                            | 21    | <b>138,598</b>            | 138,598     | <b>138,598</b>    | 138,598     |
| Accumulated net surplus/(deficit)       | 22    | <b>1,102,936</b>          | 102,599     | <b>(176,907)</b>  | (1,468,357) |
|   |       | <b>1,602,503</b>          | 602,166     | <b>322,660</b>    | (968,790)   |
| Deferred grants                         | 17    | <b>17,482,394</b>         | 6,703,852   | <b>17,482,394</b> | 6,703,852   |
| Total funds                             |       | <b>19,084,897</b>         | 7,306,018   | <b>17,805,054</b> | 5,735,062   |
| Non-controlling interest                | 23    | <b>16,606</b>             | 179,223     | -                 | -           |
| Total funds and equity                  |       | <b>19,101,503</b>         | 7,485,241   | <b>17,805,054</b> | 5,735,062   |
| <b>Non-current liabilities</b>          |       |                           |             |                   |             |
| Provision for liabilities and charges   | 18    | <b>7,273,537</b>          | -           | <b>7,273,537</b>  | -           |
| <b>Current liabilities</b>              |       |                           |             |                   |             |
| Funds designated for specific purposes: |       |                           |             |                   |             |
| Academic                                | 14    | <b>8,953,088</b>          | 8,322,135   | <b>8,994,325</b>  | 8,364,568   |
| Operational resources                   | 14    | <b>321,681</b>            | 262,250     | <b>321,681</b>    | 265,346     |
| Other                                   | 14    | <b>691,676</b>            | 686,715     | <b>691,676</b>    | 686,715     |
| Trade and other payables                | 16    | <b>21,723,468</b>         | 11,366,315  | <b>21,438,000</b> | 11,104,978  |
| Provision for liabilities and charges   | 18    | <b>1,197,984</b>          | -           | <b>1,197,984</b>  | -           |
| Current tax liabilities                 |       | <b>327</b>                | 417         | -                 | -           |
| Overdrawn bank balances                 | 24    | <b>3,432,539</b>          | 1,646,593   | <b>3,183,677</b>  | 1,484,227   |
| Total current liabilities               |       | <b>36,360,763</b>         | 22,284,425  | <b>35,827,343</b> | 21,905,834  |
| Total liabilities                       |       | <b>43,594,300</b>         | 22,284,425  | <b>43,100,880</b> | 21,905,834  |
| <b>Total funds and liabilities</b>      |       | <b>62,695,803</b>         | 29,769,666  | <b>60,905,934</b> | 27,640,896  |

The financial statements on pages 11 to 45 were authorised for issue by the Council on 19 May 2011 and were signed on its behalf by:



Prof Juanito Camilleri  
Rector



Mr Mark Debono  
Director of Finance

## Statements of cash flows

| Year ended 30 September  |                    |              |                         |              |
|--|--------------------|--------------|-------------------------|--------------|
| Note   | Group<br>2010<br>€ | 2009<br>€    | University<br>2010<br>€ | 2009<br>€    |
| <b>Cash flows from operating activities</b>                      |                    |              |                         |              |
| Government recurrent vote  | 41,848,913         | 43,588,758   | 41,847,414              | 43,588,767   |
| Receipts from all other sources of income                        | 4,227,803          | 6,286,299    | 4,134,705               | 4,530,667    |
| Receipts from externally funded projects                         | 2,285,293          | 2,341,028    | 2,285,293               | 2,341,028    |
| Payments to employees and suppliers                              | (49,114,967)       | (46,961,450) | (48,338,107)            | (45,846,256) |
| Income tax refunded/(paid)                                       | 43,192             | (117,860)    | -                       | -            |
| Net cash (used in)/ generated from operating activities          | (709,766)          | 5,136,775    | (70,695)                | 4,614,206    |
| <b>Cash flows from investing activities</b>                      |                    |              |                         |              |
| Government capital vote  | 909,306            | 1,896,516    | 909,306                 | 1,896,516    |
| Government ERDF/ESF vote   | 1,738,947          | -            | 1,738,947               | -            |
| EU ERDF/ESF vote   | 9,854,033          | -            | 9,854,033               | -            |
| Interest received from investments held-to-maturity              | 3,103              | 30,859       | 3,103                   | 30,859       |
| Other interest received  | 108,059            | 149,725      | 101,395                 | 118,387      |
| Increase in investment in subsidiaries                           | (119,001)          | -            | -                       | -            |
| Payments for government stock                                    | -                  | (28,000)     | -                       | (28,000)     |
| Payments for capital expenditure                                 | (14,616,827)       | (2,979,064)  | (14,570,661)            | (2,620,659)  |
| Net cash used in investing activities                            | (2,122,380)        | (929,964)    | (1,963,877)             | (602,897)    |
| Net movement in cash and cash equivalents before fund activities | (2,832,146)        | 4,206,811    | (2,034,572)             | 4,011,309    |
| <b>Cash flows from fund activities</b>                           |                    |              |                         |              |
| Receipts for academic funds                                      | 1,652,709          | 1,314,182    | 1,061,658               | 1,314,182    |
| Receipts for other funds   | 3,432,454          | 1,029,653    | 3,432,454               | 1,029,653    |
| Payments relating to academic funds                              | (725,782)          | (201,176)    | (684,545)               | (159,939)    |
| Payments relating to operational resources funds                 | (396)              | (2,002,237)  | (396)                   | (2,002,237)  |
| Payments relating to other funds                                 | (2,798,277)        | (497,722)    | (2,798,277)             | (502,599)    |
| Net cash generated from/(used in) fund activities                | 1,560,708          | (357,300)    | 1,010,894               | (320,940)    |
| Net movement in cash and cash equivalents                        | (1,271,438)        | 3,849,511    | (1,023,678)             | 3,690,369    |
| Cash and cash equivalents at beginning of year                   | 14,983,020         | 11,133,509   | 12,951,773              | 9,261,404    |
| Cash and cash equivalents at end of year                         | 24 13,711,582      | 14,983,020   | 11,928,095              | 12,951,773   |

## Accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below.

### A. Basis of accounting

These consolidated financial statements have been prepared under the historical cost convention and broadly take into account International Financial Reporting Standards (IFRSs) as adopted by the EU and the Statement of Recommended Practice ("SORP") on Accounting for Further and Higher Education Institutions, published in 2007 and followed in the United Kingdom, except for the capitalisation of certain fixed assets. The Council has considered any additional requirements from the SORP and IFRSs as adopted by the EU as well as their relevance to the operating environment of the University. In 2009, the University started capitalising fixed assets (refer to Accounting policy I). The comparative figures have been restated to reflect the change in treatment of fixed assets.

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. It also requires the Council to exercise its judgement in the process of applying the University's accounting policies (see Note 1 – Critical accounting estimates and judgements).

#### *Standards, interpretations and amendments to published standards effective during the year*

During the year, the Group adopted new standards, amendments and interpretations to existing standards that are mandatory for the Group's accounting period beginning on 1 October 2009. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Group's accounting policies.

#### *Standards, interpretations and amendments to published standards that are not yet effective*

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements, that are mandatory for the Group's accounting periods beginning on 1 October 2010. The Group has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the Council is of the opinion that there are no requirements that will have a possible significant impact on the Group's financial statements in the period of initial application.

### B. Consolidation

#### *Subsidiary undertakings*

Subsidiary undertakings are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Group undertakings are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

**B. Consolidation - continued**

*Subsidiary undertakings - continued*

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income and expenditure account (see Accounting policy H).

Intra-group transactions, balances and unrealised gains on transactions between subsidiaries are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

A listing of the subsidiaries is set out in Note 9 to the financial statements.

**C. Investments in subsidiary undertakings**

In the University's financial statements, investments in subsidiary undertakings are accounted for by the cost method of accounting. The dividend income from such investments is included in the income and expenditure account in the accounting year in which the University's rights to receive payment of any dividend is established. The University gathers objective evidence that an investment is impaired using the same process disclosed in Accounting policy K. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the income and expenditure account.

**D. Income and expenditure**

In the University's financial statements, income mainly comprises allocations from the Government's national budget, other grants and subsidies, registration and tuition fees, examination fees and other sundry income. All such income is taken into account as it accrues over the academic year.

In addition, the net surplus/deficit arising from the difference between certain income and the related expenditure is allocated to the funds that meet the criteria set out in Accounting policy P (funds designated for specific purposes). The income referred to above includes income from courses and conferences, a percentage of fees from courses to foreign students (that are allocated to individual faculties), and receipts from various other sources.

Income and expenditure transactions are recognised as follows:

- expenditure is recognised in the year to which it relates on an accrual basis;
- income is recognised in the year to which it relates on an accrual basis, unless collectibility is in doubt.

**D. Income and expenditure - continued**

Other sources of income for the Group are recognised in the income and expenditure accounts as follows:

(i) Sales of services in the hospitality activity

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Sales arising on hospitality activities are recognised when the service is performed and goods are supplied. Revenue is usually in cash, credit card or on credit. The recorded revenue includes credit card fees payable for the transaction.

(ii) Rental income

Rental income is charged to the income and expenditure account over the period of the lease to which it relates.

(iii) Sales of goods and services

Such revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the subsidiary's activities. Revenue is shown net of value-added tax or other sales taxes, returns, rebates and discounts.

(iv) Income arising on educational courses, projects and other services

Income arising on educational courses, projects and other services is recognised on the completion of individual contracts, or earlier if in an advanced state of completion.

(v) Consultancy fees

Consultancy fees are recognised upon performance of services, net of sales taxes and discounts.

(vi) Interest income

Interest income is recognised as it accrues, unless collectibility is in doubt.

**E. Externally funded projects policy**

As from 1 October 2009, the University started accounting for externally funded projects through the income and expenditure account rather than through the statement of financial position. 2009 figures have been reclassified to reflect this change in accounting treatment.

For the duration of the project, income is matched to expenditure. Any unutilised pre financing funds during the financial period are recognised as deferred income while an accrual for income is accounted for in the case of a shortfall of funds as long as it is expected that no losses will be experienced by the end of the project. Any expected losses are provided for during the execution of the project. At the end of the project, if any surplus remains due to any overhead allocation not being fully utilised, such surplus is recognised as income.

**F. Government and EU grants**

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the University will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income and expenditure account over the period necessary to match them with the costs that they are intended to compensate.

Government and EU grants relating to property, plant and equipment are included as deferred grants and treated as a component of total funds and equity. Grants are credited to the income and expenditure account on a straight-line basis over the expected useful lives of the related assets.

**G. Foreign currencies**

*Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Euro, which is the Group's functional and presentation currency.

*Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income and expenditure account.

**H Intangible assets**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary undertaking at the date of acquisition. Goodwill on acquisitions of subsidiary undertakings is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

Where an indication of impairment exists, in that the carrying amount of an intangible asset is greater than its estimated recoverable amount, a charge is made to write down the value of the asset to its estimated recoverable amount (see Accounting policy K).

**I. Property, plant and equipment**

As from financial year-end 30 September 2009, the University started recognising expenditure on property, plant and equipment as fixed assets. In order to build the fixed asset figures the University used records dating back to 2000 depending on the useful life of the asset as per the Fixed Asset policy issued by the University on the 1 October 2008. This excludes books, which cost has been recognised as from April 2009. Fixed assets do not include the valuation of buildings, works of art and rare collections.

**I. Property, plant and equipment - continued**

Government recurrent and capital grants and EU grants financing fixed assets are recognised in accordance with the deferred income method as per IAS 20: Accounting for Government Grants and Disclosure of Government Assistance, that is, the related income to acquire the asset is deferred until the depreciation on the asset is recognised (see Accounting policy F). The depreciation on assets used on externally funded projects is expensed against the respective project. The comparative figures have been restated to reflect the change in treatment of fixed assets.

Property, plant and equipment is stated at historical cost less depreciation.

Gains and losses on disposal are determined by comparing proceeds with the carrying amount and are included in the income and expenditure account.

Depreciation is calculated on the straight line method to write off the cost of the assets to their residual values over their estimated useful life as follows:

|  | %      |
|--|--------|
| Building improvements                                  | 4      |
| Plant, machinery, and laboratory equipment             | 4 - 25 |
| Furniture, fixtures and fittings, and office equipment | 4 - 25 |
| Computer hardware, software and network infrastructure | 5 - 25 |
| Other assets – Books and periodicals                   | 33 1/3 |
| Other assets – Motor vehicles                          | 20     |

Improvements to leasehold premises are being depreciated over the life of the lease. No depreciation is charged on assets in the course of construction.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each end of reporting date.

When the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount (see Accounting policy K).

**J. Investments**

The Group classifies its investments in the following categories: investments held-to-maturity and available-for-sale investments. The classification depends on the purpose for which the investments were acquired and is determined at initial recognition and re-evaluates this designation at every reporting date.

**(i) Investments held-to-maturity**

Investments with fixed maturity where the Council has both the intent and the ability to hold to maturity are classified as held-to-maturity. The Council determines the appropriate classification of its investments at the time of the purchase. Held-to-maturity investments are carried at amortised cost using the effective yield method, less any provision for impairment.

Such investments are impaired if the carrying amount is greater than the estimated recoverable amount (see Accounting policy K).

**J. Investments - continued**

(ii) Available-for-sale investments

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the end of the reporting period.

Available-for-sale investments are subsequently re-measured at fair value. Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in equity. The fair value of investments is based on quoted bid prices or amounts derived from cash flow models. Fair values for unlisted equity securities are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income and expenditure account as gains and losses from investment securities.

**K. Impairment of assets**

*Impairment of non-financial assets*

Assets (including goodwill) that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset and that has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Objective evidence that a financial asset is impaired includes observable data about the certain events which can include (but are not restricted to) indications that there is a measurable decrease in the estimated future cash flow from the financial asset since the initial recognition.

If there is objective evidence that an impairment loss has been incurred on investments held-to-maturity carried at amortised cost, the amount of the loss is recognised in the income and expenditure account and measured as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale investments, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income and expenditure account. Impairment losses recognised in the income and expenditure account on equity instruments are not reversed through the income and expenditure account.

**L. Operating leases**

Leases of assets where a significant portion of the risk and rewards of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income and expenditure account on a straight-line basis over the period of the lease.

**M. Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the first-in first-out method. Net realisable value is the estimate of the selling price in the ordinary course of business.

**N. Trade and other receivables**

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income and expenditure account. When a receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited to the income and expenditure account.

**O. Short term deposits**

Short term deposits held with banks or credit institutions are stated at face value.

**P. Funds designated for specific purposes**

The Council of the University exercises its discretion in the creation and utilisation of research grants, academic initiatives and projects, scholarships, fellowships, studentships, bursaries, equipment replacement, and discretionary funds. Normally, such funds are in respect of projects that last more than twelve months. Any under or over-spending against such funds, after taking into account balances brought forward from the previous year, are carried forward to the following year.

The annual surplus or deficit in the income and expenditure account is stated after making transfers to meet expenditure already approved by the Council. As from financial year ended 30 September 2010, external funded projects are treated separately. Comparative figures have been reclassified accordingly in line with accounting policy E.

**Q. Cash and cash equivalents**

Cash and cash equivalents are carried in the statement of financial position at face value. For the purpose of the statement of cash flows, cash and cash equivalents comprise cash in hand, deposits held at call with banks, and short term deposits.

**R. Current and deferred tax**

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income and expenditure account, except to the extent that it relates to items recognised directly in equity.

Deferred tax is provided using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the tax losses and unabsorbed capital allowances can be utilised.

**S. Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

**T. Provision for liabilities and charges**

With effect from the year ended 30 September 2010, the University provided for the obligation arising in terms of Article 8A of the Pensions Ordinance, Cap 93 of the laws of Malta, covering those ex-Government employees who opted to become full-time employees of the University, and who continued to be entitled to pension rights which go beyond the National Insurance Scheme.

A defined benefit plan defines an amount of pension benefit that an employee will receive on retirement. In the University's case, this amount is dependent upon an employee's final compensation upon retirement, as well as completed months of service. Eligibility to the scheme is also dependent on a minimum of 10 years' service and employment having commenced prior to 1979. The benefit vests only if at retirement date the employee is still in employment with University.

**T. Provision for liabilities and charges - continued**

The liability recognised in the statement of financial position in respect of a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rate yields of Government and that have terms to maturity approximating to the terms of the related pension liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to profit or loss in the period in which they arise.

Past-service costs are recognised immediately in profit or loss, unless the employee is not yet unconditionally eligible to receive pension benefits (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

**U. Other financial instruments**

The Group's other financial assets, which have not been referred to in the accounting policies disclosed above, are classified as loans and receivables originated by the Group in accordance with the requirements of IAS 39 and are measured at cost, that is, the face value of these assets. All regular way transactions in assets classified in this category are accounted for using settlement accounting.

A credit risk provision for financial asset impairment is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of the expected cash flows, including amounts receivable from collateral, discounted based on the interest rate at inception.

The Group's financial liabilities, other than those referred to in the accounting policies above, are classified as liabilities which are not held for trading ("other liabilities") under IAS 39, and are measured at cost, that is, the face value of such investments.

## Notes to the financial statements

### 1. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

In the opinion of the Council, the accounting estimates and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1 (revised).

### 2. Net current liabilities

The University is showing net current liabilities of €2,403,463 (2009: €2,891,860). However, one has to take into consideration that in actual fact in current liabilities there is deferred income related to the Government allocation of €1,255,121 (2009: €1,012,347) which deferred income is resulting from the timing difference between income and expenditure of the University. Once this is eliminated, the University's working capital for 2010 will result in a negative working capital of €1,148,342 as opposed to last year's negative working capital of €1,879,513.

Whilst the University is committed to acquire more external funds (apart from Government grants), it remains imperative that Government continues to provide its financial support. This will ensure that the University improves the quality of the services offered and its standing in the higher education market, continue improving the net assets situation and reverts to a situation of net current assets. In this respect, the University will continue discussions with Government to obtain the necessary funds in order to be able to meet all its liabilities as they fall due and to continue supporting the intended appropriation of its designated funds as the need arises. The University's ability to sustain its operations is dependant on the successful outcome of these discussions and of its ability to acquire more external funds.

**3. Income**

|  | Year ended 30 September |                   |                   |                   |
|--|-------------------------|-------------------|-------------------|-------------------|
|  | Group                   |                   | University        |                   |
|  | 2010<br>€               | 2009<br>€         | 2010<br>€         | 2009<br>€         |
| Government budget allocation:              |                         |                   |                   |                   |
| Recurrent vote:                            |                         |                   |                   |                   |
| - University                               | 39,740,785              | 33,968,780        | 39,740,785        | 33,968,780        |
| - Junior College                           | 7,618,654               | 7,023,074         | 7,618,654         | 7,023,074         |
| Government capital grant                   | 627,490                 | 573,738           | 627,490           | 573,738           |
| Other grants and subsidies                 | 274,958                 | 386,694           | 274,958           | 386,694           |
| Government ERDF/ESF grant                  | 208,118                 | -                 | 208,118           | -                 |
| European Union ERDF/ESF grant              | 1,179,334               | -                 | 1,179,334         | -                 |
| Government grant to cover pension cost     | 15,274,621              | -                 | 15,274,621        | -                 |
| Externally funded projects                 | 1,656,490               | 2,371,689         | 1,656,490         | 2,371,689         |
|  | <b>66,580,450</b>       | <b>44,323,975</b> | <b>66,580,450</b> | <b>44,323,975</b> |
| Registration and tuition fees              | 4,966,682               | 3,416,951         | 4,581,407         | 2,993,801         |
| Matsec fees                                | 1,202,715               | 1,164,785         | 1,202,715         | 1,164,785         |
| Courses and seminars                       | 997,290                 | 1,226,825         | 839,545           | 932,080           |
| Consultancy services                       | 42,242                  | 51,397            | -                 | -                 |
| Accommodation and other ancillary services | 958,732                 | 999,438           | -                 | -                 |
| Sale of books and publications             | 41,335                  | 53,969            | -                 | -                 |
| Other income                               | 1,027,618               | 863,367           | 1,051,535         | 754,783           |
|  | <b>9,236,614</b>        | <b>7,776,732</b>  | <b>7,675,202</b>  | <b>5,845,449</b>  |
| <b>Total income</b>                        | <b>75,817,064</b>       | <b>52,100,707</b> | <b>74,255,652</b> | <b>50,169,424</b> |

#### 4. Staff costs

Staff costs comprising salaries, wages and national insurance contributions are as follows:

|                     | Year ended 30 September |                   |                         |                   |
|---------------------|-------------------------|-------------------|-------------------------|-------------------|
|                     | Group<br>2010<br>€      | 2009<br>€         | University<br>2010<br>€ | 2009<br>€         |
| Academic:           |                         |                   |                         |                   |
| - University        | 21,178,668              | 16,977,756        | 21,178,668              | 16,977,756        |
| - Junior College    | 6,469,672               | 5,320,386         | 6,469,672               | 5,320,386         |
| - Externally funded | 134,584                 | 232,810           | 134,584                 | 232,810           |
| Non-academic:       |                         |                   |                         |                   |
| - University        | 13,099,445              | 12,599,709        | 13,099,445              | 12,599,709        |
| - Junior College    | 611,184                 | 585,174           | 611,184                 | 585,174           |
| - Externally funded | 508,637                 | 537,003           | 508,637                 | 537,003           |
| - Other             | 547,377                 | 621,274           | -                       | -                 |
| Pension cost        | 15,274,621              | -                 | 15,274,621              | -                 |
|                     | <b>57,824,188</b>       | <b>36,874,112</b> | <b>57,276,811</b>       | <b>36,252,838</b> |

Average number of persons employed during the year:

|              | Group<br>2010 | 2009         | University<br>2010 | 2009         |
|--------------|---------------|--------------|--------------------|--------------|
| Academic     | 776           | 704          | 776                | 704          |
| Non-academic | 829           | 746          | 786                | 700          |
|              | <b>1,605</b>  | <b>1,450</b> | <b>1,562</b>       | <b>1,404</b> |

During the year, salaries amounting to €140,492 (2009: €235,489) were recharged from a subsidiary undertaking.

## 5. Other operating expenses

Other operating expenses are classified by their nature as follows:

|   | Year ended 30 September |                   |                         |                   |
|---|-------------------------|-------------------|-------------------------|-------------------|
|   | Group<br>2010<br>€      | 2009<br>€         | University<br>2010<br>€ | 2009<br>€         |
| Capital expenditure   | 216,687                 | 217,962           | 216,687                 | 217,962           |
| Library books and periodicals                               | 1,131,409               | 1,405,335         | 1,131,409               | 1,405,335         |
| Repairs and maintenance<br>related costs                    | 571,629                 | 1,282,919         | 1,130,923               | 1,247,534         |
| Allocation to work resources and<br>research projects funds | 2,565,660               | 2,053,089         | 2,565,660               | 2,053,089         |
| Laboratory and office supplies                              | 995,962                 | 883,174           | 995,962                 | 883,174           |
| Energy and communications                                   | 1,457,727               | 1,287,165         | 1,224,889               | 1,110,375         |
| Depreciation of property, plant<br>and equipment            | 3,295,766               | 1,583,617         | 3,108,215               | 1,472,979         |
| Operating lease rentals<br>payable – property               | -                       | 189,915           | -                       | -                 |
| Other expenses  | 5,961,989               | 5,155,760         | 4,487,817               | 4,324,602         |
| <b>Total direct and other<br/>operating expenses</b>        | <b>16,196,829</b>       | <b>14,058,936</b> | <b>14,861,562</b>       | <b>12,715,050</b> |

Included above are costs amounting to €710,766 (2009: €791,934) relating to the Junior College.

Auditor's remuneration for the current financial year amounted to €17,700 (2009: €17,700) for the University and €36,500 (2009: €36,500) for the Group.

## 6. Tax expense

Under the terms of section 12(1)(a) of the Income Tax Act, Cap. 123, the income of the University of Malta is exempt from tax. The tax expense in the Group's financial statements relates to the tax charge incurred by the subsidiaries.

|                              | Year ended 30 September |              |
|------------------------------|-------------------------|--------------|
|                              | Group<br>2010           | 2009<br>€    |
| Current tax expense/(credit) | 13,493                  | (2,133)      |
| Deferred tax expense         | -                       | 10,299       |
|                              | <b>13,493</b>           | <b>8,166</b> |

The tax on the Group's surplus/(deficit) before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

|  | Year ended 30 September |              |
|--|-------------------------|--------------|
|  | Group<br>2010           | 2009<br>€    |
| Surplus/(deficit) before tax                             | 970,218                 | (79,167)     |
| Tax at 35%   | 339,576                 | (27,708)     |
| Tax effect of:   |                         |              |
| Income subject to tax at 15%                             | (1,953)                 | (6,154)      |
| Income not subject to tax                                | (452,008)               | 15,577       |
| Temporary differences attributable to leasehold premises | 30,989                  | 7,616        |
| Expenses not deductible for tax purposes                 | -                       | 41           |
| Overprovision of current tax in previous years           | (359)                   | (6,858)      |
| Temporary differences not recognised                     | 70,204                  | 51,642       |
| Tax effect of inter group transactions                   | 14,558                  | (18,693)     |
| Other differences  | (161)                   | (7,297)      |
| Tax related to prior years                               | 12,647                  | -            |
| Tax expense  | <b>13,493</b>           | <b>8,166</b> |

## 7. Property, plant and equipment

| Group                               | Building improvements<br>€ | Plant, machinery & laboratory equipment<br>€ | Furniture, fixtures & fittings & office equipment<br>€ | Computer hardware, software & network infrastructure<br>€ | Other assets<br>€ | Assets in the course of construction<br>€ | Total<br>€  |
|-------------------------------------|----------------------------|--|--|---|-------------------|---|-------------|
| <b>At 1 October 2008</b>            |                            |  |  |   |                   |   |             |
| Cost                                | 4,669,971                  | 2,164,016                                    | 3,502,943  | 1,716,696   | 60,545            | -   | 12,114,171  |
| Accumulated depreciation            | (819,732)                  | (1,314,918)                                  | (1,803,050)  | (771,592)   | (34,082)          | -   | (4,743,374) |
| Net book amount                     | 3,850,239                  | 849,098                                      | 1,699,893  | 945,104   | 26,463            | -   | 7,370,797   |
| <b>Year ended 30 September 2009</b> |                            |  |  |   |                   |   |             |
| Opening net book amount             | 3,850,239                  | 849,098                                      | 1,699,893  | 945,104   | 26,463            | -   | 7,370,797   |
| Additions                           | 721,244                    | 230,837                                      | 423,576  | 770,278   | 44,857            | -   | 2,190,792   |
| Depreciation charge                 | (218,007)                  | (326,024)                                    | (400,064)  | (617,954)   | (21,568)          | -   | (1,583,617) |
| Closing net book amount             | 4,353,476                  | 753,911                                      | 1,723,405  | 1,097,428   | 49,752            | -   | 7,977,972   |
| <b>At 30 September 2009</b>         |                            |  |  |   |                   |   |             |
| Cost                                | 5,391,215                  | 2,394,853                                    | 3,926,519  | 2,486,974   | 105,402           | -   | 14,304,963  |
| Accumulated depreciation            | (1,037,739)                | (1,640,942)                                  | (2,203,114)  | (1,389,546)   | (55,650)          | -   | (6,326,991) |
| Net book amount                     | 4,353,476                  | 753,911                                      | 1,723,405  | 1,097,428   | 49,752            | -   | 7,977,972   |
| <b>Year ended 30 September 2010</b> |                            |  |  |   |                   |   |             |
| Opening net book amount             | 4,353,476                  | 753,911                                      | 1,723,405  | 1,097,428   | 49,752            | -   | 7,977,972   |
| Additions                           | 1,989,632                  | 7,527,512                                    | 551,109  | 1,563,746   | 196,116           | 2,915,605                                 | 14,743,720  |
| Depreciation charge                 | (365,907)                  | (1,520,286)                                  | (438,128)  | (884,505)   | (86,940)          | -   | (3,295,766) |
| Closing net book amount             | 5,977,201                  | 6,761,137                                    | 1,836,386  | 1,776,669   | 158,928           | 2,915,605                                 | 19,425,926  |
| <b>At 30 September 2010</b>         |                            |  |  |   |                   |   |             |
| Cost                                | 7,380,847                  | 9,922,365                                    | 4,477,628  | 4,050,720   | 301,518           | 2,915,605                                 | 29,048,683  |
| Accumulated depreciation            | (1,403,646)                | (3,161,228)                                  | (2,641,242)  | (2,274,051)   | (142,590)         | -   | (9,622,757) |
| Net book amount                     | 5,977,201                  | 6,761,137                                    | 1,836,386  | 1,776,669   | 158,928           | 2,915,605                                 | 19,425,926  |

**7. Property, plant and equipment - continued**

|   | Building<br>Improvements<br>€ | Plant,<br>machinery &<br>laboratory<br>equipment<br>€ | Furniture,<br>fixtures &<br>fittings &<br>& office<br>equipment<br>€ | Computer<br>hardware<br>& software<br>& network<br>infrastructure<br>€ | Other<br>assets<br>€ | Assets<br>in the<br>course of<br>construction<br>€ | Total<br>€  |
|---|-------------------------------|---|--|--|----------------------|--|-------------|
| <b>University</b>                       |                               |   |  |  |                      |  |             |
| <b>At 1 October 2008</b>                |                               |   |  |  |                      |  |             |
| Cost                                    | 4,263,304                     | 1,462,138   | 2,892,527  | 1,716,697  | 33,079               | -  | 10,367,745  |
| Accumulated depreciation                | (749,268)                     | (738,619)   | (1,386,738)  | (771,592)  | (6,616)              | -  | (3,652,833) |
| Net book amount                         | 3,514,036                     | 723,519   | 1,505,789  | 945,105  | 26,463               | -  | 6,714,912   |
| <b>Year ended<br/>30 September 2009</b> |                               |   |  |  |                      |  |             |
| Opening net book amount                 | 3,514,036                     | 723,519   | 1,505,789  | 945,105  | 26,463               | -  | 6,714,912   |
| Additions                               | 689,539                       | 187,629   | 444,442  | 770,278  | 44,857               | -  | 2,136,745   |
| Depreciation charge                     | (196,246)                     | (280,971)   | (356,240)  | (617,954)  | (21,568)             | -  | (1,472,979) |
| Closing net book amount                 | 4,007,329                     | 630,177   | 1,593,991  | 1,097,429  | 49,752               | -  | 7,378,678   |
| <b>At 30 September 2009</b>             |                               |   |  |  |                      |  |             |
| Cost                                    | 4,952,843                     | 1,649,767   | 3,336,969  | 2,486,975  | 77,936               | -  | 12,504,490  |
| Accumulated depreciation                | (945,514)                     | (1,019,590)   | (1,742,978)  | (1,389,546)  | (28,184)             | -  | (5,125,812) |
| Net book amount                         | 4,007,329                     | 630,177   | 1,593,991  | 1,097,429  | 49,752               | -  | 7,378,678   |
| <b>Year ended<br/>30 September 2010</b> |                               |   |  |  |                      |  |             |
| Opening net book amount                 | 4,007,329                     | 630,177   | 1,593,991  | 1,097,429  | 49,752               | -  | 7,378,678   |
| Additions                               | 1,981,662                     | 7,491,911   | 542,004  | 1,562,511  | 196,116              | 2,915,605  | 14,689,809  |
| Depreciation charge                     | (277,380)                     | (1,482,327)   | (390,023)  | (871,545)  | (86,940)             | -  | (3,108,215) |
| Closing net book amount                 | 5,711,611                     | 6,639,761   | 1,745,972  | 1,788,395  | 158,928              | 2,915,605  | 18,960,272  |
| <b>30 September 2010</b>                |                               |   |  |  |                      |  |             |
| Cost                                    | 6,934,505                     | 9,141,678   | 3,878,973  | 4,049,486  | 274,052              | 2,915,605  | 27,194,299  |
| Accumulated depreciation                | (1,222,894)                   | (2,501,917)   | (2,133,001)  | (2,261,091)  | (115,124)            | -  | (8,234,027) |
| Net book amount                         | 5,711,611                     | 6,639,761   | 1,745,972  | 1,788,395  | 158,928              | 2,915,605  | 18,960,273  |

**8. Investments held-to-maturity**

|  | <b>Group and University</b> |                |
|--|-----------------------------|----------------|
|  | <b>2010</b>                 | <b>2009</b>    |
|  | <b>€</b>                    | <b>€</b>       |
| 5.00% Malta Government Stock 2021      | 136,469                     | 136,469        |
| 6.60% Malta Government Stock 2019      | 98,765                      | 98,765         |
| 7.80% Malta Government Stock 2018      | 93,175                      | 93,175         |
| 6.65% Malta Government Stock 2016      | 93,175                      | 93,175         |
| 6.35% Malta Government Stock 2013      | 46,587                      | 46,587         |
| 3.60% Malta Government Stock 2013 (iv) | 8,000                       | 8,000          |
|  | <b>476,171</b>              | <b>476,171</b> |

The investments are quoted on the Malta Stock Exchange. The market value of these investments at 30 September 2010 was €562,822 (2009: €541,540).

**9. Investments in subsidiaries**

|                                | <b>University</b> |                |
|--------------------------------|-------------------|----------------|
|                                | <b>2010</b>       | <b>2009</b>    |
|                                | <b>€</b>          | <b>€</b>       |
| <b>Year ended 30 September</b> |                   |                |
| Opening amount                 | 772,073           | 760,424        |
| Reversal of provision          | -                 | 11,649         |
|                                | <b>772,073</b>    | <b>772,073</b> |
| <b>At 30 September</b>         |                   |                |
| Cost and net book amount       | <b>772,073</b>    | <b>772,073</b> |

The principal subsidiaries, all of which are unlisted at 30 September are shown below:

|  | <b>Held directly by subsidiaries</b> |             | <b>Effective holding</b> |             |
|--|--------------------------------------|-------------|--------------------------|-------------|
|  | <b>2010</b>                          | <b>2009</b> | <b>2010</b>              | <b>2009</b> |
|  | <b>%</b>                             | <b>%</b>    | <b>%</b>                 | <b>%</b>    |
| Malta University Consulting Limited          | 100                                  | 100         | 100                      | 100         |
| Malta University Broadcasting Limited        | 100                                  | 100         | 100                      | 100         |
| Malta University Residence Limited           | 100                                  | 100         | 100                      | 100         |
| Surface Engineering Limited                  | 100                                  | 75          | 100                      | 75          |
| University Sports Complex Limited            | -                                    | -           | 51                       | 51          |
| Malta University Holding Company Limited     | -                                    | -           | 100                      | 100         |
| Foundation for International Studies Limited | 100                                  | 100         | 100                      | 100         |

**9. Investments in subsidiaries - continued**

During the preceding financial year a number of share transfers were effected between University of Malta and its subsidiaries. These transactions had no impact on effective holding as at the end of the year.

During the year, the Group acquired the non-controlling interests in Surface Engineering Limited.

The registered office of all the mentioned subsidiaries is 'The University of Malta, Msida, Malta'.

The objectives of the companies are as follows:

**Malta University Consulting Limited**

To initiate and monitor technology transfer, to strengthen education and industry relationships in Malta as well as between Malta and other countries by providing related consultancy, management and educational services and projects.

**Malta University Broadcasting Limited**

To carry on the operation of a radio broadcasting station covering the Maltese Islands on behalf of the University of Malta.

**Malta University Residence Limited**

To run the University Residence in Lija.

**University Sports Complex Limited**

To manage, run and operate the University Sports Complex, and to manage and run any other sports centre, complex or facility as a national resource.

**Malta University Holding Company Limited**

To invest in the equity of limited liability companies set up by the University of Malta.

**Foundation for International Studies Limited**

To organise conferences, courses, seminars, workshops and other similar activities both with a local and an international dimension.

In terms of the resolution dated 8 March 2011 Foundation for International Studies Limited will be merged into Malta University Holding Company Limited. All assets and liabilities will be delivered to Malta University Holding Company Limited and the company will be dissolved in accordance with Sections 344 and 358 of Companies Act, 1995. For accounting purposes, as from 1 October 2010, the transactions of Foundation for International Studies Limited are being treated as transactions of Malta University Holding Company Limited.

**Surface Engineering Limited**

To provide services relating to industrial coating, including research and consultancy.

In terms of the resolution dated 6 October 2010 Surface Engineering Limited will be merged into Malta University Holding Company Limited. All assets and liabilities were delivered to Malta University Holding Company Limited and the company will be dissolved in accordance with Sections 344 and 358 of Companies Act, 1995. For accounting purposes, as from 1 October 2010, the transactions of Surface Engineering Limited are being treated as transactions of Malta University Holding Company Limited.

**9. Investments in subsidiaries - continued**

**Other interests**

The University of Malta exercises joint control on the Fondazione Link Campus University of Malta, with its registered address at Via Nomentana, 335, Roma. The Fondazione is an autonomous public entity established on the 19 January 2006 and registered as such in accordance with Italian law on the 30 January 2006 to carry out all academic activities as licensed under Italian law to the University of Malta. The University of Malta has a right to all the assets of the Fondazione (in the event of its dissolution for whatever cause, subject to the provisions of Italian law). All the management responsibilities for the running of the academic activities have been sub-contracted to Società per la Gestione della Link Campus University of Malta SpA. The net assets of the Fondazione Link Campus University of Malta as at 31 December 2009 according to the management accounts amounted to €135,914 (2008: €126,969).

**10. Available-for-sale investments**

|  | Group<br>unquoted<br>investments<br>€ |
|--|---------------------------------------|
| <b>Year ended 30 September 2010 and 2009</b> |                                       |
| Opening and closing net book amount          | 24,080                                |
| <b>At 30 September 2010 and 2009</b>         |                                       |
| Cost and net book amount                     | 24,080                                |

Shares are held in the following undertaking:

| Name of<br>company | Registered<br>Office      | Class of<br>shares held | Percentage<br>of shares held |      |
|--------------------|---------------------------|-------------------------|------------------------------|------|
|                    |                           |                         | 2010                         | 2009 |
| Gestione Link SpA  | Via Nomentana 335<br>Rome | Ordinary shares         | 5%                           | 5%   |

The aggregate amount of capital and reserves of Gestione Link SpA as at 31 December 2009 amounted to €1,052,468 (2008: €1,031,321) and the profit for the year was €21,147 (2008: €11,494). The previous losses were made good by the shareholders by a capital restructuring including the fresh injection of new capital. In terms of a shareholders' agreement, the respective subsidiary has been excluded from making good its share of these losses and any other future losses. Gestione Link SpA was set up during 1999 with the objective of managing educational activities regarding which the University of Malta has been licensed by the Italian Authorities to carry out in Rome. The directors consider the carrying value of the investments to approximate their face value.

**11. Inventories**

|                                     | <b>Group</b>  |             | <b>University</b> |             |
|-------------------------------------|---------------|-------------|-------------------|-------------|
|                                     | <b>2010</b>   | <b>2009</b> | <b>2010</b>       | <b>2009</b> |
|                                     | <b>€</b>      | <b>€</b>    | <b>€</b>          | <b>€</b>    |
| Finished goods and goods for resale | <b>81,873</b> | 108,113     | <b>20,056</b>     | 20,056      |

During 2010, inventory write-downs amounted to €22,796. These write-downs have been included in 'Other operating expenses' in the income and expenditure account.

**12. Trade and other receivables**

|  | <b>Group</b>      |             | <b>University</b> |             |
|--|-------------------|-------------|-------------------|-------------|
|  | <b>2010</b>       | <b>2009</b> | <b>2010</b>       | <b>2009</b> |
|  | <b>€</b>          | <b>€</b>    | <b>€</b>          | <b>€</b>    |
| <b>Current</b>                               |                   |             |                   |             |
| Trade receivables                            | <b>2,102,653</b>  | 976,845     | <b>1,588,212</b>  | 529,393     |
| Amounts owed by subsidiaries                 | -                 | -           | <b>1,089,604</b>  | 1,046,328   |
| Indirect taxation recoverable                | <b>143,489</b>    | 146,063     | -                 | -           |
| Other receivables                            | <b>416,918</b>    | 379,923     | <b>238,781</b>    | 245,062     |
| Prepayments and deferred expenditure         | <b>463,677</b>    | 605,713     | <b>369,434</b>    | 486,073     |
| Accrued grant receivable on pension costs    | <b>8,001,084</b>  | -           | <b>8,001,084</b>  | -           |
| Accrued income on externally funded projects | <b>1,480,431</b>  | 1,650,959   | <b>1,480,431</b>  | 1,650,959   |
| Other accrued income                         | <b>4,678,736</b>  | 214,535     | <b>4,678,736</b>  | 214,536     |
|  | <b>17,286,988</b> | 3,974,038   | <b>17,446,282</b> | 4,172,351   |
| <b>Non-current</b>                           |                   |             |                   |             |
| Accrued grant receivable on pension costs    | <b>7,273,537</b>  | -           | <b>7,273,537</b>  | -           |
|  | <b>24,560,525</b> | 3,974,038   | <b>24,719,819</b> | 4,172,351   |

Amounts owed by subsidiaries (Note 26) are unsecured, interest free and repayable on demand.

**13. Short term deposits**

|                         | <b>Group</b>   |             | <b>University</b> |             |
|-------------------------|----------------|-------------|-------------------|-------------|
|                         | <b>2010</b>    | <b>2009</b> | <b>2010</b>       | <b>2009</b> |
|                         | <b>€</b>       | <b>€</b>    | <b>€</b>          | <b>€</b>    |
| <b>Current</b>          |                |             |                   |             |
| Deposits held with bank | <b>683,492</b> | 776,667     | -                 | -           |

Short term deposits had a weighted average interest rate of 1.40% as at 30 September 2010 (2009: 3.57%) and had a maturity date not exceeding one year from the end of the reporting period.

#### 14. Funds designated for specific purposes

The movement in these funds during the year was as follows:-

|                                       | Balance at<br>1 October<br>2009 | Reclassifications<br>and transfers | University<br>Receipts/<br>allocations | (Payments/<br>transfers) | Balance at<br>30 September<br>2010 | Group<br>Balance at<br>30 September<br>2010 |
|---------------------------------------|---------------------------------|------------------------------------|--|--------------------------|------------------------------------|---|
|                                       | €                               | €                                  | €                                      | €                        | €                                  | €   |
| <b>Academic</b>                       |                                 |                                    |  |                          |                                    |   |
| Research                              | 848,061                         | (108,630)                          | 6,662                                  | (20,635)                 | 725,458                            | 725,458                                     |
| Departmental funds                    | 7,516,507                       | 788,333                            | 29,105                                 | (65,078)                 | 8,268,867                          | 8,227,630                                   |
|                                       | 8,364,568                       | 679,703                            | 35,767                                 | (85,713)                 | 8,994,325                          | 8,953,088                                   |
| <b>Operational resources</b>          |                                 |                                    |  |                          |                                    |   |
| Purchase of equipment                 | 21,383                          | 2,927                              | -                                      | (36)                     | 24,274                             | 24,274                                      |
| Campus network<br>development         | 243,960                         | 33,701                             | -                                      | -                        | 277,661                            | 277,661                                     |
| Joint degree<br>programmes            | -                               | -                                  | 19,886                                 | (140)                    | 19,746                             | 19,746                                      |
|                                       | 265,343                         | 36,628                             | 19,886                                 | (176)                    | 321,681                            | 321,681                                     |
| <b>Other</b>                          |                                 |                                    |  |                          |                                    |   |
| Prizes, scholarships and<br>bursaries | 298,234                         | 2,713                              | 26,745                                 | (31,129)                 | 296,563                            | 296,563                                     |
| Publications                          | 12,825                          | 2                                  | -                                      | -                        | 12,827                             | 12,827                                      |
| Bench fees                            | 66,109                          | 172,717                            | 745                                    | (2,911)                  | 236,660                            | 236,660                                     |
| Other                                 | 309,547                         | (210,455)                          | 53,821                                 | (7,287)                  | 145,626                            | 145,626                                     |
|                                       | 686,715                         | (35,023)                           | 81,311                                 | (41,327)                 | 691,676                            | 691,676                                     |
| <b>Total funds</b>                    | 9,316,626                       | 681,308                            | 136,964                                | (127,216)                | 10,007,682                         | 9,966,445                                   |

These funds include an aggregate amount of €9,844,221 (an increase of €825,829 over the 2009 amount of (€9,018,392) representing net amounts allocated in accordance with Accounting policy P. These funds will be used for the specific needs of faculties and departments, and for other specific needs.

#### 15. Capital projects funding

|  | <b>Group and University</b> |             |
|--|-----------------------------|-------------|
|  | <b>2010</b>                 | <b>2009</b> |
|  | €                           | €           |
| <b>Current</b>   |                             |             |
| At beginning of year   | (385,567)                   | (407,098)   |
| Capital projects payments effected by the University during the year | (1,369,509)                 | (1,874,985) |
|  | (1,755,076)                 | (2,282,083) |
| Remittances received from Government                                 | 909,306                     | 1,896,516   |
| At end of year   | (845,770)                   | (385,567)   |

**16. Trade and other payables**

|   | <b>Group</b>      |                   | <b>University</b> |                   |
|---|-------------------|-------------------|-------------------|-------------------|
|   | <b>2010</b>       | <b>2009</b>       | <b>2010</b>       | <b>2009</b>       |
|   | <b>€</b>          | <b>€</b>          | <b>€</b>          | <b>€</b>          |
| <b>Current</b>                                |                   |                   |                   |                   |
| Trade payables                                | 1,733,826         | 1,485,921         | 1,439,468         | 1,292,562         |
| Amounts owed to subsidiaries                  | -                 | -                 | 770,173           | 639,202           |
| Indirect taxes and social security            | 11,350            | 36,179            | -                 | -                 |
| Pension costs payable                         | 6,803,100         | -                 | 6,803,100         | -                 |
| Other payables                                | 1,093,598         | 1,098,087         | 982,278           | 955,351           |
| Accruals and deferred income                  | 8,482,975         | 6,011,176         | 7,844,362         | 5,482,911         |
| Deferred income on externally funded projects | 3,598,619         | 2,734,952         | 3,598,619         | 2,734,952         |
|   | <b>21,723,468</b> | <b>11,366,315</b> | <b>21,438,000</b> | <b>11,104,978</b> |

Amounts owed to subsidiaries (Note 26) are unsecured, interest free and repayable on demand.

**17. Deferred grants**

|                    | <b>Group</b>      |                  | <b>University</b> |                  |
|--------------------|-------------------|------------------|-------------------|------------------|
|                    | <b>2010</b>       | <b>2009</b>      | <b>2010</b>       | <b>2009</b>      |
|                    | <b>€</b>          | <b>€</b>         | <b>€</b>          | <b>€</b>         |
| Government funding | 8,897,243         | 6,703,852        | 8,897,243         | 6,703,852        |
| ERDF funding       | 8,585,151         | -                | 8,585,151         | -                |
|                    | <b>17,482,394</b> | <b>6,703,852</b> | <b>17,482,394</b> | <b>6,703,852</b> |

Deferred grants are credited to the Income and Expenditure Account over the remaining useful life of the assets. It is expected that €2,472,612 will be released to income in the next twelve months.

**18. Provision for liabilities and charges**

|   | <b>Group and University</b> |             |
|---|-----------------------------|-------------|
|   | <b>2010</b>                 | <b>2009</b> |
|   | <b>€</b>                    | <b>€</b>    |
| <b>Pensions and other post employment benefit plans</b> |                             |             |
| Present value of unfunded obligation                    | 15,274,621                  | -           |
| Crystallised obligation                                 | (6,803,100)                 | -           |
| At end of year  | <b>8,471,521</b>            | <b>-</b>    |

**18. Provision for liabilities and charges - continued**

Disclosed as follows:

|                | 2010<br>€        | 2009<br>€ |
|----------------|------------------|-----------|
| Current        | 1,197,984        | -         |
| Non current    | 7,273,537        | -         |
| At end of year | <u>8,471,521</u> | -         |

The pension provision mainly reflects past service costs. Included in the provision of €8,471,521 is an amount of €1,197,984 which is expected to crystallise in the next 12 months.

This pension scheme, which is set up in accordance with the Pensions Ordinance, 1937, falls under the category of 'Defined Benefit Plan' within the scope of IAS 19, Employee Benefits.

A defined benefit plan defines an amount of pension benefit that an employee will receive on retirement. As originally provided for in the Pensions Ordinance, 1937, this amount is dependent upon an employee's final compensation upon retirement, as well as completed months of service. Furthermore, qualifying employees, must have worked for Government for a minimum of 10 years, been employed by Government prior to 1979 and must have remained in service with the University of Malta until retirement (the vesting period), in order to be unconditionally eligible to receive a pension under the scheme.

The University provides for the obligation arising in terms of Article 8A of the Pensions Ordinance, Cap 93 of the laws of Malta, covering those ex-Government employees who opted to become full-time employees of the University, and who continued to be entitled to pension rights which go beyond the National Insurance Scheme. The scheme is a final salary defined benefit plan and is unfunded.

**Discount rates**

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rate yields for Malta Government Stocks that have terms to maturity approximating to the terms of the related pension liability. As at 30 September 2010, the weighted average discount rate used was 3.67%.

**Mortality assumptions**

Assumptions regarding future mortality experience are set based on published mortality tables in the UK and in Malta, which translate into an average life expectancy ranging between 80 and 87 years depending on the age and gender of the beneficiaries.

**19. Deferred tax**

|  | <b>Group</b>  |          |
|--|---------------|----------|
|  | <b>2010</b>   | 2009     |
|  | €             | €        |
| At beginning of the year                           | <b>47,356</b> | 57,655   |
| Charged to income and expenditure account (Note 6) | -             | (10,299) |
| At end of year                                     | <b>47,356</b> | 47,356   |

Deferred taxes are calculated on all temporary differences under the liability method using a principal tax rate of 35% (2009: 35%).

The balance at the year end represents:

|  | <b>Group</b>  |        |
|--|---------------|--------|
|  | <b>2010</b>   | 2009   |
|  | €             | €      |
| Temporary differences on property, plant and equipment         | <b>9,649</b>  | 14,441 |
| Temporary differences arising on provisions                    | <b>23,060</b> | 32,714 |
| Temporary differences arising on unabsorbed capital allowances | <b>14,647</b> | 201    |
|  | <b>47,356</b> | 47,356 |

At 30 September, the Group had the following potential deferred tax asset which has not been recognised in the financial statements:

|  | <b>Group</b>   |         |
|--|----------------|---------|
|  | <b>2010</b>    | 2009    |
|  | €              | €       |
| Unabsorbed tax losses and capital allowances carried forward | <b>142,669</b> | 191,516 |
| Temporary differences on provisions                          | <b>3,519</b>   | 11,813  |
| Temporary differences on property, plant and equipment       | <b>16,816</b>  | 5,969   |
|  | <b>163,004</b> | 209,298 |

**20. Specific endowment funds**

|                                    | <b>Group and University</b> |                |
|------------------------------------|-----------------------------|----------------|
|                                    | <b>2010</b>                 | <b>2009</b>    |
|                                    | <b>€</b>                    | <b>€</b>       |
| A. Cachia Zammit Prize             | 669                         | 669            |
| Prof. J.J. Mangion Prize           | 932                         | 932            |
| Colombos Scholarships              | 1,928                       | 1,928          |
| Prof. Griffiths Prize              | 233                         | 233            |
| University Students' Bursaries     | 2,329                       | 2,329          |
| Corinthia Paediatric Fund          | 4,659                       | 4,659          |
| Anna Muscat Azzopardi Prize        | 2,165                       | 2,165          |
| Hugh Muscat Azzopardi Prize        | 1,571                       | 1,571          |
| BMA-UM Travelling Fellowship       | 3,704                       | 3,704          |
| Fund Karmen Micallef Buhagiar      | 3,436                       | 3,436          |
| Paul and Elvira Saliba Attard Fund | 1,073                       | 1,073          |
| Prof. John Borg Fund               | 9,317                       | 9,317          |
| Prof. Craig Memorial Fund          | 26,087                      | 26,087         |
| Prof. Keith Richardson Fund        | 232,937                     | 232,937        |
| NACAD Welfare Fund                 | 69,929                      | 69,929         |
|                                    | <b>360,969</b>              | <b>360,969</b> |

Endowment funds are derived from gifts and donations to the University and can only be used for specific purposes. The individual funds' income and expenditure is included within the University's main income and expenditure account. In most cases the University contributes from its own funds to achieve the objectives of the funds' specific purposes, particularly with respect to funds set up many years ago.

**21. Capital fund**

This represents the equivalent of the total cost of investments made by the University in subsidiary and associated companies as at 31 December 1993 amounting to €80,364, which were previously expensed, together with a loan to Malta University Broadcasting Limited amounting to €58,234 which was also previously expensed.

**22. Accumulated net surplus/(deficit)**

|  | <b>Group</b>     |                | <b>University</b> |                    |
|--|------------------|----------------|-------------------|--------------------|
|  | <b>2010</b>      | <b>2009</b>    | <b>2010</b>       | <b>2009</b>        |
|  | <b>€</b>         | <b>€</b>       | <b>€</b>          | <b>€</b>           |
| At beginning of year                                 | 102,599          | 191,270        | (1,468,357)       | (1,423,067)        |
| Surplus/(deficit) for the year                       | 958,505          | (88,671)       | 1,291,450         | (45,290)           |
| Acquisition of non-controlling interest shareholding | 41,832           | -              | -                 | -                  |
| At end of year                                       | <b>1,102,936</b> | <b>102,599</b> | <b>(176,907)</b>  | <b>(1,468,357)</b> |

**23. Non-controlling interest**

|   | <b>Group</b><br><b>2010</b><br>€ | 2009<br>€ |
|---|----------------------------------|-----------|
| At beginning of year  | <b>179,223</b>                   | 177,885   |
| Release on acquisition of non-controlling interest shareholding | <b>(160,837)</b>                 | -         |
| Share of results for the year                                   | <b>(1,780)</b>                   | 1,338     |
| At end of year  | <b>16,606</b>                    | 179,223   |

**24. Cash and cash equivalents**

For the purposes of the statement of cash flows, the year end cash and cash equivalents comprise the following:

|                               | <b>Group</b><br><b>2010</b><br>€ | 2009<br>€   | <b>University</b><br><b>2010</b><br>€ | 2009<br>€   |
|-------------------------------|----------------------------------|-------------|---------------------------------------|-------------|
| Cash at bank and in hand      | <b>16,460,629</b>                | 15,852,946  | <b>15,111,772</b>                     | 14,436,000  |
| Short term deposits (Note 13) | <b>683,492</b>                   | 776,667     | -                                     | -           |
| Overdrawn bank balance        | <b>(3,432,539)</b>               | (1,646,593) | <b>(3,183,677)</b>                    | (1,484,227) |
|                               | <b>13,711,582</b>                | 14,983,020  | <b>11,928,095</b>                     | 12,951,773  |

In its capacity as leader and administrator in the Navigation Du Savoir – Euromed Heritage II Programme, the University of Malta holds certain bank balances of the same Programme in a fiduciary capacity. As at the end of the reporting period, the University of Malta held bank balances amounting to €46,591 (2009: €52,480), which are included in these financial statements. Other bank balances of €82,115 (2009: €Nil) held in custody relate to Confucius Institute. The University of Xiamen has transferred such funds to the University of Malta to finance the opening and the operation of the Confucius Institute.

**25. Financial risk management**

**25.1 Financial risk factors**

The Group's activities potentially expose it to a variety of financial risks: market risk (including fair value and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group did not make use of derivative financial instruments to hedge certain risk exposures during the current and preceding financial years.

The Council provides principles for overall risk management, as well as policies covering risks referred to above and specific areas such as investment of excess liquidity.

## 25. Financial risk management - continued

### 25.1 Financial risk factors - continued

#### (a) Market risk

The Group's financial assets are susceptible to market price risk arising from uncertainties about future prices of these instruments. The Council manages this risk by reviewing on a regular basis market value fluctuations arising on the Group's investments.

##### *(i) Fair value and cash flow interest rate risk*

The Group's income and operating cash flows are substantially independent of changes in market interest rates. Financial assets issued at fixed rates, consisting primarily of listed debt securities which are carried at fair value (refer to Note 8), potentially expose the Group to fair value interest rate risk. Note 8 incorporates interest rate and maturity information with respect to the Group's assets.

At 30 September 2010, the impact on funds of a 0.50% shift would be a maximum increase of €19,981 (2009: €18,962) or decrease of €19,094 (2009: €18,127), respectively.

The Group's interest-bearing instruments comprise short term deposits at fixed interest rates and expose the group to cash flow interest rate risk. Note 13 incorporates interest rates and maturity information with respect to these instruments.

Based on the above, the Council considers the potential impact on profit or loss of a defined interest rate shift that is reasonably possible at the reporting date to be immaterial.

#### (b) Credit risk

Credit risk arises from investments (held-to-maturity and available-for-sale), loans to subsidiary companies, cash and cash equivalents, short term deposits with banks as well as receivables. The Group's exposures to credit risk are analysed as follows:

|                             | 2010<br>€         | 2009<br>€         |
|-----------------------------|-------------------|-------------------|
| Investments                 | 500,251           | 500,251           |
| Trade and other receivables | 17,286,988        | 3,974,038         |
| Short term deposits         | 683,492           | 776,667           |
| Cash and cash equivalents   | 16,460,629        | 15,852,946        |
|                             | <b>34,931,360</b> | <b>21,103,902</b> |

The maximum exposure to credit risk at the reporting date in respect of the financial assets mentioned above is disclosed above and in Notes 8, 10, 12, 13 and 24 to these financial statements. The Group does not hold any collateral as security in this respect.

The Group banks only with local financial institutions with high quality standing or rating.

## 25. Financial risk management - continued

### 25.1 Financial risk factors - continued

#### (b) Credit risk - continued

The Group assesses the credit quality of customers taking into account financial position, past experience and other factors. It has policies in place to ensure that sales of services are effected to customers with an appropriate credit history. The Group monitors the performance of these financial assets on a regular basis to identify incurred collection losses which are inherent in the Group's receivables taking into account historical experience in collection of accounts receivable.

The Group is exposed to concentration of credit risk with respect to trade and other receivables since 40% (2009: 22%) of its gross trade and other receivables are due from four parties (2009: four parties). However, these amounts are deemed to be recoverable.

The Group manages credit limits and exposures actively in a practicable manner such that past due amounts receivable from customers as at the reporting date are within controlled parameters. The Group's receivables, which are not impaired financial assets, except as referred to below are principally in respect of transactions with customers for whom there is no recent history of default. The Council does not expect any material losses from non-performance by these customers.

As of 30 September 2010, receivables of €209,118 (2009: €82,491) were impaired. It was assessed that a portion of the receivables is expected to be recovered. The Group does not hold any collateral as security for the impaired assets.

As at 30 September 2010, amounts due from trade and other receivables of €1,237,017 (2009: €691,724) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

The ageing analysis of these trade and other receivables is as follows:

|                                | 2010             | 2009           |
|--------------------------------|------------------|----------------|
|                                | €                | €              |
| Between 1 and 2 months overdue | 87,387           | 111,185        |
| Between 2 and 3 months overdue | 71,993           | 53,154         |
| Over 3 months overdue          | 1,077,636        | 527,385        |
|                                | <b>1,237,016</b> | <b>691,724</b> |

The credit risk for University arising from loans to subsidiaries as disclosed in Note 12 is not considered significant as such amounts are deemed to be recoverable. The total amounts as at the year end amounted to €302,353 (2009: €302,353) stated net of a provision of €72,211 (2009: €72,211).

#### (c) Liquidity risk

The Group is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise principally funds designated for specific purposes and trade and other payables (refer to Notes 14 and 16). Prudent liquidity risk management includes maintaining sufficient cash and committed credit lines to ensure the availability of an adequate amount of funding to meet the Group's obligations.

## 25. Financial risk management - continued

### 25.1 Financial risk factors - continued

#### (c) Liquidity risk - continued

The Council monitors expected cash flows over a twelve month period and ensures that no additional financing facilities are expected to be required over the coming year. The Group's liquidity risk is not deemed to be material in view of the matching of cash inflows and outflows arising from expected maturities of financial instruments. The carrying amounts of the Group's assets and liabilities are analysed into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date in the respective notes to the financial statements.

### 25.2 Fair values of financial instruments

At 30 September 2010 and 2009, the carrying amounts of cash at bank, short term deposits with banks, receivables, payables and accrued expenses in the financial statements are reasonable estimates of fair value in view of the nature of these instruments or the relatively short period of time between the origination of the instruments and their expected realisation. The carrying amounts of the Group's other assets and liabilities approximated their fair values.

## 26. Related party transactions

The Council considers the Government of Malta and the University companies disclosed in Note 9 to be related parties. The University and its subsidiaries conduct transactions in the normal course of business with the Government of Malta and with other state-controlled enterprises. Disclosures in relation to government grants are included in Notes 3 and 17. The following transactions were carried out by the University with its subsidiaries:

|                                | University<br>2010<br>€ | 2009<br>€ |
|--------------------------------|-------------------------|-----------|
| <b>Income</b>                  |                         |           |
| Subcontracting income          | 47,847                  | 41,237    |
| Other income                   | 8,503                   | 4,292     |
| <b>Expenses</b>                |                         |           |
| Registration and tuition fees  | 258,374                 | 96,495    |
| University radio running costs | 150,868                 | 166,867   |
| Other expenses                 | 42,301                  | 20,956    |

Year-end balances with subsidiaries are disclosed separately in Notes 12 and 16.

## 27. Pensions

The University has received claims from the Government of Malta amounting to €6.8m in respect of the cost of pensions and gratuities paid to employees who had accepted permanent employment with the University. These claims arising in terms of Article 8A of the Pensions Ordinance Cap. 93 of the Laws of Malta, relate to the cost of the pensions and gratuities accruing from the date of acceptance of employment till 31 December 2009. In addition, pension costs will continue to accrue until such time that the retirees are receiving their service pension.

## 27. Pensions - continued

As from 2010, the University has recognised in the statement of financial position a provision representing the present value of the obligation (Note 18), based on assumptions on life expectancy of the retirees. The University has obtained a written undertaking from the Government that it will be fully compensated for any outlay made in settling the amount due in respect of pensions. Accordingly, accounting for this obligation has no impact on the University's income and expenditure.

## 28. Commitments

At 30 September the Group and the University had commitments not provided for in these financial statements as follows:

|   | <b>Group</b>     |             | <b>University</b> |             |
|---|------------------|-------------|-------------------|-------------|
|   | <b>2010</b>      | <b>2009</b> | <b>2010</b>       | <b>2009</b> |
|   | <b>€</b>         | <b>€</b>    | <b>€</b>          | <b>€</b>    |
| Capital commitments authorised but not contracted for | <b>1,796,864</b> | 765,039     | <b>1,796,864</b>  | 646,039     |
| Capital commitments authorised and contracted         | <b>564,905</b>   | 456,108     | <b>564,905</b>    | 456,108     |
| Commitments under non-cancellable operating leases    | <b>538,667</b>   | 713,370     | -                 | -           |
|   | <b>2,900,436</b> | 1,934,517   | <b>2,361,769</b>  | 1,102,147   |

Future minimum lease payments due by the Group under non-cancellable operating leases are as follows:

|                                   | <b>Group</b>   |             |
|-----------------------------------|----------------|-------------|
|                                   | <b>2010</b>    | <b>2009</b> |
|                                   | <b>€</b>       | <b>€</b>    |
| Falling due within 1 year         | <b>194,969</b> | 189,902     |
| Falling due between 2 and 5 years | <b>406,184</b> | 601,153     |
|                                   | <b>601,153</b> | 791,055     |

## 29. Contingent liabilities

As at the year-end, the University had pending claims filed by third parties in the ordinary course of activities. The University is defending these claims and at this stage it is premature to determine the financial impact, if any, on the financial position of University. During 2007, a recommendation had been made to the University in relation to a complaint instituted in previous years. The University has decided not to implement this recommendation. The amount to date payable to the complainant is approximately €105,461, to which other pending amounts and possibly interest at law might need to be added, should judicial proceedings be filed to this effect.

At 30 September 2010, the Group had contingent liabilities amounting to €119,399 (2009: €36,019) in respect of guarantees issued by the bank on its behalf in favour of third parties in the ordinary course of business. During the year, the Group has filed objections with the Commissioner of Inland Revenue concerning disputed tax amounting to €39,853 (2009: €Nil) relating to year of assessment 1998 in respect of which no provision has been made in the financial statements.

**30. Comparative information**

Comparative figures disclosed in the main components of these financial statements have been reclassified to conform with the current year's presentation format for the purpose of fairer presentation.

## Detailed accounts

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## Detailed analysis of other operating expenses

|                                       | Year ended 30 September |                   |
|---------------------------------------|-------------------------|-------------------|
|                                       | University<br>2010<br>€ | 2009<br>€         |
| Equipment and furniture               | 216,687                 | 217,962           |
| Repairs and maintenance               | 544,197                 | 568,378           |
| Sub-contracted services               |                         |                   |
| - academic                            | 605,478                 | 840,957           |
| - other                               | 814,695                 | 842,505           |
| Office supplies and stationery        | 559,533                 | 648,665           |
| Allocation to work resources funds    | 2,466,916               | 1,972,444         |
| Allocation to research projects funds | 98,744                  | 80,645            |
| Laboratory supplies                   | 436,429                 | 234,509           |
| Library books and periodicals         | 1,131,409               | 1,405,335         |
| Scholarships                          | 325,387                 | 347,392           |
| University radio running costs        | 150,868                 | 166,867           |
| Communications                        | 357,403                 | 320,864           |
| Water and electricity                 | 867,486                 | 789,511           |
| Travelling and accommodation          | 959,804                 | 974,968           |
| Other expenditure                     | 2,218,311               | 1,831,069         |
| Depreciation charge                   | 3,108,215               | 1,472,979         |
| <b>Total other operating expenses</b> | <b>14,861,562</b>       | <b>12,715,050</b> |

