

COMPANY NUMBER: 3763109
CHARITY NUMBER: 1079456

EDUSERV (LIMITED BY GUARANTEE)
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2005

**EDUSERV (LIMITED BY GUARANTEE)
LEGAL AND ADMINISTRATIVE DETAILS
FOR THE YEAR ENDED 31 JULY 2005**

Status	Eduserv is a company limited by guarantee and a registered charity.
Governing Document	Memorandum and Articles of Association
Company Number	3763109
Charity Number	1079456
Registered office and Operational address	Queen Anne House 11 Charlotte Street Bath BA1 2NE
Honorary officers	Peter Ford – Chairman
Principal staff	Stephen Butcher – Chief Executive Edward Zedlewski – Deputy Chief Executive Martin Tregonning – Finance Director
Principal bankers	Royal Bank of Scotland 8-9 Quiet Street Bath BA1 2JN
Solicitors	Sinclair Taylor & Martin 2 Putney Hill London SW15 6AB
Auditors	Horwath Clark Whitehill LLP Kennet House 80 Kings Road Reading Berkshire RG1 3BL

**EDUSERV (LIMITED BY GUARANTEE)
REPORT OF THE TRUSTEES
FOR THE YEAR ENDED 31 JULY 2005**

The Trustees present their report and the audited Financial Statements for the year ended 31 July 2005.

Legal and administrative information set out on page 1 forms part of this report. The Financial Statements comply with current statutory requirements, the Memorandum and Articles of Association and the Statement of Recommended Practice – Accounting and Reporting by Charities (issued in October 2000) and the Companies Act 1985.

EDUSERV'S AIMS AND ACTIVITIES IN 2005

Eduserv's mission is to work with partners to realise the benefits of IT for learning, research and the wider public good.

Our charitable objects are the advancement of education in particular by facilitating teaching, learning and research for the benefit of institutions and centres of education by such means as are charitable.

Eduserv aims to fulfil its mission by:

- providing services that facilitate the more effective use of IT for learning, research and the wider public good;
- funding pure research and applied research and development, both within and outside Eduserv, that will contribute to the effective use of IT for learning, research and the wider public good;
- meeting the commercial demand for our services through our trading subsidiary Eduserv Technologies Limited, and using the profits generated to support our charitable activities.

Access and Identity Management

The Eduserv Athens service provides single sign-on access to hundreds of online services for staff and students of UK universities and colleges and for practitioners and researchers in the NHS. Users may sign-on from anywhere, personalise their view of the resources accessed, and move seamlessly from resource to resource. The service had over 3.3 million users in 2005.

Objectives for the service in 2005 were:

- to further extend the usage of the service;
- to increase the number of institutions integrating access to external and internal online resources;
- to progress interoperability between Athens and organisations using Shibboleth or other SAML (Security Assertion Markup Language) technology;
- to maintain service availability of not less than 99.99%.

During 2005 we allocated additional staff to the recruitment of new resource providers to the Athens service and during the year 47 new providers were contracted.

In collaboration with the JISC (Joint Information Systems Committee) Regional Support Centres we have engaged more further education colleges in utilising Athens, through exhibitions, training events and newsletters. 31 institutions used the Athens service for the first time in 2005.

Training events, comprehensive documentation and technical support have contributed to the growth in the number of institutions using Athens DA (Devolved Authentication) technology to authenticate locally and thereby integrate access to both external and internal resources. By the end of the year a total of 44 institutions had adopted this architecture fully, with a further 70 institutions evaluating or implementing it.

**EDUSERV (LIMITED BY GUARANTEE)
REPORT OF THE TRUSTEES (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2005**

EDUSERV'S AIMS AND ACTIVITIES IN 2005 (CONTINUED)

During the year we invested significantly in additional developer resources and in June we launched the Shibboleth/SAML to Athens Gateway. This enables organisations to use Shibboleth Identity Provider protocols to access Athens-protected resources, and is a key element in Athens/Shibboleth interoperability.

Very high availability is critical for the Athens service. We are proud that it maintained 100% uptime throughout the year reflecting the continuing substantial investment in its resilience.

In 2006 Eduserv Athens will continue to invest in the resilience of its existing service, the broadening of the coverage and use of the service, the development of local authentication, and interoperability with SAML standards.

In March 2005 JISC awarded Eduserv the contract to provide the MATU (Middleware Assisted Take-Up) service, supporting in particular early adopters of Shibboleth technology. Since then, the service has generated relevant technical documentation and software guides, compiled references to other relevant sources, promoted these resources through its website, provided a help desk and initiated a training programme. During 2006 MATU will support a significantly larger number of institutions, introduce a quick-start facility and broaden its areas of guidance to include publication, privacy and attribute management.

Licence Negotiation and Management

Eduserv Chest negotiates software and online information licences for universities and colleges. It provides benefit to institutions firstly by obtaining terms that are more favourable than are otherwise available, and secondly through saving institutions the significant time otherwise required for negotiation and licence term management.

During 2005 Eduserv Chest increased the value to institutions of its service through negotiating new licence agreements from major producers, through renewing valuable agreements that were expiring, and through increasing the awareness of the licences available. Estimates of the total amount of money saved by universities and colleges through use of Chest-negotiated licences are speculative, since in many cases the site licence terms secured by Chest are otherwise simply not available. Procurement of equivalent provision at standard rates would cost many millions of pounds more per annum than the level of fees payable under Chest agreements. The number and value of licences in issue provides some indication of the growth in use of the service by institutions. In 2005 the number of licences under management grew by 10%, from 3,107 to 3,409 while their value increased by 20% from £5.4m to £6.5m.

In 2005 Eduserv Chest also reviewed and defined its medium term strategy. This includes increasing its capabilities in product selection and negotiation, in contract and licence administration, and in communications both with suppliers and institutions. Through this increased expertise Eduserv Chest intends to deliver more and better agreements with suppliers, increase take-up of licences and drive up efficiency.

Managed Web Hosting and Development

Eduserv Internet designs, builds and manages hosting infrastructures and web applications.

In 2005 Eduserv Internet successfully delivered the JISC Mirror service, but to a schedule and in circumstances that demanded exceptional resources.

Having previously provided hosting to the Teacher Training Agency, Eduserv Internet was pleased to win the competitive tender for a new contract with the Training and Development Agency for Schools (the successor to the Teacher Training Agency), which will utilise a new content management system, Sitecore, for which Eduserv is the UK distributor.

**EDUSERV (LIMITED BY GUARANTEE)
REPORT OF THE TRUSTEES (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2005**

EDUSERV'S AIMS AND ACTIVITIES IN 2005 (CONTINUED)

Through the hosting of Curriculum Online, Eduserv Internet has developed a service relationship with the British Education Communications and Technology Agency (BECTA), who have taken on responsibility for Curriculum Online from the Department for Education and Skills (DfES). Eduserv Internet continues to host services for the DfES, Ofsted and the JISC. In all, the value of the services provided by Eduserv Internet increased by 10% over 2004.

During 2006 Eduserv Internet intends to continue to develop its content management systems and capabilities and its network management services for clients. At the same time it will continue to build compliance with ISO standards, will extend its high-end hosting capacity and will independently audit the satisfaction level of its clients.

The Eduserv Foundation

The Foundation seeks to fulfil Eduserv's second aim through funding that encourages the effective development and use of e-learning, digital content and middleware services for learning, research and the wider public good. The objectives of the Foundation in 2005 were:

- the effective management of existing research projects;
- the continuation of existing programmes and the development of new programmes addressing specific stakeholder concerns;
- increased sponsorship of stakeholder events;
- increased dissemination of programme results.

With two significant exceptions, the existing projects have met their objectives in 2005. Over 80% of objectives were reported as met within schedule, though inevitably there is an element of subjectivity in such measures. One project has been delayed because of illness and another – the interactive web publication of tutor guides – has needed more technical resources than was anticipated and as a result progress has been slower than planned. Trustees and management have engaged individually with specific projects but we believe that further dedicated resources are justified to provide increased support and guidance.

During 2005 £479k was committed to new projects (*2004: £586k*) of which £430k (*2004: £583k*) related to grants. Projects in new programme areas included a scoping study in technical staff development commissioned in association with the Universities and Colleges Information Systems Association (UCISA) and the development of an information literacy resources collection and website in association with the Chartered Institute of Library and Information Professionals (CILIP), the Society of College, National and University Libraries (SCONUL) and the Higher Education Academy. There were in addition three new research grants in the continuing Eduserv Research Grant programme.

Sponsorship of events increased to £27k (*2004: £9k*) and included the hosting of the first Eduserv Symposium in April 2005. This event provided an opportunity both for existing projects to disseminate interim results and for the Foundation to increase its understanding of future needs in this area.

Eduserv Technologies Limited

The commercial activities of Eduserv Technologies Limited enable Eduserv to fulfil its third aim, to make money for charitable activities through meeting the commercial demand for its services. In 2005 Eduserv Technologies Limited increased its long term capabilities through significant developments of management and technical infrastructure. It paid licence fees and Gift Aid to Eduserv of £710k (*2004: £825k*).

In 2006 Eduserv Technologies Limited is planning to make licence and Gift Aid payments to Eduserv of not less than £500k while investing in its future service delivery and revenue earning capability.

**EDUSERV (LIMITED BY GUARANTEE)
REPORT OF THE TRUSTEES (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2005**

ORGANISATION

Eduserv is organised into four operating units in two companies. Eduserv Chest and the Eduserv Foundation operate within Eduserv, a company limited by guarantee. Eduserv Athens and Eduserv Internet together form a wholly owned subsidiary of Eduserv, Eduserv Technologies Limited. As well as providing services to educational institutions this subsidiary also meets the demand for these services from government departments, public sector agencies and other institutions that are outside Eduserv's charitable constituency. All the taxable profits from these services are Gift Aided to Eduserv and fund the work of the Eduserv Foundation.

Eduserv is governed by a board of Trustees, who also act as directors under the Companies Act, and who meet at least four times a year. The Trustees determine the overall strategy of the charity and agree objectives. There are also four committees of trustees who address and monitor specific issues:

- The Audit Committee – who meet at least twice a year and oversee financial control and reporting, investment policy, and risk mitigation;
- The Remuneration and Appointments Committee – who authorise the overall level of staff remuneration, and determine the remuneration and appointment of executive staff;
- The Grants Committee – who determine overall grants policy and the awarding of major grants;
- The Investment Committee – who advise the board on overall investment strategy, and authorise investments and review ongoing investment performance.

The Trustees delegate day to day management of the charity and of its subsidiary to an executive committee consisting of the Chief Executive, who reports directly to the board, a Deputy Chief Executive and Chief Technical Officer, and a Finance Director.

2004/2005 FINANCIAL RESULTS

Group trading generated a surplus of £893k (*2004: £884k*) for the year. The return on investments was significantly higher during 2005, totalling £611k (*2004: £217*). This gave an overall surplus before Foundation expenditure of £1,475k (*2004: £1,047k*).

The 2005 financial results and the continuing profitability of Eduserv Technologies Limited have allowed us allocation of funds to the Foundation this year of £1,000k (*2004: £900k*). With these resources we intend that the Foundation should not only continue its existing programmes through 2006, but also develop significant new programmes promoting the effective application of IT in UK education.

RESERVES POLICY

In accordance with best practice in charity administration, the Trustees have considered the purposes for holding reserves and what the appropriate level of reserves is.

In doing so, the Trustees have identified the following purposes for holding reserves:

- To fund capital investment in facilities and equipment in order to maintain our charitable operations;
- To provide working capital for the charity;
- To support the trading subsidiary which provides an income stream for the charity;
- To allow for investment in the development of the services provided;
- To guard against unforeseen risks - both from liability for professional negligence and from severe market disruption.

**EDUSERV (LIMITED BY GUARANTEE)
REPORT OF THE TRUSTEES (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2005**

RESERVES POLICY (CONTINUED)

For the 2005/2006 financial year, the Trustees believe that it would be appropriate to maintain general reserves at a level within the range of £3,028k to £3,701k. At 31 July 2005, Eduserv held total general reserves of £3,496k.

This policy, which is designed to ensure that Eduserv does not hold more funds than necessary and returns the maximum benefit to the education community, will be reviewed annually, as part of our budget process. Any surplus reserves will be returned to the education community, either through the provision of additional services, or through the Eduserv Foundation.

INVESTMENT POLICY

Eduserv's investments represent funds not immediately required for operational purposes, rather than investments designed to produce a permanent income stream.

As noted in the 2004 Annual Report, the existing investment strategy provided a level of liquidity and risk avoidance which, given the financial stability of the charity, was now no longer required. During 2005 the Trustees reviewed the risk profile and the ongoing liquidity requirements of the charity, and a revised investment strategy was approved.

The new investment strategy was implemented in November 2004, and consists of a balanced portfolio of equities, gilts and bonds, commercial property, and cash. The equities, gilts and bonds, and commercial property are all held in unitised funds. The overall risk profile for the new portfolio is medium-low.

The Trustees consider the average annual return of 12.1% (2004: 3.7%) represents a significantly improved return on the previous year. This improved return is in part due to the new investment strategy, but also due to the strong market during the year. Investment returns during 2006 are expected to be lower than 2005.

RISK STATEMENT

The Trustees have a programme of reviewing risk on an ongoing basis. The Trustees have examined the major risks to which Eduserv is exposed and are satisfied that systems have been put in place to mitigate them.

GRANT MAKING POLICY

Eduserv's grant making aims to encourage the effective development and use of e-learning, digital content and middleware services for learning, research and the wider public good.

RELATED PARTIES AND CONNECTED ORGANISATIONS

There are no related parties or connected organisations to be disclosed outside of the Eduserv group.

**EDUSERV (LIMITED BY GUARANTEE)
REPORT OF THE TRUSTEES (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2005**

THE TRUSTEES

The Trustees, who are also directors under company law, who served during the year and up to the date of this report were as follows:

Professor Peter Ford - Chair
Richard Barrington
Dr David Boyd
Michael Breaks
Thomas Chadwick
Annette Haworth
Simon Marsden

All Trustees served throughout the year.

Members of the charitable company guarantee to contribute an amount not exceeding £1 to the assets of the charitable company in the event of winding up. The total number of such guarantees at 31 July 2005 was 7 (2004 - 7).

The Trustees have no beneficial interest in the group or charitable company.

APPOINTMENT OF TRUSTEES

The Trustees represent the beneficiaries for whom Eduserv exists: the education community in general and in particular higher and further education in the UK. Trustees are appointed to the Board for their understanding of these sectors and of the particular contribution IT can make to teaching, learning, and research within them.

AUDITORS

Horwath Clark Whitehill LLP will be proposed for reappointment as auditors to the company at the Annual General Meeting in accordance with Section 385 of the Companies Act 1985.

Approved by the Trustees on
and signed on their behalf by

.....
Peter Ford – Chair
Eduserv

EDUSERV (LIMITED BY GUARANTEE)
STATEMENT OF
TRUSTEES' RESPONSIBILITIES

Company law requires the Trustees to prepare financial statements for each year which give a true and fair view of the state of affairs of the group and of the charitable company as at the balance sheet date and of its incoming resources and application of resources, including income and expenditure for the year then ended. In preparing those financial statements the Trustees are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to assume that the group and charitable company will continue in business.

The Trustees are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and charitable company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and the charitable company and hence for taking reasonable steps for the prevention and detection of fraud or other irregularities. The Trustees are responsible for ensuring that the Trustees' Report and other information included in the annual report are prepared in accordance with company law in the United Kingdom.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EDUSERV (LIMITED BY GUARANTEE)

We have audited the accounts of Eduserv for the year ended 31 July 2005 which comprise the consolidated Statement of Financial Activities, the consolidated Balance Sheet, the charitable company Balance Sheet, the consolidated Cash Flow Statement and related notes. These accounts have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets, and the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinion we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors, who are also responsible as charity trustees for the Company's charitable activities, are responsible for the preparation of accounts in accordance with applicable law and United Kingdom Accounting Standards, and are also responsible for preparing the Trustees' Report. Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Trustees' Report is not consistent with the accounts, if the charitable company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding trustees' remuneration and transactions with the charitable company is not disclosed.

We read other information contained in the Trustees' Report and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

BASIS OF OPINION

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the judgements made by the trustees in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances as a charity, consistently applied and adequately disclosed.

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF EDUSERV (LIMITED BY GUARANTEE) (CONTINUED)**

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

UNQUALIFIED OPINION

In our opinion, the accounts give a true and fair view of the state of affairs of the group and charitable company as at 31 July 2005 and of their incoming resources and application of resources, for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Reading

HORWATH CLARK WHITEHILL LLP
Chartered Accountants and
Registered Auditors

EDUSERV (LIMITED BY GUARANTEE)
CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES
FOR THE YEAR ENDED 31 JULY 2005
(INCORPORATING INCOME AND EXPENDITURE ACCOUNT)

		Unrestricted funds	
		2005	<i>Restated</i>
	Notes	£	2004 £
Incoming resources			
<i>From activities in furtherance of the charity's objects:-</i>		6,631,390	5,564,721
<i>From activities to generate funds:-</i>			
Income generated by Eduserv Technologies Limited	8	5,319,177	4,635,703
Investment income	9	<u>198,004</u>	<u>216,978</u>
Total incoming resources		<u>12,148,571</u>	<u>10,417,402</u>
Resources expended			
<i>Cost of generating funds :-</i>			
Cost of Eduserv Technologies Limited	8	4,566,391	3,774,275
<i>Charitable expenditure :-</i>			
Eduserv Foundation	3	531,356	712,068
Services provided to higher and further education		6,491,104	5,541,586
Management and administration		<u>29,192</u>	<u>54,442</u>
Total resources expended	3	<u>11,618,043</u>	<u>10,082,371</u>
Net incoming/(outgoing) resources	4	530,528	335,031
Net realised gains on investments		<u>30,683</u>	<u>-</u>
Net income/(expenditure) for the year		561,211	335,031
Unrealised gains on investments	9	<u>382,530</u>	<u>-</u>
Net incoming resources for the year		943,741	335,031
Funds at the start of the year		<u>4,639,053</u>	<u>4,304,022</u>
Funds at the year end	13	<u>£ 5,582,794</u>	<u>£ 4,639,053</u>

All of the above results are derived from continuing activities. There were no recognised gains or losses other than those stated above. Movements in funds are disclosed in note 13 to the Financial Statements.

EDUSERV (LIMITED BY GUARANTEE)
BALANCE SHEETS
31 JULY 2005

		Group		Charity	
Notes	2005	<i>Restated</i>	2005	<i>Restated</i>	2004
	£	2004	£	£	£
FIXED ASSETS					
Tangible fixed assets	7	806,198	893,743	162,160	392,248
Investments	9	<u>4,482,530</u>	<u>2,706,252</u>	<u>4,482,531</u>	<u>2,706,253</u>
		5,288,728	3,599,995	4,644,691	3,098,501
CURRENT ASSETS					
Debtors	10	4,072,732	3,835,239	3,712,964	3,545,205
Cash at bank and in hand		<u>3,673,945</u>	<u>5,502,793</u>	<u>3,592,018</u>	<u>5,506,280</u>
		7,746,677	9,338,032	7,304,982	9,051,485
CREDITORS: Amounts					
falling due within one year	11	<u>7,452,611</u>	<u>8,298,974</u>	<u>6,372,462</u>	<u>7,514,472</u>
NET CURRENT ASSETS		<u>294,066</u>	<u>1,039,058</u>	<u>932,520</u>	<u>1,537,013</u>
NET ASSETS		<u>£ 5,582,794</u>	<u>£ 4,639,053</u>	<u>£ 5,577,211</u>	<u>£ 4,635,514</u>
FUNDS					
Unrestricted funds					
Designated funds		2,086,477	1,617,833	2,586,477	1,617,833
General funds		<u>3,496,317</u>	<u>3,021,220</u>	<u>2,990,734</u>	<u>3,017,681</u>
TOTAL FUNDS	12, 13	<u>£ 5,582,794</u>	<u>£ 4,639,053</u>	<u>£ 5,577,211</u>	<u>£ 4,635,514</u>

Approved by the Trustees on 8 December 2005
and signed on their behalf by:-

.....
Peter Ford
Chairman

The notes on pages 14 to 24 form part of these financial statements

EDUSERV (LIMITED BY GUARANTEE)
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 JULY 2005

	2005 £	2004 £
Net cash flow from operating activities	(299,614)	2,343,670
Returns on investments and servicing of finance		
Interest received	198,004	120,458
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(364,173)	(725,237)
Proceeds from sale of investments	2,736,935	-
Purchase of investments	<u>(4,100,000)</u>	<u>-</u>
(Decrease)/increase in cash	<u>£(1,828,848)</u>	<u>£ 1,738,891</u>

Notes:

Reconciliation of net movement in funds to net cash flow from operating activities

	2005 £	2004 £
Net incoming resources	530,528	335,031
Investment income	<u>(198,004)</u>	<u>(216,978)</u>
	332,524	118,053
Depreciation	449,223	379,173
Loss on disposal of fixed assets	2,495	49,328
Increase in debtors	(237,493)	(1,112,797)
(Decrease)/increase in creditors	<u>(846,363)</u>	<u>2,909,913</u>
Net cash flow from operating activities	<u>£ (299,614)</u>	<u>£ 2,343,670</u>

Analysis of net cash resources

	<i>At 1 August 2004</i> £	Cash flow £	At 31 July 2005 £
Cash at bank and in hand	<u>£ 5,502,793</u>	<u>£(1,828,848)</u>	<u>£ 3,673,945</u>

The notes on pages 14 to 24 form part of these financial statements

**EDUSERV (LIMITED BY GUARANTEE)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2005**

1. ACCOUNTING POLICIES

- a) The Financial Statements have been prepared under the historical cost convention (with the exception of the revaluation of investments) and in accordance with applicable accounting standards. They follow the recommendations in the Statement of Recommended Practice – Accounting and Reporting by Charities (issued in October 2000) and the Companies Act 1985.

Consolidated financial statements (“group accounts”) have been prepared in respect of the charity and its wholly owned subsidiary, Eduserv Technologies Limited. The results of Eduserv Technologies Limited have been consolidated into the Statement of Financial Activities on a line by line basis. In accordance with Section 230 of the Companies Act 1985 a separate Statement of Financial Activities for the charity has not been presented.

- b) Incoming resources from activities in furtherance of the charitable activities represents a combination of fees received for performing services to educational bodies and the provision of electronic data and software to educational institutions under fixed term contracts. The fees for performing the services to educational bodies are recognised in the month that they occur, and the income from fixed term contracts of twelve months or less is recognised in full at the renewal of each contract. When the fixed term is for greater than twelve months, the income is apportioned over the contract period.
- c) Grants paid are recognised in the accounts under the accruals basis, under the specific provisions of FRS 12 – commitments, contingent liabilities and assets.
- d) Unrestricted funds are represented by incoming resources received or generated for the charitable purposes.
- e) Resources expended are recognised in the period in which they are incurred, and allocated to the particular operating unit where the cost relates directly to that unit. However, the cost of overall direction and administration of each operating unit, comprising the salary and overhead costs of the central function, is apportioned according to the staff levels in each activity.

Management and administration costs include the management of the charitable company’s assets, organisational management and compliance with constitutional and statutory requirements.

- f) Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost of each asset over its expected useful life. Items with a total cost of less than £1,000 are expensed in the period in which they occur.

The depreciation rates in use are as follows:-

Leasehold improvements	- over the remaining life of the lease
Plant	- 4 years
IT equipment (excluding laptops)	- 3 years
Laptops	- 2 years
Software	- 3 years
Office furniture and equipment	- 4 - 5 years

Depreciation costs are allocated to activities on the basis of the use of the related assets in those activities.

EDUSERV (LIMITED BY GUARANTEE)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2005

1. ACCOUNTING POLICIES (CONTINUED)

- g) Investments are stated at the value as at the balance sheet date. Investment income is recognised on an accruals basis.
- h) Rentals payable under operating leases, where substantially all the risks and rewards of ownership remain with the lessor, are charged to the Statement of Financial Activities on a straight line basis over the life of the lease.
- i) The institution participates in the Universities Superannuation Scheme, a defined benefit scheme which is externally funded and contracted out of the State Second Pension (S2P). The liabilities are valued every three years by a professionally qualified independent actuary using the projected unit method, the rates of contribution payable being determined by the trustee on the advice of the actuary. In the intervening years, the actuary reviews the progress of the scheme. Pension costs are assessed in accordance with the advice of the actuary, based on the latest actuarial valuation of the scheme, and are accounted for on the basis of charging the cost of providing pension over the period during which the institution benefits from the employees' service.
- j) Fee income received in advance represents contract income invoiced three months prior to the contract renewal date.
- k) Research and development costs are expensed in the period in which they occur.
- l) Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All foreign exchange differences are recognised in the Statement of Financial Activities.

2. INCOMING RESOURCES

Incoming resources from activities in furtherance of charitable objects arise from the sale of software and information licences for universities, colleges and libraries.

All incoming resources from activities to generate funds arise from Eduserv Technologies Limited, a wholly owned trading subsidiary.

EDUSERV (LIMITED BY GUARANTEE)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2005

3. ANALYSIS OF TOTAL RESOURCES EXPENDED

	Staff Costs £	Other Costs £	Depreciation £	2005 Total £	<i>Restated 2004 Total £</i>
Charitable Expenditure					
Eduserv Foundation	50,381	479,866	1,109	531,356	712,068
Services provided to Higher and Further Education	396,008	6,094,169	927	6,491,104	5,541,586
Management and administration	<u>10,081</u>	<u>19,111</u>	<u>-</u>	<u>29,192</u>	<u>54,442</u>
Total for Charity	456,470	6,593,146	2,036	7,051,652	6,308,096
Trading costs of the subsidiary	<u>2,454,874</u>	<u>1,664,330</u>	<u>447,187</u>	<u>4,566,391</u>	<u>3,774,275</u>
Total for the group	<u>£ 2,911,344</u>	<u>£ 8,257,476</u>	<u>£ 449,223</u>	<u>£11,618,043</u>	<u>£10,082,371</u>

EDUSERV FOUNDATION

Eduserv Foundation expenditure in the year is as follows:-

	Number of Grants	2005 £	2004 £
Grants to Institutions			
Oxford University	1	124,300	-
Nottingham University	1	152,000	-
UCISA	1	153,544	-
Sussex University	1	-	121,574
Institute of Education	1	-	124,649
Cambridge University	1	-	149,374
Queens Belfast University	1	-	139,610
Tutor Guides		-	89,180
Other projects completed in the year		49,510	1,500
Foundation administration costs		<u>52,002</u>	<u>86,181</u>
		<u>£ 531,356</u>	<u>£ 712,068</u>

Grants relate to research into the implications of using IT in education.

EDUSERV (LIMITED BY GUARANTEE)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2005

4. GROUP NET INCOMING RESOURCES FOR THE YEAR

This is stated after charging/crediting:-

	2005 £	2004 £
Depreciation	449,223	379,173
Trustees' indemnity insurance	3,142	4,072
Trustees' remuneration	-	-
Trustees' reimbursed expenses	10,698	7,265
Auditors' remuneration - audit	15,000	14,500
- other services	-	1,837
Operating lease rentals - property	<u>135,389</u>	<u>125,500</u>

Trustees' reimbursed expenses represent reimbursement made to 7 (2004: 7) Trustees for travel and subsistence in attending Trustees' and other meetings.

5. STAFF COSTS

	2005 £	2004 £
Salaries and wages	2,480,309	2,073,385
Social security costs	234,319	195,433
Pension contributions	<u>196,716</u>	<u>162,256</u>
	<u>£ 2,911,344</u>	<u>£ 2,431,074</u>

No of employees that earned £50,000 - £60,000: 1 (2004: 2)

No of employees that earned £60,000 - £70,000: 1 (2004: 0)

No of employees that earned £90,000 - £100,000: 2 (2004: 2)

	2005 No.	2004 No.
The average number of employees (full time equivalent)	<u>73.9</u>	<u>68.2</u>

Retirement benefits were paid on behalf of 3 higher paid members of staff in 2005 (2004: 3) into the scheme set out in note 15 to the accounts.

1 higher paid employee had pension contributions paid into a personal pension scheme. The contributions paid in the year were £8,120 (2004: £2,567).

Three of the higher paid employees also acted as directors of Eduserv Technologies Ltd, the wholly owned trading subsidiary. No separate remuneration was paid to them for their work as directors of Eduserv Technologies Ltd.

6. TAXATION

The charitable company is exempt from Corporation Tax as all of its income is charitable and is applied for charitable purposes. The taxable profits of the subsidiary are paid to the charity under Gift Aid and therefore the subsidiary has no tax charge for the year.

EDUSERV (LIMITED BY GUARANTEE)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2005

7. TANGIBLE FIXED ASSETS

Group	Leasehold improve- ments £	Plant £	IT Equipment £	Software £	Office furniture & equipment £	Total £
COST						
At 1 August 2004	22,792	97,454	1,414,438	49,152	27,934	1,611,770
Additions	-	-	342,178	16,926	5,069	364,173
Disposals	-	-	(64,439)	-	-	(64,439)
Reclassification	<u>1,250</u>	<u>(1,250)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 31 July 2005	<u>24,042</u>	<u>96,204</u>	<u>1,692,177</u>	<u>66,078</u>	<u>33,003</u>	<u>1,911,504</u>
DEPRECIATION						
At 1 August 2004	6,333	17,600	642,992	33,507	17,595	718,027
Charge for year	4,556	23,495	403,489	11,385	6,298	449,223
Disposals	<u>-</u>	<u>-</u>	<u>(61,944)</u>	<u>-</u>	<u>-</u>	<u>(61,944)</u>
At 31 July 2005	<u>10,889</u>	<u>41,095</u>	<u>984,537</u>	<u>44,892</u>	<u>23,893</u>	<u>1,105,306</u>
NET BOOK VALUE						
At 31 July 2005	<u>£ 13,153</u>	<u>£ 55,109</u>	<u>£ 707,640</u>	<u>£ 21,186</u>	<u>£ 9,110</u>	<u>£ 806,198</u>
At 31 July 2004	<u>£ 16,459</u>	<u>£ 79,854</u>	<u>£ 771,446</u>	<u>£ 15,645</u>	<u>£ 10,339</u>	<u>£ 893,743</u>
Charity						
	Leasehold improve- ments £	Plant £	IT Equipment £	Software £	Office furniture & equipment £	Total £
COST						
At 1 August 2004	12,842	56,170	922,722	49,152	27,934	1,068,820
Additions	-	-	-	10,250	5,069	15,319
Disposals	<u>-</u>	<u>-</u>	<u>(64,439)</u>	<u>-</u>	<u>-</u>	<u>(64,439)</u>
At 31 July 2005	<u>12,842</u>	<u>56,170</u>	<u>858,283</u>	<u>59,402</u>	<u>33,003</u>	<u>1,019,700</u>
DEPRECIATION						
At 1 August 2004	5,504	13,028	606,938	33,507	17,595	676,572
Charge for year	1,834	14,042	210,466	10,272	6,298	242,912
Disposals	<u>-</u>	<u>-</u>	<u>(61,944)</u>	<u>-</u>	<u>-</u>	<u>(61,944)</u>
At 31 July 2005	<u>7,338</u>	<u>27,070</u>	<u>755,460</u>	<u>43,779</u>	<u>23,893</u>	<u>857,540</u>
NET BOOK VALUE						
At 31 July 2005	<u>£ 5,504</u>	<u>£ 29,100</u>	<u>£ 102,823</u>	<u>£ 15,623</u>	<u>£ 9,110</u>	<u>£ 162,160</u>
At 31 July 2004	<u>£ 7,338</u>	<u>£ 43,142</u>	<u>£ 315,784</u>	<u>£ 15,645</u>	<u>£ 10,339</u>	<u>£ 392,248</u>

EDUSERV (LIMITED BY GUARANTEE)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2005

8. SUBSIDIARY UNDERTAKING

Eduserv Technologies Limited (company number 4256630) is a wholly owned trading subsidiary of Eduserv. The subsidiary generates additional revenue income to the charity through the extension of the group's services to organisations other than educational institutions, predominantly in the public sector.

All activities have been consolidated on a line by line basis in the SOFA. The taxable net profit is gifted to the charity. A summary of the results of the subsidiary is shown below:-

	2005 £	2004 £
Turnover	5,319,177	4,635,703
Cost of sales	<u>(266,724)</u>	<u>(405,689)</u>
Gross profit	5,052,453	4,230,014
Administrative expenses	(4,299,667)	(3,368,586)
Licence fees paid to Eduserv	<u>(265,959)</u>	<u>(237,396)</u>
Operating profit	486,827	624,032
Interest receivable	24,629	48,404
Interest payable	<u>(64,985)</u>	<u>(81,639)</u>
Profit on ordinary activities	446,471	590,797
Gift aid to Eduserv	<u>(444,427)</u>	<u>(587,258)</u>
Profit for the financial year	<u>£ 2,044</u>	<u>£ 3,539</u>
Net assets	<u>£ 5,584</u>	<u>£ 3,540</u>

9. INVESTMENTS

The charity had investments at 31 July 2005 of £4,482,530 (2004: £2,706,252) in eight separate unitised funds. During the course of the year, the previous investment in the Coutts Liquidity Fund was realised, and the proceeds, along with additional funds, were placed in alternative investments.

	£
<i>Value of Investments 1 August 2004</i>	2,706,252
Additions	4,100,000
Disposals at opening market value	(2,706,252)
Unrealised gain on investments	<u>382,530</u>
Value of investments at 31 July 2005	<u>£4,482,530</u>

The investments are stated at market value at 31 July 2005.

EDUSERV (LIMITED BY GUARANTEE)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2005

9. INVESTMENTS (CONTINUED)

Investments are categorised as follows:-

	2005 £	2004 £
Unitised funds	4,482,530	2,706,252
	<u>£4,482,530</u>	<u>£2,706,252</u>

The following investments in unitised funds make up more than 5% of the portfolio:-

	2005 £	2004 £
Coutts Liquidity Fund	-	2,706,252
Equities		
M&G – Charifund	621,953	-
New Star Active – Portfolio Fund	629,687	-
Credit Suisse – Multi Manager Fund	609,626	-
Fixed Interest		
M&G - Charibond	392,865	-
CAF – Income Fund	396,310	-
UBS – Absolute Return Fund	304,692	-
Property		
New Star Active – Property Fund	753,692	-
Norwich Union – Property Fund	773,705	-
	<u>£4,482,530</u>	<u>£2,706,252</u>

The charity also holds a £1 share (representing the entire issued share capital) of Eduserv Technologies Limited, and a £1 share capital in each of CHEST Limited, NISS Limited, and Eduserv Limited which are companies held for name protection purposes.

Investment income received in the year was:-

	2005 £	2004 £
Interest received	198,004	120,458
Investment income	-	96,520
	<u>£ 198,004</u>	<u>£ 216,978</u>

EDUSERV (LIMITED BY GUARANTEE)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2005

10. DEBTORS

	Group		Charity	
	2005 £	2004 £	2005 £	2004 £
Amounts due from Eduserv Technologies Limited	-	-	749,052	565,227
Fees receivable	2,600,634	2,546,245	1,776,879	1,818,538
Prepayments and accrued income	1,466,179	1,276,844	1,183,944	1,149,290
Other debtors	<u>5,919</u>	<u>12,150</u>	<u>3,089</u>	<u>12,150</u>
	<u>£ 4,072,732</u>	<u>£ 3,835,239</u>	<u>£ 3,712,964</u>	<u>£ 3,545,205</u>

The inter-company debtor between Eduserv Technologies Limited and Eduserv is secured by a fixed and floating charge over all assets of the company.

11. CREDITORS: Amounts falling due within one year

	Group		Charity	
	2005 £	<i>Restated</i> 2004 £	2005 £	<i>Restated</i> 2004 £
Fee income received in advance	3,468,606	3,648,667	3,127,166	3,386,704
Amounts due to JISC	98,915	94,758	98,915	94,758
Trade creditors	1,146,411	1,671,886	761,360	1,260,680
Other creditors	17,690	17,604	17,690	17,604
Taxation and social security	506,618	567,049	338,286	476,247
Accruals	1,326,106	1,692,647	1,140,780	1,672,116
Grant accruals	<u>888,265</u>	<u>606,363</u>	<u>888,265</u>	<u>606,363</u>
	<u>£ 7,452,611</u>	<u>£ 8,298,974</u>	<u>£ 6,372,462</u>	<u>£ 7,514,472</u>

Included in accruals is £144,930 which is due in more than one year.

Grant accruals represents the accrued liability for commitments for Eduserv Foundation grants.

The movement in grant accruals during the year were:-

	£
<i>Balance at 1 August 2004 – as previously reported</i>	20,000
Effect of prior year adjustment – See Note 18	<u>586,363</u>
<i>Balance at 1 August 2004 - restated</i>	606,363
Commitments for future grants approved in the year	429,844
Grant payments in the year	(147,942)
	<u>888,265</u>
Balance at 31 July 2005	<u>£ 888,265</u>

EDUSERV (LIMITED BY GUARANTEE)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2005

12. ANALYSIS OF GROUP NET ASSETS BETWEEN FUNDS

The charity's net assets are analysed between funds as follows:-

	Tangible fixed assets £	Investments £	Net current assets £	Total £
Designated fund	-	1,474,742	611,735	2,086,477
General fund	<u>806,198</u>	<u>3,007,788</u>	<u>(317,669)</u>	<u>3,496,317</u>
	<u>£ 806,198</u>	<u>£ 4,482,530</u>	<u>£ 294,066</u>	<u>£ 5,582,794</u>

13. MOVEMENT IN FUNDS

	<i>At 1 August 2004</i>	Incoming Resources	Outgoing Resources	Realised and Unrealised Gains on Investments	Transfers Between Funds	At 31 July 2005
	£	£	£	£	£	£
Unrestrict ed funds:						
<i>Designated funds:</i>						
Eduserv Foundation	1,617,833	-	(531,356)	-	1,000,000	2,086,477
<i>General fund</i>	<u>3,021,220</u>	<u>12,148,571</u>	<u>(11,086,687)</u>	<u>413,213</u>	<u>(1,000,000)</u>	<u>3,496,317</u>
Total funds	<u>£ 4,639,053</u>	<u>£12,148,571</u>	<u>£ (11,618,043)</u>	<u>£ 413,213</u>	<u>£ -</u>	<u>£ 5,582,794</u>

Purposes of Designated Funds

The Eduserv Foundation manages funding initiatives with the overall aim of developing the successful application of IT in education.

14. OPERATING LEASE COMMITMENTS

The charitable company had annual commitments under property operating leases expiring as follows:-

	2005 £	2004 £
Less than 1 year	15,000	38,488
Between 1 - 5 years	<u>131,250</u>	<u>129,500</u>
	<u>£ 146,250</u>	<u>£ 167,988</u>

EDUSERV (LIMITED BY GUARANTEE)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2005

15. PENSION SCHEME

Eduserv participates in the Universities Superannuation Scheme, a defined benefit scheme which is externally funded and contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate trustee-administered fund. It is not possible to identify each institution's share of the underlying assets and liabilities of the scheme and hence contributions to the scheme are accounted for as if it were a defined contribution scheme. The cost recognised within the surplus/deficit for the year in the income and expenditure account is equal to the contributions payable to the scheme for the year.

The latest actuarial valuation of the scheme was at 31 March 2002. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments (i.e. the valuation rate of interest) and the rates of increase in salary and pensions. In relation to the past service liabilities the financial assumptions were derived from market yields prevailing at the valuation date. It was assumed that the valuation rate of interest would be 5.0% per annum, salary increases would be 3.7% per annum and pensions would increase by 2.7% per annum. In relation to the future service liabilities it was assumed that the valuation rate of interest would be 6.0% per annum, including an additional investment return assumption of 1% per annum, salary increases would be 3.7% per annum and pensions would increase by 2.7% per annum. The valuation was carried out using the projected unit method.

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

The institution contribution rate required for future service benefits alone at the date of the valuation was 14.25% of salaries but it was agreed that the institution contribution rate will be maintained at 14% of salaries. To fund this reduction of 0.25% for the period of 12 years from the date of the valuation (the average outstanding working lifetime of the current members of the scheme) required the use of £82.5 million of the surplus. This left a past service surplus of £79.5m (including the Supplementary Section) to be carried forward.

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

The total pension cost for the group was £196,716 (2004: £162,256). This includes £26,982 (2004: £20,283) outstanding contributions at the balance sheet date. The contribution rate payable by the institution was 14% of pensionable salaries.

This total pension cost includes £8,120 (2004: £2,567) paid into a personal pension scheme.

16. RELATED PARTY TRANSACTIONS

There were no material related party transactions (other than with the subsidiary undertaking) during the year that require reporting.

EDUSERV (LIMITED BY GUARANTEE)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2005

17. EDUSERV ACTING AS AN AGENT

During the year Eduserv acted as an agent for JISC (Joint Information Systems Committee) in arranging the purchasing of certain online data resources on a consortia basis. Eduserv invoiced educational institutions for the online data resources, and paid the suppliers. The amounts invoiced to the institutions of £2,578,683 (2004: £3,486,356) and payments to suppliers of £1,977,769 (2004: £2,700,166) are not included in the Statement of Financial Activities as the nature of the arrangement is that Eduserv is acting as an agent. Eduserv receive income from the JISC for the cost of administering the contract and any surplus is payable to the JISC. At the balance sheet date the amount outstanding to JISC was £98,915 (2004: £94,758).

18. PRIOR YEAR ADJUSTMENT

There has been a change of accounting policy in the recognition of grant expenditure. In prior years grant expenditure was recognised on a payments basis. Grant expenditure is now recognised on a commitments basis, taking both the full value of the commitment and the associated liability into the accounts. This change of policy has necessitated a restatement of the prior year, to account for prior year grant commitments. The amount stated in the Statement of Financial Activities reflects the commitments for grants approved in the year.

The effect of the prior year adjustment on reserves is as follows:-

	2005 £	2004 £
Opening reserves as previously reported	4,639,053	4,304,022
Net incoming resources as previously reported	943,741	921,394
Prior year adjustment	-	(586,363)
	<hr/>	<hr/>
Closing reserves at 31 July	<u>£5,582,794</u>	<u>£4,639,053</u>