



SOUTHAMPTON
INSTITUTE

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2003

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GOVERNORS

Dr G Brandt		Appointed October 2002
Dr R Brown	Principal	
Mr J Bullock		
Dr A Burman		
Mr C Clark		
Mr B Craig		Appointed July 2003
Mr M Dickson		Retired June 2003
Mr M Farwell		
Mrs J Fitton		
Rt Revd J Gledhill		
Professor K Gregory	Vice Chairman	
Councillor R Harris		
Mr A Heathcock		
Mr D Hendy		
Mr N Hoskins		
Mrs L Kimber		
Mrs B Large MBE		
Professor R Middlehurst		
Mr P Payze		
Dr H Rose		
Ms A Santry		Appointed October 2002
Chief Supt A Thomas		Resigned March 2003
Professor G Tonge	Chairman	
Capt A Winbow		

CLERK TO THE GOVERNORS

Dr H G Slater

AUDITORS

Ernst & Young LLP
Wessex House
19 Threefield Lane
Southampton
SO14 3QB

BANKERS

Barclays Bank PLC
Southampton City Business Centre
Barclays House
Ocean Way
Southampton
SO14 2SB

CORPORATE OFFICE

East Park Terrace
Southampton
SO14 0YN

GOVERNORS' REPORT**CORPORATE GOVERNANCE**

The Institute was incorporated under the Education Reform Act 1988 as a Higher Education Corporation with effect from 1 February 1989. The Institute is an exempt charity for the purpose of the Charities Act 1960.

The Institute is committed to exhibiting best practice in all aspects of corporate governance. This summary describes the manner in which the Institute has applied the principles set out in Section 1 of the Combined Code on Corporate Governance issued by the London Stock Exchange in June 1998 in so far as they relate to universities. Its purpose is to help the reader of the Financial Statements understand how the principles have been applied. In addition, the Institute has put systems in place for identifying, evaluating and managing its significant risks. A timetable was drawn up to ensure partial implementation of the key principles of corporate governance in the year ended 31 July 2002 and full implementation for the year ended 31 July 2003. The processes are reviewed regularly by the Institute under the guidance of a Risk Management Group, which includes Governor representation.

Board of Governors

The Institute's Governors comprise lay and academic persons appointed under the Instrument and Articles of Government of the Institute, the majority of whom are non-executive. The roles of Chairman and Vice Chairman of the Board of Governors are separated from the role of the Institute's Principal. The matters specifically reserved to the Governors for decision are set out in the Articles of the Institute, by custom and under the Financial Memorandum with the Higher Education Funding Council for England (HEFCE). The Board of Governors holds to itself the responsibilities for the ongoing strategic direction of the Institute, approval of major developments and the receipt of regular reports from Executive Officers on the operations of its business and of its subsidiary companies. The Board of Governors meets four times a year and has a number of committees, including a Resources Committee, an Audit Committee, a Governance Committee and a Remuneration Committee. All of these committees are formally constituted with terms of reference and comprise mainly lay members of the Board of Governors, one of whom is the Chair. The Board approves the Institute's Strategic Plan.

Board Committees

The Resources Committee considers and keeps under review such strategic aspects of finance and resource management as are required for the fulfilment of the Strategic Plan.

The Governance Committee keeps under review the membership of the Board of Governors and makes recommendations to the Board for new members and for the renewal of the terms of office for existing members. The Governance Committee also keeps under review the recommended best practice with regard to institutional governance and practice in other institutions. The Governance Committee, and a special working group of the Governors set up for the purpose, make recommendations to the Board of Governors on the terms of reference for and appointment of the Institute's Principal.

The Remuneration Committee determines the annual remuneration of the Institute's Principal and senior post-holders, the scheme for remuneration of staff on management contracts, and individual severance arrangements.

The Audit Committee meets at least four times annually, with the External Auditors, to discuss audit findings, and with the Internal Auditors to consider detailed internal audit reports and recommendations for the improvement of the Institute's systems of internal control, together with the management's response and implementation plans. It reviews the External Auditor's Management Letter and implementation of the agreed recommendations. It also receives and considers reports from HEFCE as they affect the Institute's business and monitors compliance with the regulatory requirements. Whilst senior executives attend the meetings of the Audit Committee as necessary, they are not members of the Committee. The Committee meets with the External and Internal Auditors on their own for independent discussions when necessary. The Chair of the Audit Committee is a member of the Risk Management Group, which reports to the Audit Committee.

GOVERNORS' REPORT

Responsibilities of the Board of Governors

In accordance with the Education Reform Act 1988 and the Instrument and Articles of Government, the Board of Governors is responsible for the administration and management of the affairs of the Institute, including ensuring an effective system of internal control, and is required to present audited Financial Statements for each financial year.

The Board of Governors is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Institute and to enable it to ensure that the Financial Statements are prepared in accordance with the Education Reform Act 1988, the Statement of Recommended Practice: Accounting for Further and Higher Education, and other relevant accounting standards. In addition, within the terms and conditions of the Financial Memorandum agreed between HEFCE and the Board of Governors of the Institute, the Board of Governors, through its designated office holder, is required to prepare Financial Statements for each financial year which give a true and fair view of the state of affairs of the Institute and of the surplus or deficit and cash flows for that year.

Financial Statements

In causing the Financial Statements to be prepared, the Board of Governors has ensured that:

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

Internal Controls

As the Board of Governors of Southampton Institute, we have responsibility for maintaining a sound system of internal control that supports the achievement of policies, aims and objectives, whilst safeguarding the public and other funds and assets for which we are responsible, in accordance with the responsibilities assigned to the governing body in the instrument and articles and the Financial Memorandum with HEFCE.

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

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31 July 2003 and up to the date of approval of the financial statements and accords with HEFCE guidance.

As the Board of Governors, we have responsibility for reviewing the effectiveness of the system of internal control. The institution has established the following processes:

- The Strategic Plan Committee, meets annually to monitor the delivery of the Institute's Strategic Plan, to consider the corporate planning proposals for the following year and to advise the Board of Governors. It meets more frequently at times of strategic review. As part of its remit the Committee annually advises the Board of Governors as to the major risks facing the Institution. Acting on this advice, the Board determines the annual risk matrix for the Institution as well as approving the Corporate Planning Statements, Annual Monitoring Statements and Financial Forecasts which are sent to HEFCE;
- the Board of Governors has requested the Audit Committee to provide oversight of risk management and a Risk Management Group has been established with Governor representation. With effect from the commencement of the 2003/04 academic year, the Audit Committee will receive a report to each of its meetings on any movement in the ten major risks for the Institution identified for that year. Any matters of concern would be reported to the Board of Governors;

GOVERNORS' REPORT

- the Board of Governors receives regular reports from the chairman of the Audit Committee concerning internal control;
- the Audit Committee receives regular reports from the head of internal audit which includes the Head of Internal Audit's (HIA) independent opinion on the adequacy and effectiveness of the institution's system of internal control together with recommendations for improvement;
- a regular process of meetings, workshops and discussions is used at both Institute level and cascaded through individual faculties and services to identify and keep up to date the record of risks facing the organisation;
- a programme of risk awareness training is under way;
- a system of key performance and risk indicators has been developed;
- a robust risk prioritisation methodology based on risk ranking and cost-benefit analysis has been established;
- an organisation-wide risk register is now maintained;
- reports are received from budget holders, department heads and project managers on internal control activities.

Our review of the effectiveness of the system of internal control is informed by the internal auditors. The Institute uses an external audit firm to provide internal audit services. The firm operates to standards defined in the HEFCE Audit Code of Practice and which was last reviewed for effectiveness by the HEFCE Audit Service in January 2002. The internal auditors submit regular reports which include the HIA's independent opinion on the adequacy and effectiveness of the institution's system of internal control together with recommendations for improvement.

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

ANNUAL REVIEW**ACADEMIC AND RELATED OPERATIONS**

During 1999-2000 the Institute completed a review of its Strategic Plan, and the new Strategic Plan was approved by Governors and sent to HEFCE.

A key aim of the Plan is to continue to secure the future of the institute as an independent higher education institution of high standing. Priorities within the Plan are to enhance the quality of the student learning experience and to invest further in the development of staff and scholarship. To assist in achieving this the previous eight faculties were reduced to three during 1999-2000, and the three new faculties became fully operational with effect from 1 August 2000. Substantial revenue and capital equipment investment helped to enhance this transition. To support this, the Institute budgeted for and incurred deficits in 2000-01 and 2001-02, with a projected return to surplus in 2002-03.

A further objective of the Plan is to facilitate the Institute's application for taught degree awarding powers. The first step towards achieving this was realised in October 2001 when the Institute's written application for taught degree awarding powers was approved for detailed scrutiny. This detailed scrutiny took place during the 2001-02 academic year and is due to be completed in the latter part of 2003.

A feature of the Plan is that the Board of Governors annually reviews progress in its delivery, advised by the Institute's Strategic Plan Committee, which includes Governor and Academic Board Membership.

GOVERNORS' REPORT

The Institute is currently in the process of reviewing its Strategic Plan, following the publication of the Government's White Paper 'The future of higher education' in January 2003. It is anticipated that this review will be completed by the end of 2003, and the new Strategic Plan will be effective for the period 2004-2008.

The Board of Governors publishes annually a report, which sets out more fully the activities of the Board and its members in the furtherance of the Institute's mission, aims and objectives: and in the undertaking of its duties and obligations under the Instrument and Articles. Copies are available on request from the Clerk to the Governors and Institute Legal Officer at the corporate address.

SUBSIDIARY AND ASSOCIATED UNDERTAKINGS

The Institute fully owns two subsidiary undertakings, which have traded during the last two years; Southampton Institute Limited and Southampton Institute Library Services Limited. The Institute holds a 33⅓% interest in Southampton Institute Education Company (SIEC).

The main activities of these undertakings are to provide library book hire services, office and teaching accommodation, long and short courses, training and facilities, consultancy services, and meals and accommodation for employees of other organisations using the companies' facilities for their own training programmes.

The financial results recorded in the accounts of the subsidiary and associated companies included within the consolidated accounts of Southampton Institute are as follows:

	2002 – 2003		2001 - 2002	
	Paid under variable deed of Covenant £000	Profit/(Loss) after Covenant where applicable £000	Paid under variable deed of Covenant £000	Profit/(Loss) after Covenant where applicable £000
Southampton Institute Limited	42	5	583	9
Southampton Institute Library Services Limited	319	23	271	(79)
Southampton Institute Educational Company	-	-	-	-
	<u>361</u>	<u>28</u>	<u>854</u>	<u>(70)</u>

SIEC, a charitable company limited by guarantee, commenced trading in November 1996. The Institute is a participating member controlling 33⅓% of the voting rights of the company through a former senior post holder.

Annual accounts for the subsidiary companies are available from the Company Secretary at the Institute's address.

FINANCIAL POSITION

As noted above, the Institute planned to incur deficits in the previous two years to support the establishment of the three new faculties with effect from 1 August 2000, the simultaneous devolvement of some centralised functions to the new faculties and the re-grouping of some of the smaller remaining support services. Following the planned deficits, the Institute projected a return to surplus in the current year and this has been satisfactorily achieved. The deficit of £2,254,000 in 2001-02 has been followed by a surplus of £995,000 in 2002-03. The updated Recovery Scenario and financial forecast, as approved by the Board of Governors, envisages that the level of operating surplus for 2003-04 and subsequent years will continue to be in excess of £1m per annum.

Student recruitment in 2002-03 was better than in the two previous years, with a significant increase in income from overseas students. Early indications are that retention rates have improved during the year and that the 2002-03 recruitment improvement has continued in 2003-04.

GOVERNORS' REPORT**ANALYSIS OF INCOME BY SOURCE**

Given below is an analysis by source of the Institute's income

		2002-2003	2001-2002
		£000	£000
Public Funds for funded activities	HEFCE and FEFC/LSC Funding	28,683	28,772
	Full Time Home and EU Tuition Fees	9,387	8,891
	EU and other Government Sources	144	207
Private sources within funded activities	Tuition and Research	4,067	4,357
	Interest Receivable	315	428
	Profit on disposal of fixed assets	-	279
	Other Private Income	318	316
Private sources for non-funded activities	Residences and Catering	7,637	8,092
	Overseas Students	2,956	2,115
	Simulator activities through SI Ltd	1,211	1,407
	Other private Income	<u>1,506</u>	<u>1,437</u>
		<u>56,224</u>	<u>56,301</u>

GOVERNORS

The Higher Education Corporation was formed by the passing of the Education Reform Act 1988 and has no shareholders. Governors, therefore, own no interest in the Corporation and receive no remuneration from the Institute in respect of their duties as Governors other than reimbursement of reasonable expenses for travelling and subsistence.

AUDITORS

A resolution to extend the appointment of Ernst & Young LLP as auditors until July 2004 was approved by the Board of Governors at their meeting of 18 July 2001.

By order of the Board of Governors

Dr H G Slater
Clerk to the Board of Governors
16 December 2003

INDEPENDENT AUDITORS' REPORT TO THE BOARD OF GOVERNORS OF SOUTHAMPTON INSTITUTE

We have audited the Financial Statements for the year ended 31 July 2003 which comprise the Consolidated Income and Expenditure Account, Statement of Historical Cost Surpluses and Deficits, Consolidated and Institute Balance Sheets, Consolidated Cash Flow Statement, Statement of Consolidated Recognised Gains and Losses and the related notes 1 to 32. These Financial Statements have been prepared on the basis of the accounting policies set out in the Statement of Principal Accounting Policies.

This report is made solely to the Board of Governors, as a body. Our audit work has been undertaken so that we might state to the Board of Governors 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 Institute and the Board of Governors as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Board of Governors and the Auditors

As described in the Governors' report on pages 2 to 4, the Board of Governors is responsible for the preparation of the Financial Statements in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education Institutions and other applicable United Kingdom law and accounting standards.

Our responsibility is to audit the Financial Statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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

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

We read the other information contained in the Governors' Report and Corporate Statement and consider the implications for our report if we become aware of any apparent misstatements within them.

Basis of Audit opinion

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

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

**INDEPENDENT AUDITORS' REPORT TO THE BOARD OF GOVERNORS OF SOUTHAMPTON INSTITUTE
(CONTINUED)****Opinion**

In our opinion:

- * The Financial Statements give a true and fair view of the state of affairs of Southampton Institute and its subsidiaries at 31 July 2003 and of the surplus for the year and have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education Institutes.
- * Funds from the Higher Education Funding Council for England and the Learning and Skills Council (and its predecessor the Further Education Funding Council), grants and income for specific purposes and from other restricted funds administered by Southampton Institute have been applied only for the purposes for which they were received.
- * Income has been applied in accordance with the Education Reform Act 1988 and with the Financial Memorandum dated 1 August 2000 with the Higher Education Funding Council for England.

Ernst & Young LLP
Registered Auditor

Wessex House
19 Threefield Lane
Southampton

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES**Basis of preparation**

These Financial Statements have been prepared under the historical cost convention (modified by the revaluation of certain land and buildings), in accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education Institutions, and in compliance with applicable Accounting Standards.

Fixed Assets**i. Assets transferred – land and buildings**

The most recent valuation, as at 31 July 1998, was based on the open market value for existing use and, where this was not possible due to the specialised nature of the properties, the depreciated replacement cost basis of valuation was used according to principles set down within the Statements of Asset Valuation Practice and Guidance Notes issued by the Royal Institution of Chartered Surveyors. A corresponding amount was credited to the Revaluation Reserve to which changes in valuation were credited or debited as appropriate. Under the transitional arrangements of FRS 15, this 1998 valuation is retained as the carrying amount for those assets within that valuation, subject to annual testing for indicators of impairment under FRS 11.

ii. Assets acquired after incorporation

Tangible asset additions whose cost of acquisition exceeds £5,000 are capitalised. Items costing less than this are written off in the year of purchase.

All such capital items are included in the balance sheet at historic cost less depreciation. Capital grants are treated as a deferred credit that is released to revenue over the useful life of the assets.

Revenue Grants

Grants received from the Higher Education Funding Council for England, tuition fees, research grants and all other income are accounted for on an accruals basis.

Capital Grants

Capital grants are released to revenue over the useful life of relevant assets, or where permitted applications to non-capitalised expenditure occurs, to match that expenditure in the year of application.

Depreciation

Depreciation is provided on all tangible assets other than freehold or long leasehold land, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset systematically over its expected useful life, as follows:

Owned buildings	- over 50 years
Leased residential buildings	- over the life of lease up to 50 years. For leases longer than 50 years, over the greater of 50 years or 75% of the life of the lease
Computer equipment	- over 3 years
Other equipment	- over 5 to 15 years
Vehicles	- over 5 years
Vessels	- over 7 years

Stocks

Stocks are mainly departmental and have limited realisable value. They are written off in the year, as their value is not material to the accounts of the Institute. Expenditure on consumables is charged fully to revenue in the year of purchase.

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES**Building Maintenance**

Expenditure on building maintenance is charged to the income and expenditure account in the year in which it is incurred. The Institute maintains a rolling ten-year long-term maintenance plan, which is reviewed on a regular basis. Only to the extent that the costs arise under dilapidation clauses within operating leases is a regular charge made to the Income and Expenditure Account on the basis that the dilapidating event is deemed to be the passage of time, subject to periodic valuation.

Taxation

As a Higher Education Corporation, the Institute is regarded as a charity and exemption from Corporation Tax is afforded by the Income and Corporation Taxes Act 1988. The income from the trading activities of its subsidiary undertakings is subject to Corporation tax.

Basis of Consolidation

The Institute has two wholly owned subsidiary undertakings, Southampton Library Services (SILS) and Southampton Institute Limited (SIL). The Institute holds a 33⅓ % interest in Southampton Institute Educational Company (SIEC), a company limited by guarantee. SIEC is consolidated by virtue of dominant influence over the operating and financial policies of that company. The activities of SILS, SIL and SIEC are consolidated within the Institute's accounts in accordance with FRS2.

The consolidated Financial Statements do not include those of the Southampton Institute Students' Union as it is a separate unincorporated association in which the Institute has no financial interest and no control or significant influence over policy decisions.

Listed Investments and Fixed Interest Securities

Listed investments are shown at market value.

Research and Development

Research and development expenditure is written off in the year incurred.

Pensions

Payments are made to the Department for Education in accordance with the Teachers' Superannuation Scheme for academic staff. As the Teachers Superannuation Scheme is unable to identify the Institute's share of the underlying assets and liabilities, contributions to that scheme are accounted for as if it was a defined contribution scheme.

Payments are made to Hampshire County Council in accordance with the Local Government Superannuation Scheme for non-academic staff. The HCC scheme's actuaries are able to identify the Institute's share of the underlying assets and liabilities and this is accounted for as if it was a defined contribution scheme.

Both funds are defined benefit schemes, which are not administered by the Institute and their financial position is reported through their own annual audited accounts.

Cash Flows and Liquid Resources

Cash flows comprise increases or decreases in cash. Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are in practice available within 24 hours without penalty. No investments, however liquid, are included in cash.

Liquid resources comprise assets held as a readily disposable store of value. They include term deposits, government securities and bank certificates of deposit held as part of the Institute's treasury management activities. They exclude any such assets held as endowment asset investments.

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES**Foreign Currencies**

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into sterling either at year end rates or, where there are related forward foreign exchange contracts, at contract rates. The resulting exchange differences are dealt with in the determination of income and expenditure for the year.

Leased Assets

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the Institute, and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet.

The interest elements of the rental obligations are charged in the income and expenditure account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Rentals payable under operating leases are charged in the income and expenditure account on a payable basis.

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

	Notes	2002-2003 £000	2001-2002 £000
INCOME			
Funding Council Grants	1	28,683	28,772
Tuition fees and education contracts	2	17,432	16,650
Research grants and contracts	3	348	327
Other income	4	9,445	10,124
Endowment and Investment income	5	315	428
Total Income		<u>56,223</u>	<u>56,301</u>
EXPENDITURE			
Staff costs	6	30,472	33,010
Depreciation	11	2,893	2,996
Other Operating Expenses	7	18,636	19,233
Interest payable	8	3,227	3,307
Total expenditure	9	<u>55,228</u>	<u>58,546</u>
Surplus/(Deficit) after Depreciation of Assets and Before Tax		995	(2,245)
Taxation	10	-	9
		<u>995</u>	<u>(2,254)</u>

STATEMENT OF HISTORICAL COST SURPLUSES AND DEFICITS FOR THE YEAR ENDED 31 JULY 2003

	Notes	2002-2003 £000	2001-2002 £000
Surplus/(Deficit) after Depreciation of assets and Tax		995	(2,254)
Realised Revaluation Surplus on sale of Properties	20	-	109
Difference between the historical cost depreciation charge and the actual depreciation charge for the year calculated on the relevant amount	20	90	90
		<u>1,085</u>	<u>(2,055)</u>

BALANCE SHEET AS AT 31 JULY

	Notes	Consolidated		Institute	
		2003 £000	2002 £000	2003 £000	2002 £000
Fixed Assets					
Tangible Assets	11	66,535	67,671	66,536	67,661
Investments	12	50	50	50	1,050
		<u>66,585</u>	<u>67,721</u>	<u>66,586</u>	<u>68,711</u>
Endowment Asset Investments	13	<u>668</u>	<u>650</u>	<u>668</u>	<u>650</u>
Current Assets					
Debtors	14	3,566	3,602	6,176	8,919
Investments	30	5,610	5,210	5,610	5,210
Cash at bank in hand	30	986	1,200	653	890
		<u>10,162</u>	<u>10,012</u>	<u>12,439</u>	<u>15,019</u>
Creditor: amounts falling due within one year	15	<u>9,005</u>	<u>8,930</u>	<u>10,900</u>	<u>13,223</u>
Net Current Assets		<u>1,157</u>	<u>1,082</u>	<u>1,539</u>	<u>1,796</u>
Total assets less current liabilities		68,410	69,453	68,793	71,157
Creditors: amounts falling due after more than one year	16	39,427	40,495	39,427	40,495
Provisions for liabilities and charges	17	1,554	2,608	1,554	2,608
TOTAL ASSETS LESS LIABILITIES		<u>27,429</u>	<u>26,350</u>	<u>27,812</u>	<u>28,054</u>
Deferred capital grants	18	3,328	3,459	3,328	3,459
Endowments	19	668	650	668	650
Reserves					
Revaluation reserve	20	7,230	7,123	7,230	7,123
Restricted reserve		17	17	17	17
Income and Expenditure Account	21	16,186	15,101	16,569	16,805
Total Reserves		<u>23,433</u>	<u>22,241</u>	<u>23,816</u>	<u>23,945</u>
TOTAL FUNDS		<u>27,429</u>	<u>26,350</u>	<u>27,812</u>	<u>28,054</u>

Professor G Tonge
Chairman of the Board of Governors
16 December 2003

Dr R Brown
Principal

CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEAR ENDED 31 JULY 2003

	Notes	2002-2003 £000	2001-2002 £000
Net Cash Inflow From Operating Activities	26	5,101	3,036
Returns on investments and servicing of finance	27	(2,919)	(2,671)
Capital expenditure and financial investment	28	(1,310)	(718)
Management of liquid resources	30	(400)	1,032
Net Cash Inflow Before Financing		<u>472</u>	<u>679</u>
Financing	29	<u>(686)</u>	<u>(855)</u>
Decrease in cash		<u>(214)</u>	<u>(176)</u>

RECONCILIATION OF NET CASHFLOW TO MOVEMENT IN NET DEBT

Decrease in Cash		(214)	(176)
Repayment of Long Term Loan		811	797
Repayment of Capital Elements of Finance Leases		180	166
Change in Short Term Deposits		<u>400</u>	<u>(1,032)</u>
Movement in Net Debt		1,177	(245)
Net Debt at 1 August		(35,078)	(34,833)
Net Debt at 31 July		<u>(33,901)</u>	<u>(35,078)</u>

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

	Notes	2002-2003 £000	2001-2002 £000
Surplus/(Deficit) after Depreciation of Assets and Tax		995	(2,254)
Reversal of Impairment	20	-	103
Reimbursement of Debt Charge Principal to Revaluation Reserve	20	197	216
Unrealised gain/(loss) on Endowment Asset Investments	13	<u>18</u>	<u>(71)</u>
Total recognised gains/(losses) relating to the year		<u>1,210</u>	<u>(2,006)</u>

Reconciliation

Opening reserves and endowments	22,891
Total recognised gains and losses for the year	<u>1,210</u>
Closing Reserves and endowments	<u>24,101</u>

NOTES TO THE ACCOUNTS

at 31 July 2003

1. FUNDING COUNCIL GRANTS	2003	2002
	£000	£000
Recurrent Grant		
HEFCE	24,734	25,916
FEFC/LSC	1,161	1,230
Specific HEFCE grants		
Debt Charge Interest Reimbursement	57	77
Special Initiatives	2,152	1,015
Deferred Capital Grants released in Year		
Buildings (Note 18)	90	70
Equipment (Note 18)	489	464
	<u>28,683</u>	<u>28,772</u>
2. TUITION FEES AND EDUCATION CONTRACTS	2003	2002
	£000	£000
Full time undergraduate and postgraduate fees home and EC	9,155	8,377
Part time undergraduate and postgraduate fees home and EC	1,306	1,335
Overseas (Non-EC) domicile students	2,956	2,115
Non credit bearing course fees	3,783	4,309
Other	232	514
	<u>17,432</u>	<u>16,650</u>
3. RESEARCH GRANTS AND CONTRACTS	2003	2002
	£000	£000
EC Grants	144	207
OST Research Councils	24	-
Other sources	180	120
	<u>348</u>	<u>327</u>
4. OTHER INCOME	2003	2002
	£000	£000
Residences, catering and conferences	7,637	8,092
Other Services Rendered	492	462
Profit on Disposal of Fixed Assets	-	279
Other Income	1,316	1,291
	<u>9,445</u>	<u>10,124</u>

NOTES TO THE ACCOUNTS

At 31 July 2003

5. ENDOWMENT AND INVESTMENT INCOME	2003	2002
	£000	£000
Income from Endowments (Trust Funds) (Note 19)	35	25
Income from Short Term Investments	280	403
	<u>315</u>	<u>428</u>
6. STAFF COSTS	2003	2002
	£000	£000
Wages and salaries	25,868	26,702
Social Security costs	1,912	1,978
Other pension costs	2,302	2,029
Redundancy Costs	390	2,301
	<u>30,472</u>	<u>33,010</u>
Average Staff Numbers by Major Category:	Number	Number
Academic departments	654	698
Academic Services	133	139
Research Grants and Contracts	7	8
Residences, Catering and Conference	19	23
Premises	59	60
Administration	186	188
	<u>1,058</u>	<u>1,116</u>
Emoluments of Principal and remuneration of senior staff:	2003	2002
	£000	£000
Emoluments of Principal	116,799	116,120
Employers' pension contributions (teachers Superannuation Scheme)	11,956	13,586
Other benefits	1,790	1,538
	<u>130,545</u>	<u>131,244</u>
Remuneration of other higher paid staff earning over £70,000 excluding employers' pension contributions, but including the payments for compensation for loss of office and actuarial payments to pension schemes for early retirement:	2003	2002
	Number	Number
£70,000 to £79,999	2	2

Severance and actuarial payments in respect of staff whose remuneration was less than £70,000 have not been taken into account in this analysis.

NOTES TO THE ACCOUNTS

At 31 July 2003

7. OTHER OPERATING EXPENSES	2003	2002
	£000	£000
Consumables and other Academic Related Expenditure	2,149	2,399
General Educational Expenditure	2,067	2,073
Books and Periodicals	833	696
Heat, Light, Water and Power	899	1,006
Repairs and General Maintenance	2,194	2,598
Provision for Dilapidation	18	18
Other Premises Related Expenditure	1,795	1,807
Grants to Students Union	309	294
Rents and Rates	95	149
External Auditors' Remuneration – Audit Fees	38	35
External Auditors' Remuneration – Other Fees	35	42
Internal Auditors' Remuneration – Audit Fees	41	25
Internal Auditors' Remuneration – Other Fees	-	11
Operating Lease Rentals Land/Buildings	3,297	3,186
Operating Lease Rentals Plant/Machinery	33	122
Travel and Subsistence	544	528
Other Expenses	4,289	4,244
	<u>18,636</u>	<u>19,233</u>

8. INTEREST PAYABLE	2003	2002
	£000	£000
Loans not wholly repayable within five years	2,062	2,126
Finance Leases	1,165	1,181
	<u>3,227</u>	<u>3,307</u>

9. ANALYSIS OF 2002-2003 EXPENDITURE BY ACTIVITY

	Staff	Depreciation	Other	Interest	Total
	Costs		Operating	Payable	
	£000	£000	Expenses	£000	£000
			£000		
Academic Departments	20,545	636	4,393	-	25,574
Academic Services	2,711	778	1,927	-	5,416
Research Grants and Contracts	163	-	80	-	243
Residences, Catering and Conferences	406	338	5,766	2,288	8,798
Premises	1,450	1,011	3,449	691	6,601
Administration	5,197	130	3,021	248	8,596
Total per Income and Expenditure Account	<u>30,472</u>	<u>2,893</u>	<u>18,636</u>	<u>3,227</u>	<u>55,228</u>

10. TAXATION

A corporation tax charge of £nil (2002: £9,000) arises on consolidation as a result of taxable profits in a subsidiary undertaking.

Under the Education Reform Act 1988 the Institute obtained charitable status, consequently it is not liable to corporation tax on its income and gains. No deferred taxation has been provided in the accounts on the basis that future taxable profit of all subsidiary companies will be paid to the Institute by way of Deed of Covenant.

NOTES TO THE ACCOUNTS

At 31 July 2003

11. TANGIBLE ASSETS

Institute

	Freehold and Land £000	Long Leasehold Buildings £000	Work in Progress £000	Equipment £000	Total £000
At 1 August 2002					
At valuation 31 July 1998	6,454	15,182	-		21,636
At cost	3,955	45,117	180	19,458	68,710
Additions	-	-	568	1,190	1,758
Capitalisation of work in Progress	-	578	(578)		-
As at 31 July 2003	<u>10,409</u>	<u>60,877</u>	<u>170</u>	<u>20,648</u>	<u>92,104</u>
Depreciation					
At 1 August 2002	-	5,458	-	17,227	22,685
Provided during period	-	1,283	-	1,600	2,883
At 31 July 2003	<u>-</u>	<u>6,741</u>	<u>-</u>	<u>18,827</u>	<u>25,568</u>
Net book value at 31 July 2003	<u>10,409</u>	<u>54,136</u>	<u>170</u>	<u>1,821</u>	<u>66,536</u>
Net book value at 31 July 2002	<u>10,409</u>	<u>54,841</u>	<u>180</u>	<u>2,231</u>	<u>67,661</u>

Consolidated

	Freehold and Long Leasehold Land £000	Buildings £000	Work in Progress £000	Equipment £000	Total £000
At 1 August 2002					
At valuation 31 July 1998	6,454	15,182	-	-	21,636
At cost	3,955	45,117	180	20,425	69,677
Additions	-	-	568	1,190	1,758
Capitalisation of work in progress	-	578	(578)	-	-
At 31 July 2003	<u>10,409</u>	<u>60,877</u>	<u>170</u>	<u>21,615</u>	<u>93,071</u>
Depreciation					
At 1 August 2002	-	5,458	-	18,185	23,643
Provided during period	-	1,283	-	1,610	2,893
At 31 July 2003	<u>-</u>	<u>6,741</u>	<u>-</u>	<u>19,795</u>	<u>26,536</u>
Net book value at 31 July 2003	<u>10,409</u>	<u>54,136</u>	<u>170</u>	<u>1,820</u>	<u>66,535</u>
Net book value at 31 July 2002	<u>10,409</u>	<u>54,841</u>	<u>180</u>	<u>2,241</u>	<u>67,671</u>

NOTES TO THE ACCOUNTS

At 31 July 2003

11. TANGIBLE ASSETS (CONTINUED)

Included in Land and Buildings are two assets with a combined net book value of £11,682,204 (2002: £11,877,825) held under finance leases. Depreciation for the year on these leased assets was £195,621 (2002: £195,621).

The Institute commissioned a revaluation of its land and buildings held at valuation, undertaken by Chesterton International Ltd as at 31 July 1998. The valuation was undertaken in accordance with the Statements of Asset Valuation Practice and Guidance Notes issued by the Royal Institution of Chartered Surveyors. The basis of the valuation was the open market value for existing use. Those properties for which no open market value was readily ascertainable were valued on the depreciated replacement cost basis. Other assets continue to be shown at historic cost.

Under the transitional arrangements of FRS 15 this valuation (after impairment charges) has been retained as the carrying amount for those assets within the valuation.

12. INVESTMENTS

	Consolidated		Institute	
	2003 £000	2002 £000	2003 £000	2002 £000
Subsidiaries	-	-	-	1,000
Other investments	50	50	50	50
	<u>50</u>	<u>50</u>	<u>50</u>	<u>1,050</u>

Subsidiary Undertakings

The Institute owns 100% of the issued ordinary share capital of £2 of Southampton Institute Limited, a company registered in England. The Institute owns 100% of the issued ordinary share capital of £1,000,000 of Southampton Institute Library Services Limited (SILS), a company registered in England, which commenced trading during 1994-95. However, this investment has been fully provided for during the year as SILS is to be wound up in the near future.

The Institute has control of 33⅓% of Southampton Institute Educational Company (SIEC), a company limited by guarantee. SIEC is consolidated by virtue of dominant influence over the operating and financial policies of that company.

Solent Training and Research Limited and Solent Region Technology Centre Limited are two dormant subsidiary companies which have been wound up during the year.

Other Investments

The Institute has made an investment of £50,000 representing an 11% share of the capital of Learning Network South East (LNSE), a company formed by the collaboration of a number of Institutions in order to provide internet access. This service was previously provided through UKERNA who were funded directly by the Higher Education Funding Council for England.

NOTES TO THE ACCOUNTS

At 31 July 2003

13. ENDOWMENT ASSET INVESTMENTS

	Consolidated and Institute	
	2003 £000	2002 £000
MIM Britannia Maximum Income Fund	650	637
Shares and securities not incorporated in above funds	17	19
Cash balances and accruals	1	(6)
	<u>668</u>	<u>650</u>

14. DEBTORS

	Consolidated		Institute	
	2003 £000	2002 £000	2003 £000	2002 £000
Trade debtors	2,087	1,70	1,558	1,209
Other debtors	1,479	1,89	1,426	1,860
Amount owed by subsidiary undertaking		-	3,192	5,850
	<u>3,566</u>	<u>3,602</u>	<u>6,176</u>	<u>8,919</u>

15. CREDITORS: amount falling due within one year

	Consolidated		Institute	
	2003 £000	2002 £000	2003 £000	2002 £000
Trade Creditors	4,261	4,672	4,004	4,511
Taxation and social security	671	675	671	675
Salary and wages creditor	738	543	738	543
Other creditors	2,004	1,786	1,953	1,713
SSAP 24 Pension Liability	262	262	262	262
Amounts due to subsidiary companies	-	-	2,203	4,527
Hampshire County Council debt charge	197	197	197	197
Bank Loan (Note 22b)	675	614	675	614
Obligations under finance leases and hire purchase contracts (Note 22a)	197	181	197	181
	<u>9,005</u>	<u>8,930</u>	<u>10,900</u>	<u>13,223</u>

16. CREDITORS: amounts falling due after more than one year

	Consolidated		Institute	
	2003 £000	2002 £000	2003 £000	2002 £000
Debts on transferred assets				
- due in two to five years	646	760	646	760
- due after more than five years	90	172	90	172
Long term Bank loan (Note 22b)	25,494	26,169	25,494	26,169
Obligations under finance leases and hire purchase contracts (Note 22a)	13,197	13,394	13,197	13,394
	<u>39,427</u>	<u>40,495</u>	<u>39,427</u>	<u>40,495</u>

NOTES TO THE ACCOUNTS

At 31 July 2003

17 PROVISIONS FOR LIABILITIES AND CHARGES

Consolidated and Institute

	Pension Enhancement £000	Dilapidation £000	Reorganisation £000	Total £000
At 1 August 2002	369	662	1,577	2,608
Charge to Income & Expenditure account	25	18	390	433
Payments made in year	(31)	-	(1,456)	(1,487)
At 31 July 2003	<u>363</u>	<u>680</u>	<u>511</u>	<u>1,554</u>

The amounts provided for under Dilapidation and Reorganisation comply with the requirements of FRS12. The Dilapidation provision is based on a professional valuation carried out at 31 July 2000, and management are not aware of any events since that date which would indicate any material change to that provision.

PENSIONS

SSAP 24 Disclosures

Retirement benefits for employees of Southampton Institute are provided by defined benefit schemes, which are funded by contributions from the Institute and employees. Payments are made to the Teachers' Superannuating Scheme for academic staff and to the Hampshire County Council Superannuation Scheme for non-academic staff. These are both independently administered schemes. Both of these are defined benefit schemes.

The Teachers' Superannuation Scheme is valued every ten years by the Government Actuary and was last valued at 31 March 2001. The scheme has been notionally invested in Government securities. The assumed real rate of return is 3.5% in excess of prices and 2% in excess of earnings. The rate of real earnings growth is assumed to be 1.5%. The assumed gross rate of return is 7%. The estimated notional value of the assets at the valuation date was £142,880 million. This represented 100% of the scheme's liabilities. Contributions are paid by the Institute at the rate specified by the Government Actuary. The employers' contribution is currently 13.5%. As the Teachers Superannuation Scheme is unable to identify the Institute's share of the underlying assets and liabilities, contributions to that scheme are accounted for as if it was a defined contribution scheme.

The Hampshire County Council Superannuation Scheme is valued every three years by a professionally qualified independent actuary using the Projected Unit method, the rates of contribution being determined by the actuary. The latest actuarial assessment of the Hampshire County Council Superannuation Scheme was at 31 March 2001. The Assessment was based on the assumptions that investment returns would be 8.75% per annum, a rate of increase of salaries of 6% and that future pensions would increase at a rate of 4.5% per annum. The actuarial valuation showed the market valuation of the scheme's assets was £1,935 million and that the actuarial value of these assets represented 88% of the Department of the Environment target for Scheduled bodies of 100% funding. Increases in employers' contributions are set out below:

		At 31 March 2003	At 31 March 2004	At 31 March 2005	At 31 March 2006	At 31 March 2007
Non teaching staff	LGSS	12.30%	12.90%	13.50%	13.50%	13.50%

The Institute also has obligations in respect of enhanced pension entitlements to staff who took early retirement under a reorganisation programme in 1993. Provision is made to meet the liabilities for these ex-gratia pensions based upon the following assumptions; discount rate 6.5% pa, future pension increases 2.5% pa and mortality in accordance with the PA80 standard table with a year of use of 2003. No specific assets are held. The charge in the year in respect of these enhancements was £25,400.

Where the institution ceases to trade and there is no successor establishment, the Secretary of State for Education and Employment becomes the compensating authority.

NOTES TO THE ACCOUNTS

At 31 July 2003

17. PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

FRS 17 Disclosures

In line with the transitional arrangements of FRS 17, details in respect of the pension liabilities are provided in accordance with FRS 17, however the figures in the accounts reflect the SSAP 24 accounting treatment. As noted earlier it is not possible to identify the Institute's share of the underlying assets and liabilities of the Teachers Superannuation Scheme and therefore the following disclosures relate to the Hampshire County Council Superannuation Scheme only.

Hampshire County Council Superannuation Scheme

The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuation at 31 March 2001 and updated by Hewitt Bacon and Woodrow, independent actuaries, to take account of the requirements of FRS 17 in order to assess the Institute's share of the assets and liabilities of the scheme as at 31 July 2002 and 31 July 2003. The major assumptions used by the actuary for the purposes of FRS 17 were:

	31 July 2003	31 July 2002
Discount Rate	5.5% pa	6.0% pa
Rate of increase in salaries	4.2% pa	3.9% pa
Rate of increase in pensions in payment	2.7% pa	2.4% pa
Rate of increase in deferred pensions	2.7% pa	2.4% pa
Rate of inflation	2.7% pa	2.4% pa

The Institute's share of the assets in the scheme and the expected rate of return were:

	Rate of Return At 31 July 2003	Value at At 31 July 2003	Rate of Return At 31 July 2002	Value at At 31 July 2002
Equities	7.8%	10,900	7.9%	9,240
Bonds	4.8%	3,270	4.9%	3,040
Property	6.8%	800	6.9%	790
Other assets	3.3%	750	3.4%	730
		<u>15,720</u>		<u>13,800</u>
Average rate of return	6.9%		6.9%	

The following amounts were measured in accordance with the requirements of FRS17:

	31 July 2003 £000	31 July 2002 £000
Share of assets in Hampshire County Council Pension Fund	15,720	13,800
Estimated share of liabilities in Hampshire County Council Pension Fund	<u>(30,970)</u>	<u>(24,060)</u>
Share of deficit in the scheme – net pension liability	<u>(15,250)</u>	<u>(10,260)</u>

NOTES TO THE ACCOUNTS

At 31 July 2003

17 PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

In total, the movement in the Institute's share of the scheme deficit during the year is made up as follows:

	31 July 2003 £000
Deficit on scheme at 1 August 2002	(10,260)
Movement in year	
- Service cost	(1,270)
- Contributions	1,190
- Other financial charges	(480)
- Actuarial loss	(4,430)
Deficit on scheme at 31 July 2003	<u>(15,250)</u>

Pension Enhancement

The latest FRS 17 valuation of the liabilities in respect of these pension enhancements was carried out as at 31 July 2003, by an independent qualified actuary using the key FRS 17 assumptions set out in the following table. The table also sets out as at 31 July 2002 and 31 July 2003 the present value of the FRS 17 liabilities, which is equal to the gross pension liability.

Assumptions	31 July 2003	31 July 2002
Price Inflation	2.6% pa	2.3% pa
Discount rate	5.3% pa	6.0% pa
Pension Increases	2.6% pa	2.3% pa

	31 July 2003 £000	31 July 2002 £000
Gross Pension Liability	406	378

The gross pension liability under FRS 17 moved as follows during the year:

	£000
Gross pension liability at 1 August 2002	(378)
Pensions paid	30
Charge to finance income	(22)
Actuarial loss	(36)
Gross pension liability at 31 July 2003	<u>(406)</u>

NOTE TO THE ACCOUNTS

At 31 July 2003

17 PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

Potential effects on the primary statements of full implementation of FRS 17

If FRS 17 were adopted in full the above amounts for both the Pension Enhancements and Hampshire County Council Superannuation Scheme would be recognised in the Financial Statements. In these circumstances the Institute's net assets and general reserve as at 31 July 2003 would be as follows:

	31 July 2003 £000	31 July 2002 £000
Net Assets as stated in balance sheet	27,429	26,350
SSAP 24 enhanced pension provision	363	369
SSAP 24 pension creditor	<u>262</u>	<u>262</u>
Net assets excluding pension liability	28,054	26,981
FRS 17 pension liability	<u>(15,656)</u>	<u>(10,638)</u>
Net assets including pension liability	<u>12,398</u>	<u>16,343</u>
General reserve per accounts excluding pension liability	23,433	22,241
SSAP 24 enhanced pension provision	363	369
SSAP 24 pension creditor	<u>262</u>	<u>262</u>
	24,058	22,872
Pension reserve	<u>(15,656)</u>	<u>(10,638)</u>
General reserve including pension liability	<u>8,402</u>	<u>12,234</u>

Additionally, if the pension costs had been recognised in accordance with FRS17, the following components of the pensions charge would have been recognised in the income and expenditure account and statement of recognised gains and losses for the year ended 31 July 2003:

	31 July 2003 £000	31 July 2003 £000
Analysis of amounts charged to income and expenditure Account:		
Current service cost		(1,180)
Past service cost		(90)
Financing:		
- expected return on pension scheme assets	1,000	
- interest on expected scheme liabilities	<u>(1,480)</u>	
Net return		<u>(480)</u>
		<u>(1,750)</u>

NOTES TO THE ACCOUNTS

At 31 July 2003

17 PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

	31 July 2003 £000	31 July 2003 %
Analysis of amounts recognised in statement of total recognised gains and losses:		
Actual return less expected return on pension scheme assets	(290)	(1.8)
Experience gains and losses arising on scheme Liabilities	50	0.2
Changes in assumptions underlying the present Value of scheme liabilities	(4,190)	(13.5)
Total actuarial loss recognised	<u>(4,430)</u>	(14.3)

18. DEFERRED CAPITAL GRANTS
Consolidated and Institute

	Hunter Fund £000	Buildings £000	Equipment £000	Total £000
At 1 August 2002	260	2,613	586	3,459
Cash Received	-	172	276	448
Released to Income and Expenditure	-	(90)	(489)	(579)
At 31 July 2003	<u>260</u>	<u>2,695</u>	<u>373</u>	<u>3,328</u>

19. Endowments

	Consolidated and Institute	
	2003 £000	2002 £000
At 1 August	650	721
Increase/(Decrease) in cash balances, investments	11	(76)
Income for year	43	31
Examination Fees for year	(1)	(1)
Transferred to Income and Expenditure Account (Note 5)	(35)	(25)
At 31 July	<u>668</u>	<u>650</u>
	2003 £000	2002 £000
Representing:		
Amenities Fund	19	19
Murals Fund	16	16
Southampton Research Fund	142	133
Merged Research Fund *	491	482
At 31 July	<u>668</u>	<u>650</u>

* Incorporates Drewry, Rynicker, Moyana, Sandell, Waller, Warsash and Sail Training Funds

NOTES TO THE ACCOUNTS

At 31 July 2003

20. REVALUATION RESERVE

	Consolidated and Institute	
	2003	2002
	£000	£000
At 1 August	7,123	7,003
Transfer to the Income and Expenditure Account (Note 21)		
Realised revaluation surplus on sale of properties	-	(109)
Depreciation for period on revalued inherited assets	(90)	(90)
Reversal of Impairment	-	103
HCC debt charge principal repaid	197	216
At 31 July	<u>7,230</u>	<u>7,123</u>

21. INCOME AND EXPENDITURE ACCOUNT

	Consolidated		Institute	
	2003	2002	2003	2002
	£000	£000	£000	£000
At 1 August	15,101	17,156	16,805	18,998
Retained surplus/(deficit) for the period	995	(2,254)	(326)	(2,392)
Transfers from revaluation reserve (Note 20)	90	199	90	199
At 31 July	<u>16,186</u>	<u>15,101</u>	<u>16,569</u>	<u>16,805</u>

22. OBLIGATIONS UNDER LEASES AND LOANS

a) Finance leases and hire purchase contracts	Consolidated and Institute	
	2003	2002
	£000	£000
Amounts payable:		
Within one year	1,347	1,347
Within two to five years	5,388	5,388
After more than five years	<u>21,760</u>	<u>23,107</u>
	28,495	29,842
Less: finance charges allocated to future periods	<u>15,101</u>	<u>16,267</u>
	<u>13,394</u>	<u>13,575</u>
Analysed as:		
Amounts due in less than one year	197	181
Amounts due after more than	<u>13,197</u>	<u>13,394</u>
	<u>13,394</u>	<u>13,575</u>

NOTES TO THE ACCOUNTS

At 31 July 2003

22. OBLIGATIONS UNDER LEASES AND LOANS (CONTINUED)

b) Loans	Consolidated and Institute	
	2003 £000	2002 £000
Instalments due within five years	3,885	3,618
Instalments not due within five years	22,284	23,166
	<u>26,169</u>	<u>26,784</u>
Amounts due within one year	675	614
	<u>25,494</u>	<u>26,170</u>

c) The current annual commitment under non-cancellable operating leases for land and building is as follows:

	Consolidated and Institute	
	2003 £000	2002 £000
Amounts payable under leases expiring : after more than five years	<u>3,297</u>	<u>3,186</u>

23. CAPITAL COMMITMENTS

	Consolidated and Institute	
	2003 £000	2002 £000
Authorised and contracted	<u>-</u>	<u>-</u>
Authorised but not contracted	<u>2,308</u>	<u>1,834</u>

24. CONTINGENT LIABILITIES

At 31 July 2003 the Governors were not aware of any contingent liabilities for which full provision has not been made. The provision for dilapidation shown in Note 17 is in respect of conditions in operating leases for two halls of residence. The balance on the provision is the estimated cost of rectification at 31 July 2003 and current estimates of the eventual costs of rectification at the end of the lease periods is between £5m and £8m. The leases in question expire in 2021 (Emily Davis Hall) and 2024 (Hamwic). The Institute's annual spend on maintenance over the past three financial years has been £2.2m (2002-03), £2.6m (2001-02) and £2.6m (2000-01).

25. POST BALANCE SHEET EVENTS

The Governors are not aware of any post balance sheet events for which full provision has not been made.

NOTES TO THE ACCOUNTS

At 31 July 2003

26. RECONCILIATION OF CONSOLIDATED OPERATING SURPLUS TO NET CASH FROM OPERATING ACTIVITIES

	2003 £000	2002 £000
Surplus/(Deficit) before taxation	995	(2,245)
Less interest receivable	<u>(280)</u>	<u>(403)</u>
	715	(2,648)
Add back interest payable	<u>3,227</u>	<u>3,307</u>
Surplus from Operating Activities	3,942	659
Surplus on disposal of Fixed Asset	-	(279)
Release of Capital Grant	(579)	(534)
Depreciation	2,893	2,996
Increase in debtors	(100)	(143)
Decrease in creditors	(1)	(386)
(Decrease)/Increase in restricted reserves and provisions	<u>(1,054)</u>	<u>723</u>
Net Cash Inflow from Operating Activities	<u><u>5,101</u></u>	<u><u>3,036</u></u>

27. RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

	2003 £000	2002 £000
Interest Received	308	636
Interest Paid under Finance Leases	(1,165)	(1,180)
Other Interest Paid	<u>(2,062)</u>	<u>(2,127)</u>
Returns on Investments and Servicing of Finance	<u><u>(2,919)</u></u>	<u><u>(2,671)</u></u>

28. CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

	2003 £000	2002 £000
Purchase of Fixed Assets	(1,758)	(1,397)
Deferred Capital Grants received	448	291
Receipts on disposal of Fixed Assets	<u>-</u>	<u>38</u>
	<u><u>(1,310)</u></u>	<u><u>(718)</u></u>

NOTES TO THE ACCOUNTS

At 31 July 2003

29. ANALYSIS OF CHANGES IN CONSOLIDATED FINANCING DURING THE YEAR

	At 1 August 2002 £000	Capital Repayments In the year £000	At 31 July 2003 £000
HCC loan account	1,130	(197)	933
Barclays Bank Loan	2,050	(221)	1,829
Kimber College finance lease	5,551	(169)	5,382
Sir James Matthews Building finance lease	8,024	(11)	8,013
Deanery College loan	13,383	(213)	13,170
Chantry College Loan	7,648	(122)	7,526
David Moxon Annex Loan	3,702	(58)	3,644
	<u>41,488</u>	<u>(991)</u>	<u>40,497</u>

Changes in financing as disclosed in the Cashflow Statement may be analysed as follows:

	2003 £000	2002 £000
Repayment of Loans	(811)	(797)
Repayment of Capital Element of Finance Leases	(180)	(166)
Funding Council Grant Reimbursement	305	108
	<u>(686)</u>	<u>(855)</u>

30. ANALYSIS OF CHANGES IN NET DEBT

	At 1 August 2002 £000	Cash Flow £000	At 31 July 2003 £000
Cash	1,200	(214)	986
Short Term Deposit	5,210	400	5,610
Loans	(27,914)	811	(27,103)
Obligations under Finance Leases and hire Purchase Contract	(13,574)	180	(13,394)
	<u>(35,078)</u>	<u>1,177</u>	<u>(33,901)</u>

NOTES TO THE ACCOUNTS

At 31 July 2003

31. ACCESS FUNDS

	2003	2002
	£000	£000
Balance brought forward	19	73
Reimbursed to HEFCE	-	(7)
	<u>19</u>	<u>66</u>
Funding Council Grants	730	802
Interest Earned	1	7
Loans Repaid by Students	5	-
	<u>75</u>	<u>875</u>
Disbursed to Students	(729)	(856)
Audit Costs	(1)	-
Balance Unspent at 31 July	<u>25</u>	<u>19</u>

32. RELATED PARTY TRANSACTIONS

The following companies are deemed to be related parties by virtue of the fact that Governors or senior post holders of the Institute are partners, directors or have influence over the financial and operating policies of the other party. Sales and purchases as shown below are all on arms length basis. The grant made to Southampton Institute Students Union (SISU) is part of the normal operations of the Institute, as is the loan for an approved capital purchase by the SISU.

Southampton Institute

	Payments to third parties through PSR client account £000	Sales to related party £000	Purchases from related party £000	Amounts owed by related party £000	Amounts owed to related party £000	Grants and Loans made to related party £000
Southampton Institute Students Union						
Trade			12			
Grant					32	309
Paris Smith & Randall (PSR)	3	-	35	-	-	-