

**THE ARTS INSTITUTE AT BOURNEMOUTH**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 JULY 2007**

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**GOVERNORS who served on the CORPORATION in 2006/07 for the whole of the year unless otherwise stated**

<b>Name</b>	<b>Area of Principal Expertise</b>	<b>Committee Membership</b>
Nicholas Durbridge – Chairman (appointed 31 July 2007) (until then held position of Vice Chairman)	Legal and Business	Finance & Resources Strategic Development: Remuneration: Search:
Nigel Beale - Chairman (resigned 31 July 2007)	Business and Public Sector	Remuneration: Search
Philip Trevorrow – Vice Chairman (appointed Vice Chairman 31 July 2007)	Accountancy	Audit: Finance & Resources
Professor Stuart Bartholomew	Principal and Chief Executive	Finance & Resources: Human Resources & Student Affairs: Remuneration: Search: Strategic Development
Claire Derry	Media	Audit: Strategic Development
Richard Dimpleby	Further & Higher Education	Strategic Development
Christine Finnigan (appointed as Corporation Member 14 November 2006)	AIB Staff Governor	Finance & Resources (Appointed March 2007)
Roger Gould (appointed as Corporation Member 14 November 2006)	AIB Staff Governor	Strategic Development (Appointed March 2007)
Michael Henson	Arts and Business	Finance & Resources
Ronnie Inglis (resigned 15 September 2006)	AIB Staff Governor	Finance & Resources
Carolyn Jennings	Legal	Human Resources & Student Affairs
Roger Laughton CBE	Media & Higher Education	Strategic Development
Professor Paul Light	Higher Education	
Julia Macmillan	Human Resources	Finance & Resources: Human Resources & Student Affairs: Remuneration
Terence O'Rourke (appointed 31 July 2007)	Planning	Finance & Resources
Paul Sheppard	Accountancy	Audit
Sonya Robinson (resigned 15 September 2006)	AIB Staff Governor	Strategic Development
Professor Roger Wilson	Higher Education	Strategic Development (with effect from September 2007)
Suzi Wisz (resigned 31 July 2007)	AIBSU Student Governor	Human Resources & Student Affairs: Strategic Development
Chloe Whittaker (appointed 31 July 2007)	AIBSU Student Governor	Human Resources & Student Affairs: Strategic Development

**CLERK to the CORPORATION**

Bill Liddle

**AUDITORS AND BANKERS**

**EXTERNAL AUDITORS**

BDO Stoy Hayward LLP  
Arcadia House  
Maritime Walk  
Ocean Village  
Southampton  
SO14 3TL

**INTERNAL AUDITORS**

Tenon plc  
Clifton House  
Bunnian Place  
Basingstoke  
Hampshire  
RG21 7JE

**BANKERS**

Lloyds TSB Bank PLC  
45/47 Old Christchurch Road  
Bournemouth  
BH1 1ED

**CORPORATE OFFICE**

Fern Barrow  
Wallisdown  
Poole  
BH12 5HH

## REPORT OF THE MEMBERS OF THE CORPORATION

### CORPORATE GOVERNANCE

The Arts Institute at Bournemouth is a higher education institution as defined by the Further and Higher Education Act of 1992.

The Institute is an exempt charity for the purposes of the Charities Act 1993.

The Corporation consists of lay and academic Governors appointed under the Instrument and Articles of Governance of the Institute. The Roles of Chairman and Vice Chairman of the Corporation and Principal, who is also the Chief Executive of the Institute, are separated. The matters specifically reserved to the Corporation for decision are set out in the Instrument and Articles, by custom and in accordance with the provisions of the Financial Memorandum with the Higher Education Funding Council for England (HEFCE).

The Group is committed to the Governance Code of Practice adopted by the Committee of University Chairmen's (CUC) guidance and is the definitive guidance on governance within Higher Education. The Group is committed to exhibiting best practice in all aspects of corporate governance. This statement 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 2006 insofar as it is deemed appropriate for higher education. Its purpose is to help the reader of the accounts understand how the principles have been applied.

The Institute's Governing Corporation is responsible for the Institute's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Governing Corporation is of the view that there is an ongoing process for identifying, evaluating and managing the Institute's significant risks, that it has been in place for the year ended 31 July 2007 and up to the date of approval of the annual report and accounts, that it is regularly reviewed by the Governing Corporation and that it accords with the internal control guidance for directors on the Combined Code as deemed appropriate for higher education.

The Corporation meets four times in each academic year and details of the membership are given on page 1. It is responsible for the strategic direction of the Institute, the approval of major developments and the consideration of regular reports from Executive Officers on the operation of the business of the Institute and its subsidiary and related companies.

Six committees have been established and report to the Corporation. All have been formally constituted with terms of reference and membership drawn from the Corporation. The Corporation receives annually a formal report from the Chair of each Committee and copies of the draft minutes for each Committee are also included within the written reports for each Corporation meeting. The Committees are:

- Audit;
- Finance & Resources;
- Human Resources & Student Affairs;
- Remuneration;
- Search; and
- Strategic Development.

The details of membership of the Corporation given on page 1 show the committees on which individual Governors sit. One former Governor sits on the Audit Committee.

The Committees meet three times in each academic year other than Remuneration and Search, which meet as and when required.

## REPORT OF THE MEMBERS OF THE CORPORATION (CONTINUED)

### Audit

The Audit Committee normally meets with the Institute's internal and external auditors in attendance as appropriate. The Committee considers detailed reports together with recommendations for the improvement of the Institute's system of internal control and management's responses and implementation plans. It also receives and considers reports from the Funding Councils as they affect the Institute's business and monitors adherence to regulatory requirements. In addition the Annual accounts, Risk register and Value for Money reports are also considered at this Committee. The Institute's Director of Finance & Planning normally attends all meetings of the Committee and other staff attend as necessary.

### Finance & Resources

The Finance & Resources Committee advises the Corporation on strategic financial planning and monitors the Institute's financial performance. The Committee receives detailed annual capital and revenue budgets, budget updates and longer term financial forecasts on behalf of the Corporation and makes recommendations to the Corporation about approval. The Institute's Director of Finance & Planning normally attends this Committee.

### Human Resources & Student Affairs

The HR & Student Affairs Committee advises the Corporation on strategic HR planning and the Institute's employment framework and monitors compliance with relevant legislation on its behalf. The Committee also ensures that the Student Union operates in a fair and democratic manner and is accountable for its finances. The Institute's Directors of Academic Services and Institute Services normally attend this Committee.

### Remuneration

The Remuneration Committee undertakes the annual performance reviews of the senior members of staff, i.e. the Principal and the Deputy Principal and also determines their remuneration.

### Risk Management

The senior management team receives reports setting out key performance and risk indicators and considers possible control issues brought to its attention by early warning mechanisms which are embedded within the directorates. The senior management team, the Audit Committee and the HR & Student Affairs Committee variously receive regular reports from Internal Audit and from the Health & Safety Committee, which include recommendations for improvement. The Audit and HR & Student Affairs Committees' roles in this area are confined to a high level review of the arrangements for internal financial control and the Governing Corporation receives reports on risk and control through the Audit Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception.

### Search

The Search Committee is responsible for ensuring that open and appropriate procedures are in place to advertise vacancies and to select appropriate candidates for membership of the Corporation.

### Strategic Development

The Strategic Development Committee monitors and advises the Corporation on the Institute's planning, academic quality and development. The remit of the Committee also covers the Institute's Mission Statement, the marketing strategy and the development of research and scholarly activity. The Institute's Deputy Principal normally attends this Committee.

### Responsibilities of the Members of the Corporation

In accordance with the Education Reform Act 1988 and the Instrument and Articles of Government, the Corporation 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 Corporation 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 Corporation, the Corporation, through its Principal, 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.

**REPORT OF THE MEMBERS OF THE CORPORATION (CONTINUED)****Financial Statements**

In causing the Financial Statements to be prepared, the Corporation 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; and
- Financial Statements are prepared on the going concern basis unless it is inappropriate to presume that the Institute will continue in operation. The Corporation 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.

The Corporation has taken reasonable steps to:

- ensure that funds from HEFCE and LSC are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Funding Council and any other conditions which the Funding Council may from time to time prescribe;
- ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- safeguard the assets of the Institute and prevent and detect fraud; and
- secure the economical, efficient and effective management of the Institute's resources and expenditure.

**Internal Controls**

The Corporation has 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 members of the Corporation 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.

The key elements of the Institute's system of internal financial control are as follows:

- clear definitions of the responsibilities of, and the authority delegated to, heads of academic and administrative departments;
- regular reviews of key performance indicators and financial results involving variance analysis reporting and updates of forecast out-turns;
- clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to levels set by the Corporation as contained within the Financial Regulations;
- the development of a risk register which highlights the key risks facing the Institute in achieving its objectives;
- the Audit Committee provides an oversight of risk management and receives a report at its meetings on any movement in the major risks for the Institution identified for that year;
- the Audit Committee receives regular reports from the internal auditors expressing an opinion on the adequacy and effectiveness of the Institute's system of internal control together with recommendations for improvement; and
- The Corporation receives regular reports from the Chairman of the Audit Committee concerning internal control.

## REPORT OF THE MEMBERS OF THE CORPORATION (CONTINUED)

### Internal Controls (continued)

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 May 2006. The internal auditors submit regular reports which comment 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

### Mission Statement & Objectives

The Institute's Mission Statement as approved by the Corporation states:

*'The Mission of the Arts Institute at Bournemouth is to provide a high quality professional environment for its staff and students, to allow them to study, research and practise arts, design and media to the highest standards, so that they can contribute to the cultural and economic development of society.'*

The Institute's objectives, which are related to the Strategic Plan and are described in the Annual Operating Statement, continue to be met.

### Student numbers

The Institute is funded through the Higher Education Funding Council (HEFCE) and the Learning & Skills Council (LSC).

The Institute's student body continued to grow in 2006/07. In respect of higher education 2006/07 provision, 1,627 full time equivalent Home/EU students (2005/06: 1,475) were recruited. In respect of our further education provision, 522 full time equivalent Home/EU students (2005/06: 535) were recruited. In addition, 158 overseas students across both levels (2005/06: 150) were recruited.

We have had success in a recent ASN bid in respect of our Foundation Degrees and topping up to the full degree award. This has resulted in a further 74 funded places to be utilised in 2006/07 and 2007/08. In addition we have participated in the National Arts Learning Network which is being led by The University of the Arts London, and this has resulted in an additional 54 funded places in 2006/07 with a possible further 61 places in 2007/08.

### Finances

The group generated an operating surplus before taxation of £661,000 (2005/06: £629,000), an operating surplus after taxation of £670,000 (2005/06: £638,000) and a historical cost surplus of £754,000 (2005/06: £731,000). The operating surplus includes charges relating to FRS17 Pension accruals for the difference between current service cost and employers contributions, plus other associated finance costs, totalling £252,000 (2005/06: £54,000).

The group has accumulated income & expenditure reserves excluding the pension reserve of £4,964,000 (2005/06: £3,949,000) and cash balances, including endowment assets, of £771,000 (2005/06: £2,477,000). Cash balances decreased by £1,706,000 in the year (2005/06: increase of £528,000). The cash inflow from operating activities of £2,290,000 (2005/06: £2,689,000).

Fixed asset additions for the year totalled £6,088,000 (2005/06: £1,929,000) with the largest proportion of this spent on the new teaching and administrative building referred to as Phase IV. The balance of capital expenditure relates to the creation of space by reconfiguring and developing existing space to accommodate additional students and continued investment in IT infrastructure and equipment in accordance with the Institute's strategic plan.



## ANNUAL REVIEW (CONTINUED)

The Institute has two wholly owned subsidiary companies, the details of which are as follows:

**AIB Library Ltd** – this company was established in March 1997 and its main business is to provide library and computer services to the Institute and its users. Any profits that arise in this company are gift aided to The Arts Institute at Bournemouth being the parent company. In 2006/07 AIB Library Ltd generated an operating loss before taxation of £9,000 (2005/06: operating loss before taxation of £9,000). The company's accumulated reserves now stand at £nil (2005/06: £nil); and

**AIB Enterprises Ltd** – this company was established in July 2003 and its main business is to provide business incubation services to recent graduates to encourage them to stay in the local area. Construction of the Enterprise Pavilion was completed in November 2004, a project which has attracted significant financial support from the South West Regional Development Agency. The first tenants of the company took up residence of the building in December and the numbers have continued to grow since then. AIB Enterprises Ltd has made an operating loss before taxation of £51,000 (2005/06: loss of £103,000) and the accumulated deficit of the company now stands at £183,000.

Also consolidated within these accounts is **The Arts Institute at Bournemouth Charitable Foundation** due to The Arts Institute at Bournemouth being the ultimate controlling party by virtue of its dominant influence over its operating and financial policies.

### Taxation

The Institute's activities do not fall to be charged to corporation tax as it is an exempt charity. The activities of the Institute's subsidiaries are subject to taxation.

### Planned maintenance programme

A conditions survey was carried out in 2007 from which a costed plan has been devised. There is an allowance for Annual Maintenance and for replacement based on building life cycle costs which have been included in an Estates Strategy cost plan, which in turn informs the Five Year Forecast.

### Post balance sheet events

Subsequent to the year end a £2,500,000 loan has been drawn down to part fund the building referred to as Phase IV.

### Student achievements

HE student achievement continues to be strong, with over 99% of final year Honours students successfully completing their award. 52.5% of graduates secured a first or upper second class degree, which represents a slight decrease against previous years. Data on sector-wide performance are not yet available, but the Institute will continue to monitor its student achievement against sector and subject norms, and to address any concerns in a timely fashion. Retention rates of 92% continue to show a small year on year decline, which is not unexpected given the rising overall student number, and still exceeds sector norms of around 90%.

Over 97% of completing full-time FE students achieved their qualification aim on their main programme of study, which is inline with previous years.

Performance indicators relating to key areas of the Institute's activity are monitored internally within the Institute and are also made available from time to time within sector publications.

The Institute's students participate regularly in national and international competitions as well as local exhibitions and festivals. Their success in these continues to show the high quality of the student work.

Our record of progression to employment within the creative industries continues to show the success of the curriculum model and the achievements of the academic staff with the students. The most recently published HEFCE indicators of student employability show that over 94% of the Institute's graduates are in employment six months after graduation, which is well above sector benchmarks, and marks the Institute as having one of the most successful employability rates amongst specialist institutions.

Employment and work placement continue to be not simply in appropriate and successful local companies but also with significant national and international companies. These include Walt Disney Feature Animations, Aardman Animations, Sir Norman Foster & Partners, Art & Visual Effects, Richard Rogers Architects, Hot Animation, Hallmark Cards, Dorling Kindersley, The Royal Opera House, Animal, British Broadcasting Corporation, Glyndebourne, Carlton Television, Sky Television and Oyster.

## ANNUAL REVIEW (CONTINUED)

### Curriculum development and quality assurance

The Institute continues with its programme of curriculum development and enhancement at further and higher education levels to support the Strategic Plan, and, in particular, to meet the target for growth in student numbers at higher education level and stability in student numbers at further education level. At HE level, our achievements in course development were consolidated through the following key outcomes:

- A successful review of the Undergraduate Curriculum Framework during 2006/07. The revised Framework provides academic course teams with additional flexibility to respond to the specific needs and concerns of their discipline, whilst securing a degree of consistency across all awards, which in turn enables the Institute to assure itself of the comparability of awards, and of the high quality student experience
- The successful operation of accredited status, which was awarded to the Institute by its validating body in 2004/05 and devolves significant responsibility for the operation of the quality assurance system to the Institute.
- The successful validation of a Year Zero, which offers places to potential applicants who lack some of the skills required on entry. It is anticipated that this innovative approach will be particularly supportive of applicants from non-traditional backgrounds, and early indications are that over a third of the successful applicants for this year are from non-traditional groups.

The Institute was pleased to note its performance in the National Student Survey (NSS), conducted externally on behalf of the funding councils by Ipsos-MORI UK, which placed the Institute second of the arts, design and media specialists; and, impressively, fourth in the sector for the quality of assessment and feedback given to students. This is of particular relevance given the challenges experienced by many arts, design and media courses, schools and faculties in this area.

The Institute's further education provision underwent a strategic review during 2005/06, and the restructuring of this area of work has been implemented. Both the Foundation Diploma and the National Diploma have operated successfully during the year, with over 100 students progressing to undergraduate courses at the Institute. Further education provision also includes the one-year National Certificate in Photography.

Part-time HE forms a minority of the Institute's provision. Despite the transfer of former Higher National Diplomas (HNDs) to the Foundation Degree framework, and the demonstrable success of these courses in terms of retention, achievement and student satisfaction, recruitment has remained extremely challenging. The Institute continues to keep its portfolio of part-time courses under review.

Widening Participation activities have been an increased feature of our activity and there has been successful engagement with schools and colleges with a high proportion of non-traditional learners, leading to additional applications from groups with little experience of entering further or higher education in art and design subjects. The Institute additionally offered three summer study courses for non-traditional entrants new to HE, to support them with returning to study and study skills. The Widening Participation team within the Academic Development Unit continues to work to develop these links and to support the implementation of the Institute's Access Agreement, which seeks to encourage non-traditional applicants; again, it is too soon to comment on the effectiveness of this work, but early signs are encouraging. Certainly the Institute worked hard to ensure that all students received the benefits for which they were eligible; reports from the national Office of Fair Access (OFFA) suggest that some institutions have found this a challenging process.

### Staff and student involvement

The Institute encourages staff and student involvement through membership of committees, including the Board of the Corporation. The Institute holds termly staff development days, which allow for debate, discussion, technical updating and other development initiatives. Communication with staff is enhanced by an in-house staff bulletin.

### Equality and Inclusivity

It is the Institute's policy to offer equal opportunities for education, employment and advancement, regardless of gender, race, class, creed, nationality, marital status or sexual orientation and for those with special needs, including disabled persons.

In response to recent equalities legislation, the Institute updated its Equality and Inclusivity Policy during 2006/07 to create an overarching policy statement, supported by relevant schemes and policies as appropriate. The Disability Equality and Gender Equality Schemes and Race Equality Policy, together with their associated action plans, were all approved during the year. Progress against the respective action plans will be monitored by the Equality and Inclusivity Committee.

## ANNUAL REVIEW (CONTINUED)

The Committee has also established focus groups to give detailed consideration to issues of gender and age; disability; and race. These groups all include staff and student members, and permit the Institute to consult widely with the whole community as required by legislation. Work is also continuing on Impact Assessments of the Institute's policies and procedures, using a dedicated software package commissioned by the Institute and developed by Marshall ACM. A number of other institutions have seen the potential benefits of this approach, and have now also started to use the same package.

### Disability statement

The Institute has a Disability Statement, which sets out the following aims:

- to provide students with access to a wide range of high quality, flexible art, media and design programmes;
- to remove obstacles which might impede students' progress; and
- to provide a high level of student support to aid learning and personal / professional development.

The statement sets out specific arrangements in place to cover:

- advice and guidance available before making an application;
- possibility of confidential disclosure;
- educational support and facilities;
- assessment arrangements;
- arrangements for handling complaints and appeals;
- other educational support;
- physical access to the Institute;
- cost of the service.

## 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 BDO Stoy Hayward LLP as auditors until July 2008 was approved by the Board of Governors at their meeting of 28 June 2007.

By order of the Board of Governors

**Nicholas Durbridge**  
Chairman of the Board of Governors  
14<sup>th</sup> November 2007

**Stuart Bartholomew**  
Principal

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE CORPORATION OF THE ARTS INSTITUTE AT BOURNEMOUTH**

We have audited the financial statements of The Arts Institute Bournemouth for the year ended 31<sup>st</sup> July 2007, which comprise the Statement of Principal Accounting Policies, Consolidated Income and Expenditure Account, the Balance Sheets for the Group and the Institute, the Consolidated Cash Flow Statement, the Statement of Total Recognised Gains and Losses, Note of Historical Cost Surpluses and Deficits and the related notes. These financial statements have been prepared under the accounting policies set out on therein.

**Respective responsibilities of the Members of the Corporation and Auditors**

As described in the Statement of the Members of the Corporation responsibilities the Institute's Corporation is responsible for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and the Statement of Recommended Practice on Accounting in Further and Higher Education Institutions.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) and the Audit Code of Practice issued by the Higher Education Funding Council for England.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice on Accounting in Further and Higher Education Institutions. We also report to you if, in our opinion, the information given in the Report of the Members of the Corporation is not consistent with the financial statements, the Corporation 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 the remuneration of the Members of the Corporation or other transactions is not disclosed.

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 properly applied only 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 for England.

We read the other information contained in the Report of the Members of the Corporation and consider whether it is consistent with the audited financial statements. The other information comprises only the Corporate Governance Statement, the Statement of the Responsibilities of the Members of the Corporation and the Annual Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Institute's statutes and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Institute's statutes or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

**Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and the Audit Code of Practice issued by the Higher Education Funding Council for England. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Institute in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Institute and the group, consistently applied and adequately disclosed.

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

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE CORPORATION OF THE ARTS INSTITUTE AT BOURNEMOUTH (CONTINUED)****Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the Group as at 31 July 2007 and of its surplus of income over expenditure for the year then ended;
- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the Institute as at 31 July 2007;
- the financial statements have been properly prepared in accordance with the Statement of Recommended Practice: "Accounting for Further and Higher Education Institutions";
- income from the Higher Education Funding Council for England, 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
- income has been applied in accordance with the Institute's statutes and where appropriate with the applicable Financial Memorandum with the Higher Education Funding Council for England.

*BDO Stoy Hayward LLP*  
*Chartered Accountants and Registered Auditors*  
*Southampton*

## STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

### Application

These accounting policies are applied to both the Institute and its subsidiaries without exception.

### Basis of preparation

These financial statements have been prepared in accordance with the statement of recommended practice (SORP): Accounting in Further and Higher Education Institutions and in accordance with applicable United Kingdom accounting standards. They conform to guidance published by the Funding Council.

The financial statements are prepared in accordance with the historical cost convention modified by the revaluation of certain tangible fixed assets.

### Basis of Consolidation

The consolidated financial statements include the Institute, its wholly owned subsidiaries, AIB Library Ltd and AIB Enterprises Ltd, and the Arts Institute at Bournemouth Charitable Foundation Ltd. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income & expenditure account from the date of acquisition or up to the date of disposal. Intra-group sales and profits are eliminated fully on consolidation.

The Institute has control of 100% of the Arts Institute at Bournemouth Charitable Foundation, a charitable company limited by guarantee. AIB Charitable Foundation is consolidated by virtue of dominant influence over the operating and financial policies of that company by the Institute.

The consolidated Financial Statements do not include those of The Arts Institute at Bournemouth 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.

### Recognition of income

The annual recurrent grants from HEFCE & LSC, which are intended to meet recurrent costs, are recognised in line with the latest estimates of grant receivable for an academic year.

Non recurrent grants received in respect of the acquisition or construction of fixed assets are treated as deferred capital grants and amortised in line with depreciation over the life of the assets.

Income from grants, contract and other services rendered is included to the extent of the completion of the contract or service concerned. All other income, including income from HEFCE, tuition fees and short term deposits, is credited to the income & expenditure account in the period in which it is earned.

### Foreign currency translation

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the dates of the transactions.

### Taxation

The Institute is an exempt charity within the meaning of schedule 2 of the Charities Act 1993 and as such is a charity within the meaning of section 506 (1) of the Income and Corporation Taxes Act (ICTA) 1988. Accordingly, the Institute is potentially exempt from taxation in respect of income or capital gains received within categories covered by section 505 of the ICTA 1988 or section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes.

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

The Institute's subsidiary companies are subject to corporation tax and VAT in the same way as any commercial organisation.

### Deferred taxation

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

**STATEMENT OF PRINCIPAL ACCOUNTING POLICIES cont****Tangible fixed assets**

Assets acquired with the aid of specific grants are capitalised and depreciated in accordance with the policies set out below, with the related grant being credited to a deferred grant account and released to the income and expenditure account over the expected useful economic life of the related asset.

**a. Freehold land and buildings**

The Institute's buildings are specialised buildings and therefore it is not appropriate to value them on the basis of open market value for commercial use. Freehold land and buildings inherited from the Local Education Authority (LEA) are stated in the balance sheet at their value on the basis of open market value for existing use. Land and buildings acquired since incorporation are included in the balance sheet at cost. Freehold land is not depreciated. The Governing Corporation decided to depreciate its buildings over their estimated economic useful life of 50 years. The only exception to this is the mobile teaching accommodation, which is being depreciated over 4 years in line with its estimated useful economic life.

Buildings under construction are accounted for at cost, based on the value of architect's certificates and other direct costs incurred to 31 July. They are not depreciated until they are brought into use.

**b. Computers, Software and other equipment**

Computer and other equipment costing less than £1,000 per individual item and software with a useful life of less than 18 months are written off to the income and expenditure account in the year of acquisition. All other purchases are capitalised at cost.

All equipment is depreciated on a straight line basis over its remaining useful life to the group, as follows:

Vehicles	-	5 years
Computer equipment & Software	-	3 years
Other equipment	-	5 to 10 years
Furniture	-	10 years

**Leased assets**

Costs in respect of operating leases are charged on a straight line basis over the lease term. Leasing arrangements which transfer to the Institute substantially all the benefits and risks of ownership of an asset are treated as if the assets had been purchased outright. The assets are included in fixed assets and the capital elements of the leasing commitments are shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged to the income and expenditure account in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease term or the useful economic lives of equivalent owned assets.

**Fixed asset investments**

Fixed asset investments are carried at historical cost less any provision for impairment in their value.

**Pension schemes**

The Institute has fully adopted accounting standard FRS17 'Retirement Benefits'. The impact of this standard has been reflected throughout the financial statements.

The difference between the fair value of the assets held in the Institute's defined benefit pension scheme and the scheme's liabilities measured on an actuarial basis using the projected unit method are recognised in the Institute's balance sheet as a pension scheme asset or liability as appropriate. The carrying value of any resulting pension scheme asset is restricted to the extent that the Institute is able to recover the surplus either through reduced contributions in the future or through refunds from the scheme.

Changes to the defined benefit pension scheme asset or liability arising from factors other than cash contribution by the Institute are charged to the income and expenditure account or the statement of total recognised surpluses and deficits in accordance with FRS 17 'Retirement Benefits'.

**STATEMENT OF PRINCIPAL ACCOUNTING POLICIES cont****Pension schemes cont**

A significant number of Institute employees are members of the Teachers' Pension Scheme, which is a multi-employer scheme and as the underlying share of assets and liabilities cannot be separately identified, it is treated as a defined contribution scheme.

**Maintenance of premises**

The cost of routine corrective maintenance is charged to the income & expenditure account in the period in which it is incurred.

**Liquid resources**

Liquid resources include sums on short-term deposits with recognised banks and building societies.



**CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 JULY 2007**

	Notes	2006-2007 £'000	2005-2006 £'000
<b>INCOME</b>			
Funding council grants	1	11,248	10,430
Tuition fees and education contracts	2	4,272	2,942
Other Income	3	2,060	1,695
Endowment and investment income	4	<u>82</u>	<u>105</u>
<b>Total Income</b>		17,662	15,172
<b>EXPENDITURE</b>			
Staff costs	5	8,755	7,543
Other operating expenses	6	7,005	5,894
Depreciation	10	1,011	868
Interest payable	7	<u>230</u>	<u>238</u>
<b>Total Expenditure</b>		17,001	14,543
<b>Surplus on continuing activities after depreciation of assets at valuation and before tax</b>		661	629
Taxation	8	<u>(9)</u>	<u>(9)</u>
<b>Surplus on continuing activities for the year retained within income and expenditure account</b>	9	670	638
All activities are continuing		<u><u>        </u></u>	<u><u>        </u></u>

**CONSOLIDATED STATEMENT OF HISTORICAL COST SURPLUSES AND DEFICITS  
FOR THE YEAR ENDED 31 JULY 2007**

	Notes	2006-2007 £'000	2005-2006 £'000
Surplus after depreciation of assets and tax		670	638
Difference between the historical cost depreciation charge and the actual depreciation charge for the year calculated on the relevant amount	19	93	93
		<u>763</u>	<u>731</u>

**CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES  
FOR THE YEAR ENDED 31 JULY 2007**

	Notes	2006-2007 £'000	2005-2006 £'000
Surplus after depreciation of assets and tax		670	638
Movement on endowments	18	16	3
Actuarial gain / (loss) on pension scheme		1,163	(267)
<b>Total recognised gains and losses relating to the year</b>		<u>1,849</u>	<u>374</u>
Prior Year Adjustment	20	-	(2,422)
<b>Total recognised gains and losses since the last annual report</b>		<u>1,849</u>	<u>(2,048)</u>
<b>Reconciliation</b>			
Opening reserves and endowments as previously stated		6,869	8,917
Prior year adjustment		-	(2,422)
Opening reserves and endowments as restated		<u>6,869</u>	<u>6,495</u>
Total recognised gains and losses for the year		1,849	374
Closing reserves and endowments		<u>8,718</u>	<u>6,869</u>

## BALANCE SHEET AS AT 31 JULY 2007

	Notes	Consolidated		Institute	
		2007 £'000	2006 £'000	2007 £'000	2006 £'000
<b>Fixed Assets</b>					
Tangible Assets	10	20,259	15,182	16,300	11,139
Investments	11	-	-	2,410	2,410
		20,259	15,182	18,710	13,549
<b>Endowment Asset</b>	18	340	324	-	-
<b>Current Assets</b>					
Debtors	12	389	435	330	326
Cash at bank and in hand		431	2,153	365	2,125
		820	2,588	695	2,451
<b>Creditors: amounts falling due within one year</b>	13	3,850	3,173	4,352	3,707
<b>Net Current Liabilities</b>		(3,030)	(585)	(3,657)	(1,256)
<b>Total assets less current liabilities</b>		17,569	14,921	15,053	12,293
<b>Creditors: amounts falling due after more than one year</b>	14	4,008	2,430	4,008	2,454
<b>Provisions for liabilities and charges</b>	16	-	7	-	-
<b>Net assets excluding pensions liability</b>		13,561	12,484	11,045	9,839
<b>Net pensions liability</b>		(1,832)	(2,743)	(1,832)	(2,743)
<b>TOTAL ASSETS LESS LIABILITIES</b>		<b>11,729</b>	<b>9,741</b>	<b>9,213</b>	<b>7,096</b>
<b>Deferred capital grants</b>	17	3,011	2,872	674	441
<b>Endowments</b>	18	340	324	-	-
<b>Reserves</b>					
Income and expenditure account excluding pension reserve		4,964	3,949	5,125	4,059
Pension reserve	26	(1,832)	(2,743)	(1,832)	(2,743)
Income and expenditure account including pension reserve	20	3,132	1,206	3,293	1,316
Revaluation reserve	19	5,246	5,339	5,246	5,339
Total Reserves		8,378	6,545	8,539	6,655
<b>TOTAL FUNDS</b>		<b>11,729</b>	<b>9,741</b>	<b>9,213</b>	<b>7,096</b>

The financial statements on pages 12 to 32 were approved and authorised for issue by the governing body on 14th November 2007.

Signed on its behalf by:

**Nicholas Durbridge**

Chairman of the Board of Governors

**Professor Stuart Bartholomew**

Principal

<b>CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 JULY 2007</b>			
	Notes	<b>2006-2007</b>	<b>2005-2006</b>
		<b>£'000</b>	<b>£'000</b>
<b>Net Cash Inflow From Operating Activities</b>	21	2,281	2,689
Returns on investments and servicing of finance	22	(70)	(80)
Taxation		-	(19)
Capital expenditure and financial investment	23	(5,711)	(1,888)
<b>Net Cash (Outflow)/Inflow Before Financing</b>		<b>(3,500)</b>	<b>702</b>
Financing	24	1,794	(174)
<b>(Decrease)/Increase in cash</b>	25	<b>(1,706)</b>	<b>528</b>
<b>RECONCILIATION OF NEW CASHFLOW TO MOVEMENT IN NET DEBT</b>			
(Decrease)/Increase in Cash		(1,706)	528
Repayment of Long Term Loan		206	174
New Loan		(2,000)	-
Movement in Net Debt		(3,500)	702
Net Debt at 1 August		(160)	(862)
Net Debt at 31 July		(3,660)	(160)

**NOTES TO THE ACCOUNTS**

At 31 July 2007

	2007 £'000	2006 £'000
<b>1. FUNDING COUNCIL GRANTS</b>		
Recurrent grant		
HEFCE	7,420	6,746
LSC	2,700	2,730
Specific grants		
HEFCE	1,044	819
LSC	13	64
Deferred Capital Grant released in Year		
HEFCE	33	9
LSC	22	45
Access Fund Administration		
HEFCE	2	3
LSC	14	14
	<u>11,248</u>	<u>10,430</u>
<b>2. TUITION FEES AND EDUCATION CONTRACTS</b>		
	2007 £'000	2006 £'000
Higher Education UK and EU	2,784	1,846
Higher Education Non EU	917	786
Further Education UK and EU	411	131
Further Education non EU	160	179
	<u>4,272</u>	<u>2,942</u>
<b>3. OTHER INCOME</b>		
	2007 £'000	2006 £'000
Residences, catering and conferences	691	559
Other Services Rendered	166	172
Other Income	1,114	880
Release of deferred capital grants (non funding council)	89	84
	<u>2,060</u>	<u>1,695</u>

**NOTES TO THE ACCOUNTS (CONTINUED)**

At 31 July 2007

**4. ENDOWMENT AND INVESTMENT INCOME**

	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
Income from Endowments (Note 18)	6	11
Interest Receivable	76	94
	<u>82</u>	<u>105</u>

**5. STAFF COSTS**

	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
Wages and salaries	7,214	6,406
Social Security costs	554	484
Other Pension costs: Teachers' Pension Scheme	422	366
Local Government Pension Scheme	537	287
Restructuring costs	28	-
	<u>8,755</u>	<u>7,543</u>

Average staff numbers by major category:

	<b>Number</b>	<b>Number</b>
Teaching Departments	142	140
Teaching Support Services	7	6
Other Support Services	12	6
Administration and Central Services	74	64
General Education	2	7
Income Generating Activities	7	6
	<u>244</u>	<u>229</u>

Emoluments of Principal and remuneration of senior staff:

	<b>2007</b>	<b>2006</b>
	<b>£</b>	<b>£</b>
Emoluments of Principal	122,666	115,550
Employers' pension contributions (Teachers Pension Scheme)	16,989	15,065
Other benefits	3,722	2,874
	<u>143,377</u>	<u>133,489</u>

Remuneration of other higher paid staff earning over £70,000 excluding employers' pension contributions, but including payments for compensation for loss of office and actuarial payments to pension schemes for early retirement:

	<b>2007</b>	<b>2006</b>
	<b>Number</b>	<b>Number</b>
£80,000 to £89,999	1	1

There have been severance payments totalling £27,670 in respect of staff whose remuneration was less than £70,000

**NOTES TO THE ACCOUNTS (CONTINUED)**

At 31 July 2007

<b>6. OTHER OPERATING EXPENSES</b>	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
Teaching Departments	1,494	1,068
Teaching Support Services	557	440
Other Support Services	136	110
Administration and Central Services	1,520	1,101
General Education Expenditure	715	826
Premises Costs	1,162	955
Planned Maintenance	704	801
Grants to Students Union	49	35
Other Income Generating Activities	92	96
External Auditors' Remuneration - Audit Fees	18	16
External Auditors' Remuneration - Other Fees	5	-
Internal Auditors' Remuneration - Audit Fees	24	21
Operating Lease Rentals Plant/Machinery	20	35
Operating Lease Rentals Land & Buildings	63	-
Catering and Residencies	446	386
Loss on Disposal of fixed assets	-	4
	<u>7,005</u>	<u>5,894</u>
<b>7. INTEREST PAYABLE</b>	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
Loans not wholly repayable within five years	152	174
Pension finance costs	78	64
	<u>230</u>	<u>238</u>
<b>8. TAXATION</b>	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
<b>United Kingdom corporation tax</b>		
Corporation tax charge for the year at 30% (2006: 30%)	-	(6)
Reversal of provision for deferred tax	(9)	(3)
	<u>(9)</u>	<u>(9)</u>
<p>The Institute and Charitable Foundation are an exempt charity and therefore no tax has been charged on its income. The disclosure above relates solely to its subsidiary companies, AIB Library Limited and AIB Enterprises Limited.</p> <p>The retrospective application of group relief to 2005's corporation tax calculation led to a repayable value last year.</p>		
<b>9. SURPLUS ON CONTINUING OPERATIONS FOR THE PERIOD</b>	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
The surplus on continuing operations for the period is made up as follows:		
Institute's surplus for the period	639	688
Surplus generated by AIB Library Limited and transferred to the Institute under gift aid	82	52
Retained by AIB Library Limited	-	-
Retained by AIB Enterprises Limited	(51)	(103)
Retained by AIB Charitable Foundation Limited	-	1
	<u>670</u>	<u>638</u>

**NOTES TO THE ACCOUNTS (CONTINUED)**

At 31 July 2007

**10. TANGIBLE ASSETS****Consolidated**

	<b>Freehold Land and Buildings £'000</b>	<b>Assets under Construction £'000</b>	<b>Computer Equipment £'000</b>	<b>Other Equipment £'000</b>	<b>Total £'000</b>
At 1 August 2006					
At valuation	6,015	-	-	-	6,015
At cost	9,379	795	3,111	2,446	15,731
Additions	294	4,756	387	651	6,088
Transfer	393	(393)	-	-	-
At 31 July 2007	<u>16,081</u>	<u>5,158</u>	<u>3,498</u>	<u>3,097</u>	<u>27,834</u>
Depreciation					
At 1 August 2006	2,293	-	2,641	1,630	6,564
Provided during period	452	-	265	294	1,011
At 31 July 2007	<u>2,745</u>	<u>-</u>	<u>2,906</u>	<u>1,924</u>	<u>7,575</u>
Net book value at 31 July 2007	<u>13,336</u>	<u>5,158</u>	<u>592</u>	<u>1,173</u>	<u>20,259</u>
Net book value at 31 July 2006	<u>13,101</u>	<u>795</u>	<u>470</u>	<u>816</u>	<u>15,182</u>
Inherited	5,246	-	-	-	5,246
Financed by Capital Grant	2,597	-	95	239	2,931
Other	5,493	5,158	497	934	12,082
At 31 July 2007	<u>13,336</u>	<u>5,158</u>	<u>592</u>	<u>1,173</u>	<u>20,259</u>
Inherited	5,339	-	-	-	5,339
Financed by Capital Grant	2,634	-	45	93	2,772
Other	5,128	795	425	723	7,071
At 31 July 2006	<u>13,101</u>	<u>795</u>	<u>470</u>	<u>816</u>	<u>15,182</u>



**NOTES TO THE ACCOUNTS (CONTINUED)**

At 31 July 2007

**10. TANGIBLE ASSETS (CONTINUED)**

Institute

	<b>Freehold Land and Buildings</b>	<b>Assets under Construction</b>	<b>Computer Equipment</b>	<b>Other Equipment</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
At 1 August 2006					
At valuation	6,015	-	-	-	6,015
At cost	5,135	732	2,464	2,113	10,444
Additions	268	4,756	379	568	5,971
Transfer	330	(330)	-	-	-
At 31 July 2007	<u>11,748</u>	<u>5,158</u>	<u>2,843</u>	<u>2,681</u>	<u>22,430</u>
Depreciation					
At 1 August 2006	1,765	-	2,085	1,470	5,320
Provided during period	347	-	220	243	810
At 31 July 2007	<u>2,112</u>	<u>-</u>	<u>2,305</u>	<u>1,713</u>	<u>6,130</u>
Net book value at 31 July 2007	<u>9,636</u>	<u>5,158</u>	<u>538</u>	<u>968</u>	<u>16,300</u>
Net book value at 31 July 2006	<u>9,385</u>	<u>732</u>	<u>379</u>	<u>643</u>	<u>11,139</u>

Inherited freehold land and buildings were valued on 1 February 1992 at depreciated replacement cost by Connell Wilson, a firm of independent chartered surveyors. Other tangible fixed assets inherited from the LEA at incorporation have been valued by the Institute on a depreciated replacement cost basis with the assistance of independent professional advice. If inherited freehold land and buildings had not been valued they would have been included at £nil.

Buildings have been acquired with the assistance of capital grants from HEFCE which is deemed to be financed from exchequer funds. Should these assets be sold, the Institute may be liable, under the terms of the financial memorandum with HEFCE, to surrender the written down value of the capital grants being £165,000 from the sale proceeds

**11. INVESTMENTS**

	<b>Institute</b>	
	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
Investments in Subsidiaries at Cost	<u>2,410</u>	<u>2,410</u>

**Subsidiary Undertakings**

The Institute owns 100% of the issued ordinary £1 shares of AIB Library Ltd and AIB Enterprises Ltd, both companies incorporated in England and Wales. The principal activity of AIB Library Ltd is to provide library and learning resources services to the Institute and its students and to deliver short computer courses to employees and other groups in the local community. AIB Enterprises Ltd provides business incubation units for new graduates in the region

The Institute has incorporated The Arts Institute at Bournemouth Charitable Foundation, a company limited by guarantee. The members of the company are also members of the Corporation and they have agreed to pay up to £10 towards costs and liabilities should the company be dissolved. The object of the company is the advancement of education principally within the dissolved subject areas of art, design, media and the performing arts. The institute endowments have been transferred to this company.

**NOTES TO THE ACCOUNTS (CONTINUED)**

At 31 July 2007

**12. DEBTORS**

	Consolidated		Institute	
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
Trade debtors	76	110	46	84
Other debtors	67	181	51	115
Prepayments and accrued income	244	144	215	115
Deferred Tax	2	-	-	-
Amount owed by subsidiary undertaking	-	-	18	12
	<u>389</u>	<u>435</u>	<u>330</u>	<u>326</u>

**13. CREDITORS: amounts falling due within one year**

	Consolidated		Institute	
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
Trade creditors	792	714	977	651
Other taxation and social security	302	309	296	309
Other creditors	162	248	194	289
Accruals and deferred income	2,146	1,613	1,775	1,467
Corporation tax	-	-	-	-
Amounts due to subsidiary companies	-	-	662	702
Amounts owed to Funding Councils	25	82	25	82
Bank loan (Note 15)	423	207	423	207
	<u>3,850</u>	<u>3,173</u>	<u>4,352</u>	<u>3,707</u>

**14. CREDITORS: amounts falling due after more than one year**

	Consolidated		Institute	
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
Long term bank loan (Note 15)	4,008	2,430	4,008	2,430
Deferred income	-	-	-	24
	<u>4,008</u>	<u>2,430</u>	<u>4,008</u>	<u>2,454</u>

**NOTES TO THE ACCOUNTS (CONTINUED)**

At 31 July 2007

**15. ANALYSIS OF BORROWINGS**

	<b>Consolidated and Institute</b>	
	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
In one year or less	423	207
Between one and two years	435	227
Between two and five years	1,401	767
In more than five years	2,171	1,436
	<u>4,430</u>	<u>2,637</u>

The group has three principal loans to fund the development of its estate.

On 1 August 1997, the group drew down a bank loan of £1,950,000 secured on the buildings of the group and repayable by instalments between 1 August 1997 and 31 July 2012. The interest rate is fixed was 6.2% for the period August 2002 to August 2007. This loan was refinanced on 1st August 2007 and replaced by a £1,500,000 loan. This has a fixed rate of 5.515% for a period of 5 years. Repayable at 31st July 2012.

On 1 October 2001, the group began a staged drawdown of a loan of £1,690,000 repayable by instalments between October 2002 and October 2025. This loan is based on a negative pledge against the Institute's student residences and the interest rate was fixed until October 2006 at 6.5%. The loan has been renegotiated with effect from 1st October 2006 at a fixed rate of 5.365% and repayable by instalments over a term of 15 years

A variable loan totalling £2,000,000 was drawn down during the year and fully drawn upon on 2 August 2007. This will be charged at bank base rate plus a margin of 0.28%

**16. PROVISION FOR LIABILITIES AND CHARGES**

	<b>Consolidated</b>	
	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
Deferred Taxation		
At 1 August	7	10
Credit to the income and expenditure account (Note 8)	(9)	(3)
At 31 July	<u>(2)</u>	<u>7</u>
Deferred Taxation provided in the financial statements is as follows:		
Tax effect off timing differences because of:		
Capital allowances in excess of depreciation	7	8
Short term timing differences	(9)	(1)
At 31 July	<u>(2)</u>	<u>7</u>

**17. DEFERRED CAPITAL GRANTS**

	<b>Buildings</b>	<b>Equipment</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Consolidated			
At 1 August 2006	2,775	97	2,872
Additions	-	283	283
Released to Income and Expenditure	(104)	(40)	(144)
At 31 July 2007	<u>2,671</u>	<u>340</u>	<u>3,011</u>
Institute			
At 1 August 2006	426	15	441
Additions	-	283	283
Released to Income and Expenditure	(10)	(40)	(50)
At 31 July 2007	<u>416</u>	<u>258</u>	<u>674</u>

**NOTES TO THE ACCOUNTS (CONTINUED)**

At 31 July 2007

**18. ENDOWMENTS**

	<b>Consolidated</b>	
	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
At 1 August	324	321
Additions	5	2
Income for year	17	12
Transferred to Income and Expenditure Account (Note 4)	(6)	(11)
At 31 July	<u>340</u>	<u>324</u>
	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
Representing:		
Prize Funds	33	32
Course Funds	307	292
At 31 July	<u>340</u>	<u>324</u>

The endowment assets are represented by cash balances.

	<b>Institute</b>	
	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
At 1 August	-	321
Transferred to Group Company	-	(321)
At 31 July	<u>-</u>	<u>-</u>

The Arts Institute at Bournemouth Charitable foundation Limited (Note 11) has administered this fund with effect from the 1 August 2005 when all the funds held by the Institute were transferred to this company. This has resulted in the nil endowment balance in the accounts of the Institute at 31 July 2007.

**19. REVALUATION RESERVE**

	<b>Consolidated and Institute</b>	
	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
At 1 August	5,339	5,432
Transfer to the Income and Expenditure Account (Note 20)		
Depreciation for period on revalued inherited assets	(93)	(93)
At 31 July	<u>5,246</u>	<u>5,339</u>

**NOTES TO THE ACCOUNTS (CONTINUED)**

At 31 July 2007

**20. INCOME AND EXPENDITURE ACCOUNT**

	<b>Consolidated</b>	
	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
At 1 August as previously stated	1,206	3,164
Prior year adjustment	-	<u>(2,422)</u>
At 1 August as restated	<u>1,206</u>	<u>742</u>
Transfers from revaluation reserve (Note 19)	93	93
Retained surplus for the period	670	638
Actuarial gain on pension scheme liability	1,163	(267)
At 31 July	<u><u>3,132</u></u>	<u><u>1,206</u></u>

  

	<b>Institute</b>	
	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
At 1 August as previously stated	1,316	3,193
Prior year adjustment	-	<u>(2,422)</u>
At 1 August as restated	<u>1,316</u>	<u>771</u>
Transfers from revaluation reserve (Note 19)	93	93
Retained surplus for the period	721	719
Actuarial gain on pension scheme liability	1,163	(267)
At 31 July	<u><u>3,293</u></u>	<u><u>1,316</u></u>

**21. RECONCILIATION OF CONSOLIDATED OPERATING SURPLUS TO NET CASH FROM OPERATING ACTIVITIES**

	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
Surplus on continuing operations after depreciation of assets at valuation	670	629
Difference between pension charge and cash contribution	174	(10)
Deferred grants released to income	(144)	(138)
Depreciation	1,011	868
Decrease in debtors	46	73
Loss on disposal of fixed assets	-	4
Increase in creditors	383	1,119
Movement in provisions	(7)	-
Interest receivable	(82)	(94)
Interest payable including pension finance costs	230	238
Net Cash Inflow from Operating Activities	<u><u>2,281</u></u>	<u><u>2,689</u></u>

**NOTES TO THE ACCOUNTS (CONTINUED)**

At 31 July 2007

**22. RETURNS ON INVESTMENTS AND SERVICING OF FINANCE**

	<b>2007</b> <b>£'000</b>	<b>2006</b> <b>£'000</b>
Interest Received	82	94
Interest Paid	<u>(152)</u>	<u>(174)</u>
Returns on Investments and Servicing of Finance	<u><u>(70)</u></u>	<u><u>(80)</u></u>

**23. CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT**

	<b>2007</b> <b>£'000</b>	<b>2006</b> <b>£'000</b>
Purchase of Fixed Assets	(5,999)	(1,898)
Proceeds on disposal of fixed assets	-	8
Deferred Capital Grants received	283	-
Endowment Funds received	<u>5</u>	<u>2</u>
	<u><u>(5,711)</u></u>	<u><u>(1,888)</u></u>

**24. FINANCING**

	<b>2007</b> <b>£'000</b>	<b>2006</b> <b>£'000</b>
New loan	2,000	-
Capital repayments	<u>(206)</u>	<u>(174)</u>
	<u><u>1,794</u></u>	<u><u>(174)</u></u>

**25. ANALYSIS OF CHANGES IN NET DEBT**

	<b>At 1 August</b> <b>2006</b> <b>£'000</b>	<b>Cash Flow</b> <b>£'000</b>	<b>At 31 July</b> <b>2007</b> <b>£'000</b>
Cash	2,153	(1,722)	431
Endowment Asset	<u>324</u>	<u>16</u>	<u>340</u>
	2,477	(1,706)	771
Debt due within one year	(207)	(216)	(423)
Debt due after one year	<u>(2,430)</u>	<u>(1,578)</u>	<u>(4,008)</u>
	<u><u>(160)</u></u>	<u><u>(3,500)</u></u>	<u><u>(3,660)</u></u>

**NOTES TO THE ACCOUNTS (CONTINUED)**

At 31 July 2007

**26. PENSIONS AND SIMILAR OBLIGATIONS****Consolidated and Institute**

The group's employees belong to two principal pension schemes, the Local Government Pension Scheme (LGPS) and the Teachers' Pension Scheme (TPS). Both schemes are defined benefit schemes.

The total pension cost for the group was:

	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
Teachers Pension Scheme	422	366
Local Government Pension Scheme	537	287
	<u>959</u>	<u>653</u>

**Local Government Pension Scheme**

The LGPS is a funded defined benefit scheme, with the assets held in separate trustee administered funds. The contributions made to the scheme for the year ended 31 July 2007 are outlined above. The agreed contribution rates for future years are 14.1% for employers and 6% for employees.

The following information is based upon a full actuarial value of the fund at 31 March 2004 updated to 31 July 2007 by a qualified independent actuary. The principal assumptions are:

	<b>31-Jul-07</b>	<b>31-Jul-06</b>	<b>31-Jul-05</b>
Rate of increase in salaries per annum	4.5%	5.0%	4.7%
Rate of increase in pensions per annum	3.5%	3.2%	2.9%
Inflation	3.5%	3.2%	2.9%
Discount rate for liabilities per annum	5.8%	5.1%	5.1%

The Institute's share of the assets in the fund and the expected rate of return are as follows:

	Long term rate of return expected at 31-Jul-07		Long term rate of return expected at 31-Jul-06		Long term rate of return expected at 31-Jul-05	
	%	Value at 31-Jul-07 £'000	%	Value at 31-Jul-06 £'000	%	Value at 31-Jul-05 £'000
Equities	7.8	3,116	7.5	2,514	7.5	2,396
Gilts	4.8	898	4.4	656	4.5	621
Property	7.3	587	7.0	493	7.0	344
Other Bonds	5.8	347	5.1	302	5.3	11
Cash	5.8	<u>226</u>	4.5	<u>345</u>	4.3	<u>113</u>
<b>Total market value of assets</b>		<b>5,174</b>		<b>4,310</b>		<b>3,485</b>

	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Institute's estimated asset share	5,174	4,310	3,485
Present value of scheme liabilities	(7,006)	(7,053)	(5,907)
Deficit in the scheme	<u>(1,832)</u>	<u>(2,743)</u>	<u>(2,422)</u>

**NOTES TO THE ACCOUNTS (CONTINUED)**

At 31 July 2007

**26. PENSIONS AND SIMILAR OBLIGATIONS (CONTINUED)**

<b>Analysis of the amount charged to income and expenditure account</b>	<b>2007</b>	<b>2006</b>			
	<b>£'000</b>	<b>£'000</b>			
Service cost	(537)	(418)			
Past service costs	-	131			
Total operating charge	<u>(537)</u>	<u>(287)</u>			
<b>Analysis of the amount charged to other finance income</b>					
Expected return on pension scheme assets	297	251			
Interest on pension liabilities	(375)	(315)			
Net return	<u>(78)</u>	<u>(64)</u>			
<b>Amount recognised in the statement of total recognised gains and losses (STRGL)</b>					
Actual return less expected return on pension scheme assets	116	159			
Change in financial and demographic assumptions underlying the scheme liabilities	1,047	(426)			
Actuarial loss recognised in STRGL	<u>1,163</u>	<u>(267)</u>			
	<b>2007</b>	<b>2006</b>			
	<b>£'000</b>	<b>£'000</b>			
<b>Movement in deficit during year</b>	(2,743)	(2,422)			
Deficit in scheme at 1 August					
Movement in year:					
Current service charge	(537)	(418)			
Contributions	363	297			
Net interest/return on assets	(78)	(64)			
Past service costs	-	131			
Actuarial gain or loss	1,163	(267)			
Deficit in scheme at 31 July	<u>(1,832)</u>	<u>(2,743)</u>			
<b>History of experience gains and losses</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Difference between the actual and expected return on assets:					
Amount	116	159	(444)	(31)	(130)
% of scheme assets	2%	4%	13%	1%	(5%)
Experience gains and losses on scheme liabilities					
Amount	-	-	385	-	-
% of scheme liabilities	-	-	6.5%	-	-
Total amount recognised in STRGL					
Amount	1,163	(268)	(133)	(139)	(428)
% of scheme liabilities	17%	4%	2%	3%	(10%)



**NOTES TO THE ACCOUNTS (CONTINUED)**

At 31 July 2007

**26. PENSIONS AND SIMILAR OBLIGATIONS (CONTINUED)****Teachers' Pension Scheme**

The Teachers' Pension Scheme is an unfunded defined benefit scheme. Contributions on a pay as you go basis are credited to the Exchequer under arrangements governed by the Superannuation Act 1972. A notional asset value is ascribed to the Scheme for the purpose of determining contribution rates. The contributions made to the scheme for the year ended 31 July 2007 are outlined above. The agreed contribution rates are 14.1% for employers and 6.4% for employees.

Under the definitions set out in Financial Reporting Standard 17 'Retirement Benefits', the TPS is a multi-employer pension scheme. The Institute is unable to identify its share of the underlying assets and liabilities of the scheme. Accordingly, the Institute has accounted for its contributions as if it were a defined contribution scheme.

The pensions cost is assessed every five years in accordance with the advice of the government actuary. The assumptions and other data that have the most significant effect on the determination of the contribution levels are as follows:

Latest actuarial valuation	31 March 2001
Actuarial method	Prospective Benefits
Investment returns per annum	7.0% per annum
Salary scale increases per annum	5.0% per annum
Notional value of assets at date of last valuation	£142,880 million
Proportion of members' accrued benefits covered by the notional value of the assets	100%

**27. CAPITAL COMMITMENTS**

The group had joint outstanding capital commitments of £2,049,626 as at 31 July 2007 (2006: £768,175). The outstanding commitment includes £28,154 for the Enterprise Pavilion which will be matched by a grant received from the South West Regional Development Agency. A further £1,592,785 relates to the work committed in respect of Phase IV as at the balance sheet date. The balance is for work to be undertaken during the Summer recess, 2007.

**28. FINANCIAL COMMITMENTS****Consolidated and Institute**

	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
Annual commitments under non-cancellable operating leases		
<b>Plant/Machinery</b>		
In one year or less	20	16
Between one and two years	-	91
	<u>        </u>	<u>        </u>
<b>Land &amp; Buildings</b>		
Between two and five years	66	-
	<u>        </u>	<u>        </u>

**NOTES TO THE ACCOUNTS (CONTINUED)**

At 31 July 2007

**29. POST BALANCE SHEET EVENTS**

Subsequent to the year end a £2,500,000 loan has been drawdown to part fund the building referred to as Phase IV.

**30. RELATED PARTY TRANSACTIONS**

Due to the nature of the Institute's operations and the composition of the Governing Corporation, some of whom are drawn from local public and private sector organisations; it is inevitable that transactions will take place with organisations in which a member of the Governing Corporation may have an interest. All transactions involving organisations in which a member of the Governing Corporation may have an interest are conducted at arm's length and in accordance with the Institute's financial regulations and normal procurement procedures. No transactions were identified which should be reported under Financial Reporting Standard 8 Related Party Disclosures.

**31. ACCESS FUNDS**

	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
As at 1 August	18	79
Funding council grants	376	390
Repaid to funding councils	(2)	(86)
Interest	1	2
Total income	<u>393</u>	<u>385</u>
Disbursed to students	(352)	(350)
Administration	(16)	(17)
As at 31 July	<u><u>25</u></u>	<u><u>18</u></u>