

REVIEW OF THE YEAR'S ACTIVITIES AND RESULTS

REPORT OF THE COMMITTEE OF MANAGEMENT

For the 1996/1997 academic year

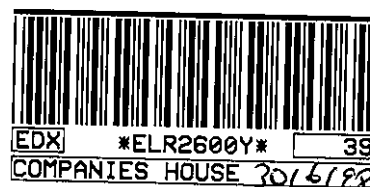
The school continued to provide Nursery / Pre-school education to children between the ages of 3 and 4, and British Primary and Preparatory school education to children between the ages of 5 and 13, at its premises at Sophocles Venizelou 73, Lycovrissi, Athens. The numbers of children enrolled in the Nursery and Main School during the 1996 / 97 school year were as follows:

	<u>At September 1996</u>	<u>Plus</u>	<u>Less</u>	<u>At June 1997</u>
Pre-School	30	3	3	30
Reception	36	2	3	35
Form 1	27	3	3	27
Form 2	27	0	3	24
Form 3	26	1	3	24
Form 4	44	2	4	42
Form 5	27	1	1	27
Form 6	28	0	3	25
Form 7	14	0	2	12
Form 8	21	1	3	19
Main School total	250	10	25	235
Overall total	280	13	28	265
1995 / 96 Totals				
Main School	269	12	14	267
Overall	303	16	16	303

Financially, the School's position was weakened by a continuing high level of costs, particularly staff related, combined with an unexpected reduction in fee income.

In early 1996, when preparing for the 1996/97 year, the indications had been that the school would continue with a high occupancy rate and on these grounds alone, the commitments were made to staff members for continuing employment and new salary levels set. Indeed, it is due to the fact that the School had maintained a good occupancy rate, contrary to the trends in other foreign schools, that the decisions had been made for the various improvements and expansions over previous years.

However, with the opening of the school year in September 1996, there was an unprecedented high rate of non - arrivals from the pupils expected. Although the individual circumstances varied, it is worth noting that none of the withdrawals were due to dissatisfaction with the school, but exclusively to a change in family or professional circumstances. The net result remained however that the school opened in September with a significant drop in expected income and without the ability to reduce the payroll costs. This continued throughout the academic year, with midyear leavers exceeding the midyear arrivals.



Aside from the fundamental teaching staff, the decision had been taken in 1995 to offer a two year contract for an additional Deputy Head to develop the school's curriculum and educational product. From the beginning of her contract, in September 1995, Mrs Valerie Whittington had been regarded as a long - term investment, but her continuing high cost of employment and the increased spending on curricular resources were an additional burden on a strained budgetary year.

The situation was further exacerbated by the announcement that Mr. John Hawkins, the Headmaster, would not be remaining with the school beyond his initial three year contract, which obliged the school to undertake the costly process of recruiting a new Headmaster. After the Management Committee's initial selection of a total five external and two internal candidates, and following several days of interview, Mr. Ronald Morton was selected and will be taking up the position from September 1997.

As well as the costs involved in selecting a new Headmaster, additional exceptional costs were incurred in the handover, with the repatriation of Mr. Hawkins and the settling-in expenses of Mr. Morton. As such, there were some areas of unexpectedly high expenditure in a year with unexpectedly low revenue.

The generous gift to the school from the Parents Support Association of new playground equipment, specially imported from Finland, was the only major addition to school resources. Financially this gift actually created expenditure for the school, in that the PSA donated only the equipment, with the school having to meet the cost of safely tiling and installation, which in itself almost matched the cost of the equipment.

Aside from these major areas of additional expenditure, the school encountered difficulties with extended absences of staff and therefore the need to replace several teachers over extended periods; this was due to four maternity leaves, plus one extended maternity - related sick leave. Moreover, the unexpected resignation of two staff members midyear (one full - time, one part - time) resulted in further needs for recruiting supply teachers.

Finally, although the reserve for staff severance pay has been increased each year in line with increasing salaries and staffing levels, the decision to terminate the employment of the longstanding Deputy Head, Mr. J. Skaife d' Ingerthorpe, with a severance package in excess of the amount reserved for him to date, did have implications on the financial year.

Generally, having planned the year for a healthy level of school population and a reasonable level of expenditure, not only was the income reduced by a significant amount, but there were areas of expenditure that could not have been foreseen, and indeed would have been difficult to accommodate even in a year with full budgeted revenue.

The end of the academic year 1996/97 was a difficult period, but the academic year 1997/98 can be approached with greater optimism.

The 1996/97 academic year ended with the departure of several key position holders in the Committee of Management. As well as the change to Headmaster, the Chairman of the Committee, Mr. C. Denne CMG and the Honorary Treasurer, Mr. P. C. Watford resigned at the beginning of 1997/98 to be replaced by Mr. P. Millett and Mr. A. Stylianou respectively. The handover of these positions to new people, offered the opportunity for a restructuring of reporting channels.

During the academic year 1997/1998, the issue of avoiding further depletion of reserves became the highest priority for the Management Committee.

The change in Headmaster also allowed for shifts in the educational structure of the school and 1997/98 will open without the two highly expensive posts of Deputy Head and with larger classes, therefore fewer staff members. This can be achieved through the simple expedient of not replacing departing personnel. The School will also review its generous maternity leave and sick leave policies bringing them more in line with those required by local conditions.

First of all, a completely new membership of the Finance & Administration Sub-Committee resulted in a totally new approach to the school finances and in particular the principle that a budget drafted several months earlier needs frequent revision during the academic year, as a result of changes such as reduced income from fewer pupils than expected.

The instructions were also given that all cheques are to have two signatures, one being preferably to Headmaster's, thereby ensuring that he remains fully advised of all payments being made.

All income received is now banked intact, with a change to the School's bankers making this more practical in terms of distance from the school and therefore frequency of banking. All parents are actively encouraged to pay fees either by cheque or direct deposit to the bank, rather than bringing significant amounts of cash to the school premises. A standard petty cash system has been established for all minor expenditure; again requiring the Headmaster's signature at regular intervals.

The School's local bank accounts were consolidated into one bank, rather than the four separate ones used previously. Individual accounts for each staff member were opened at the School's bank, allowing payroll to be run through direct payments to staff accounts, which also facilitates cashflow during the summer holidays, in that the School is no longer obliged to settle all salaries before the end of the summer term, but can ensure payments even during the absence of staff.

New regulations in the UK have enabled the school to settle the UK - based pension requirements for expatriate teachers (the TPA) monthly and no longer annually. This too is more convenient for cashflow, but also allows the school to relate contributions specifically to local salaries and not to the imputed salary the teachers would have been earning had they remained in the U.K.

Most significant of all, a UK designed school accounting system -SIMS - has been bought and is in the process of being installed. It is foreseen that from 1st September 1998, all school accounts will be kept on this system.

On a more general note, although school population numbers appear to be remaining steady, the departure of several staff members at the end of their contracts, has given rise to the opportunity to reduce staffing numbers by not recruiting replacements. This results in larger class sizes, but judicious use of staff enables this to be accomplished without a decline in educational standards.

Therefore, there is every reason to believe that 1996/97 could represent the lowest point of the school's financial history and that the downward trend can be reversed.

COMMITTEE OF MANAGEMENT AND SENIOR STAFF

The direction of the School's affairs remained under the control of a Committee of Management of 10 persons. The members of the Committee (Directors) during the year were:

Chairman Mr C. Denne C.M.G.

Honorary Treasurer Mr P.C. Watford

Members

Mr D. Wilson
Mr. A. Odell
Mrs E. Arapoglou
Mr. R. Peck
Mrs B. Terzopoulos
Mrs V.J. Asimacopoulos
Mr. G.A. Bernard
Mr. M. Moody (started Novemebr 1996)

Mr. K.E. Flintham continued to attend meetings of both the Committee of Management and the Finance & General Purposes Committee, to assist Mr. P.C. Watford in his first months as Honorary Treasurer. In March 1997, Mr. G. Millington started attending meetings of the Finance & General Purposes Committee, in view of the likelihood that both Mr. P.C. Watford and Mr. M.J. Moody would be leaving Greece later in the year.

The Governors of the School remained as H.E. the British Ambassador, H.E. the Australian Ambassador and H.E. the Canadian Ambassador. The role of Company Secretary continued to be filled by Mrs A.C. Hadjis.

Throughout the 1996/97 academic year, the Headmaster was Mr. J.K. Hawkins, the Deputy Headmaster Mr. J. Skaife d' Ingerthorpe, the Deputy Headmistress (Curriculum Development) Mrs. V. Whittington, the School Administrator Ms N. van Warmelo and the School Secretary Mrs. A.C. Hadjis.

A. C. Hadjis
Company Secretary

REPORT OF THE AUDITORS

To the members of St Catherine's British Embassy School, Athens

We have audited the accounts on pages 6 to 13 which have been prepared under the historical cost convention and the accounting policies set out on page 8.

Respective responsibilities of directors and auditors

As described on page 3, the School's directors are responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

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

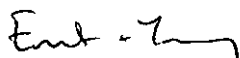
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error.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

Fundamental uncertainty

In forming our opinion, we have considered the adequacy of the disclosures made in the accounts regarding the implications of the School's fiscal status in Greece not being formally defined. Until it is, the School's liability for any fines, taxes, duties and any other dues or action that may be levied or taken against it by the Greek authorities, if any, is uncertain. Also the School's liability for taxes, penalties and any fines related to the extension of its premises is uncertain. Details of the circumstances relating to this fundamental uncertainty are described in note 15. Our opinion is not qualified in this respect.

Opinion

In our opinion, the accounts give a true and fair view of the state of affairs of the School as at 31 August 1997 and of its deficit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



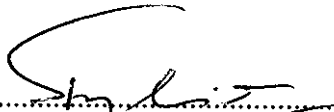
Ernst & Young
Chartered Accountants
Registered Auditor
London
15 June 1998

Income and expenditure statement
for the year ended 31 August, 1997

	Notes	<u>1996/1997</u> GRD	<u>1995 / 1996</u> GRD
TURNOVER	3		
Operating Revenue		418,482,439	429,909,499
Net Service / Expense Revenue		(4,981,095)	(3,701,820)
Net Development Revenue		22,162,000	14,956,648
		<u>435,663,344</u>	<u>441,164,327</u>
ADMINISTRATIVE EXPENSES	4		
Staff Costs	5&6	438,688,085	388,633,513
Utilities / Maintenance		19,578,964	28,129,822
General Costs / Supplies		19,079,707	20,196,570
Educational Costs / Supplies		28,274,346	34,230,300
Non-recurring Expenses	7	4,511,458	1,139,669
		<u>510,132,560</u>	<u>472,329,874</u>
DEPRECIATION		<u>12,376,931</u>	<u>11,411,068</u>
OPERATING (DEFICIT)		(86,846,147)	(42,576,615)
BANK INTEREST	8	<u>11,702,025</u>	<u>17,319,648</u>
(DEFICIT)/SURPLUS FOR THE YEAR		<u>(75,144,122)</u>	<u>(25,256,967)</u>

The School has no recognised gains and losses other than the deficit for the year .
The notes on pages 8 to 13 form part of these accounts.


.....
Mr P. Millett - Chairman


.....
Mr A. Stylianou - Honorary Treasurer

Balance Sheet

as at 31 August, 1997

	Notes	<u>1996 / 1997</u> GRD	<u>1995 / 1996</u> GRD
FIXED ASSETS	9		
Freehold Land		28,702,442	28,702,442
Freehold Buildings and Estate		82,215,312	86,874,391
Furniture & Equipment		26,906,063	21,869,014
		<u>137,823,817</u>	<u>137,445,847</u>
CURRENT ASSETS			
Debtors / Prepayments	10	6,232,371	5,656,000
Cash on Hand		2,759,719	742,910
Local bank accounts		6,892,243	3,845,778
Other bank accounts		7,665,639	14,841,837
Severance Pay Deposit		25,405,407	22,803,966
Development Reserve Deposit		24,605,781	85,819,826
		<u>73,561,160</u>	<u>133,710,317</u>
CURRENT LIABILITIES	11		
Amounts falling due within one year:			
1996 / 97 Re-registration fees		4,615,000	5,950,000
Creditors		20,134,522	17,350,510
Accruals		20,270,284	10,968,000
		<u>45,019,806</u>	<u>34,268,510</u>
NET CURRENT ASSETS		<u>28,541,354</u>	<u>99,441,807</u>
(Current Assets less Current Liabilities)			
TOTAL ASSETS LESS CURRENT LIABILITIES		166,365,171	236,887,654
(Fixed & Current Assets less Current Liabilities)			
LONG TERM LIABILITIES			
Staff Severance Pay Provision	12	82,266,669	77,645,030
TOTAL ASSETS LESS TOTAL LIABILITIES		<u>84,098,502</u>	<u>159,242,624</u>
SCHOOL RESERVE		59,492,721	73,422,798
DEVELOPMENT RESERVE		24,605,781	85,819,826
SCHOOL AND DEVELOPMENT RESERVES	13	<u>84,098,502</u>	<u>159,242,624</u>

The notes on pages 8 to 13 form part of these accounts

.....
Mr P. Millett - Chairman

.....
Mr A. Stylianou - Honorary Treasurer

Notes to the Accounts

as at 31 August, 1997

1. The School

The School is a non-profit organisation incorporated in the United Kingdom as a company limited by guarantee. There are ten members, each of whose liability is limited to GBP 2. The School operates in Athens, Greece.

2. Summary of significant accounting policies

Concept, Convention and Standards

The accounts have been prepared under the going concern concept and under the historical cost convention. The accounts have been prepared in accordance with applicable accounting standards.

Depreciation

Depreciation is provided on all tangible fixed assets other than freehold land at rates calculated to write off the assets over their expected useful lives by the straight line method. The depreciation rates are 5% for buildings and estate, and 20% for furniture and equipment items.

Foreign currencies

The accounts are expressed in Greek drachmas (GRD). Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Differences on translations are reflected in the income and expenditure statement.

3. Turnover

The School's revenue derives from continuing operations to provide education to children between the ages of 3 and 13. It is accounted for as follows:

Operating Revenue	- Application fees
	- Nursery fees
	- School fees
	- Sundry / Miscellaneous income
Net Service / Expense Revenue	- Bus service
	- Swimming Pool
Development Revenue	- Development fund
	- Re-registration fees
	- Donations

4. Administrative expenses

The School's operating expenditure is accounted for as follows:

Staff Costs	- Net Salaries
	- Staff & School IKA Contributions
	- Staff income / stamp & School stamp taxes
	- School Pension & Life Insurance Contributions
	- School Medical Insurance Premiums
	- Supply / Part-time staff costs
	- Staff training
	- Staff recruitment
	- Provision for Severance pay
	- Other miscellaneous staff costs

Notes to the Accounts

as at 31 August, 1997

Utilities / Maintenance

- Water
- Electricity
- Heating fuel oil
- Telephone / Postage
- Building & Estate maintenance
- Furniture & Equipment maintenance

General Costs / Supplies

- Legal & Establishment costs
- Memberships & subscriptions
- General stationery supplies
- Consumables
- Cleaning materials / services
- Medical supplies
- Miscellaneous expenses

Educational Costs / Supplies - Stationery

- Form supplies
- Specialist subject supplies
- Nursery supplies
- Library
- Outings, drama & events

5. Staff and staff costs

Employees

The average monthly number of full time employees during the year is shown below. In addition, the School uses the services of several free-lance professional and maintenance personnel, both regularly and for part-time/supply needs paid at an hourly rate, largely to meet specialist or short term needs.

	<u>1996 / 1997</u>	<u>1995 / 1996</u>
Full - time Teaching Staff	28	28
Part - time Teaching Staff	10	10
Teaching Assistants	4	4
Administration staff	5	3
Caretaker staff	4	5
	<hr/>	<hr/>
	51	50
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Accounts

as at 31 August, 1997

Staff costs

	<u>1996 / 1997</u>	<u>1995 / 1996</u>
Net salaries	227,557,921	210,932,200
Staff and School IKA contributions	108,032,973	93,595,707
Staff income / stamp and School stamp taxes	33,020,758	27,020,886
Staff and School Pension / Life Insurance	23,279,525	22,313,988
School Medical Insurance premiums	3,572,468	3,918,904
Supply / Part-time staff costs	11,294,450	7,945,925
Staff training	1,482,005	2,176,760
Staff recruitment	969,118	356,167
Other miscellaneous staff costs	20,424,181	6,296,674
Additional provision for severance pay	<u>9,054,686</u>	<u>14,076,302</u>
Total	<u>438,688,085</u>	<u>388,633,513</u>

6. Pension Commitments

During 1996 / 1997 the School continued to operate a defined contribution scheme in the UK which provided life and retirement benefits to twelve of its employees during the year. The scheme is with Prudential and assets are held separately for each individual member.

During 1996/ 1997 seven members of staff also continued to be members of the UK State pension scheme for teachers, administered by the Teacher's Pension Agency (TPA), to which both the employee and employer made contributions. The assets of this scheme are also held separately in an independently administered fund.

7. Non-recurring expenditure

	<u>1996 / 1997</u>	<u>1995/ 1996</u>
Change of Headmaster	4,511,458	
Library opening	-	412,724
"Britain in Greece" festival	-	726,945
	<u>4,511,458</u>	<u>1,139,669</u>

8. Bank interest

	<u>1996 / 1997</u>	<u>1995/ 1996</u>
Operating funds	3,314,620	5,183,147
Severance Pay Deposit	2,601,450	2,644,099
Development Reserve Deposit	5,785,955	9,492,402
	<u>11,702,025</u>	<u>17,319,648</u>

Notes to the Accounts

as at 31 August, 1997

9. Fixed assets

	Freehold land	Freehold buildings and estate	Furniture and equipment	Total
Cost				
At 1 September 1996	28,702,442	134,695,757	55,096,356	218,494,555
Additions		2,074,573	10,680,328	12,754,901
At 31 August 1997	28,702,442	136,770,330	65,776,684	231,249,456
Depreciation				
At 1 September 1996	-	47,821,366	33,227,342	81,048,708
Charge for the year	-	6,733,652	5,643,279	12,376,931
At 31 August 1997	-	54,555,018	38,870,621	93,425,639
Net Book Value				
At 31 August 1997	28,702,442	82,215,312	26,906,063	137,823,817
At 31 August 1996	28,702,442	86,874,391	21,869,014	137,445,847

10. Debtors

	<u>1996 / 1997</u>	<u>1995 / 1996</u>
School Development	502,247	-
Outstanding fees	5,353,756	2,590,000
Pool Expenses from PSA	376,374	440,000
Loans to Headmaster		
- automobile	-	2,226,000
Deposit house teachers	-	400,000
	<u>6,232,371</u>	<u>5,656,000</u>

The outstanding fees from 1996 / 1997 are expected to be recovered within the 1997 / 1998 school year.

Notes to the Accounts

as at 31 August, 1997

11. Current liabilities: amounts falling due within one year

	<u>1996 / 1997</u>	<u>1995 / 1996</u>
1996 / 1997 Re-registration fees	4,615,000	5,950,000
Creditors		
Social Security IKA	11,652,900	12,523,172
Income and Stamp Tax	5,090,072	4,827,338
Building and Maintenance	3,391,550	
	<u>20,134,522</u>	<u>17,350,510</u>
Accrued Expenses		
TPA pension contributions	9,856,239	5,644,000
Tax advice fees	-	1,298,000
Audit fees	3,953,000	1,888,000
Payroll	-	500,000
Tax and severance package	5,152,852	
Miscellaneous	1,308,193	1,638,000
	<u>20,270,284</u>	<u>10,968,000</u>
Total	<u>45,019,806</u>	<u>34,268,510</u>

The amount of GRD 3,953,000 for "Audit fees" included Drs 2,065,000 provided for the Auditors' remuneration for the 1996/1997 audit (1995/1996: GRD 1,888,000 including VAT).

12. Provision for termination indemnities / staff severance pay

Balance as at 1st September, 1996	77,645,030
Payments during the year	(17,300,000)
	<u>60,345,030</u>
Additional provision for severance pay	21,921,639
Balance as at 31st August, 1997	<u>82,266,669</u>

Under Greek Law, indemnities are payable on termination or retirement of employees. As provided by Greek Law if an employee reaches retirement age an amount of only 40% of the termination indemnity needs to be paid. However, a commitment to pay the full indemnity upon retirement to local indefinite contract staff employed before September 1989 has been recognised by the Committee of Management (149th meeting of January 23, 1989 item 2b, and 150th meeting of March 21, 1989, based on the view taken at the 65th meeting of December 5, 1974).

Notes to the Accounts

as at 31 August, 1997

Staff employed on fixed term local and expatriate contracts have expressly waived any entitlement to severance pay. However it is unknown whether this waiver would be upheld as valid if challenged.

The maximum liability had all employees been dismissed on 31st August 1997, regardless of status or contract terms, amounted to GRD 103,000,000. No actuarial valuation of this liability has been made.

13. School and Development Reserves

	<u>School Reserve</u>	<u>Development Reserve</u>	<u>Total</u>
Balance as at 31st August, 1996	73,422,798	85,819,826	159,242,624
Current year's deficit ordinary activities	(75,144,122)	-	(75,144,122)
Transfers	61,214,045	(61,214,045)	-
Balance as at 31st August, 1997	<u>59,492,721</u>	<u>24,605,781</u>	<u>84,098,502</u>

There are no other recognised gains or losses other than deficit of income over expenditure for the year.

The development reserve represents a cash reserve, built up from a donation of GRD 4,500,000 made during 1992 / 1993 towards the development of the School, from funds deliberately set aside by the School in order to fund major capital development or acquisitions.

14. Directors' fees

No fees or other emoluments were paid to any director during the year (1996 / 1997: nil).

15. Contingent liability

- (i) The School's fiscal status in Greece is not formally defined. Until it is, the School's liability for fines, taxes, duties and any other dues or actions that may be levied or taken against it by the Greek authorities, if any, is uncertain.
- (ii) The School extended its premises in the fiscal period 1996 / 1997. Certain costs of extension may be subject to value added tax. Since the tax status of these costs has not been determined, the School's liability for taxes, penalties and fines is uncertain.