

BORDERS



COLLEGE

Report and Financial Statements

for year ended

31 July 2005

Charity Reg No. SCO21180

Borders College

Report and Financial Statements

For The Year Ended 31 July 2005

**Head Office:
Thorniedean House
Melrose Road
Galashiels**

CONTENTS

	Page
Board of Management	3-4
Report of the Board of Management	5-11
Corporate Governance Statement	12-13
Responsibilities of the Board of Management	14-15
Report of the Auditors	16-17
Statement of Principal Accounting Policies	18-21
Consolidated Income and Expenditure Account	22
Consolidated Statement of Historical Cost Surpluses and Deficits	22
Statement of Total Recognised Gains and Losses	23
Balance Sheets	24
Consolidated Cash Flow Statement	25
Notes to the Accounts	26-48

Borders College

Board of Management

Year to 31 July 2005

PRINCIPAL & CHIEF ACCOUNTING OFFICER

R B Murray, BSc. (Hons), PhD, MBA

CHAIR OF BOARD OF MANAGEMENT

R E T Kay CBE (retired 31 March 2005)

S Dawson (appointed 1 April 2005)

CLERK TO THE BOARD OF MANAGEMENT

G R Bone LLB (Hons)

APPOINTED MEMBERS OF THE BOARD OF MANAGEMENT

	<u>Occupation</u>
S Dawson	Self Employed Marketing Consultant
A Aitken	Self Employed Consultant, and formerly Nursing Director & Child Health Commissioner, NHS Borders (till February 2004)
L Alexander	Education for Work Development Officer
Councillor A Bowlas	Berwick-upon-Tweed Borough Council, Retired Marketing & Operations Manager, BP
H G Clarke	Retired Sales and Marketing Executive
N J Howitt	Chartered Accountant, Senior Partner of Welch & Co, Hawick
N Sargent	Director, Partnership, Skills & Learning, Scottish Enterprise Borders
I P Whittaker (retired 31 March 2005)	Chartered Accountant, Whittaker & Associates
J S Crawford (retired 31 March 2005)	Chairman, J S Crawford (Builders)
A Strain (appointed March 2005)	Solicitor, Partner of Biggart Baillie, Edinburgh
A Wayness (appointed March 2005)	Chartered Accountant, Partner of Hogg & Thorburn CA
M Wilson (appointed March 2005)	Senior Farm Trader, Scotgrain Agriculture Ltd

ELECTED MEMBERS OF BOARD OF MANAGEMENT

	<u>Designation</u>
C Nicholls	Staff Member (Non-teaching)
K Thomson	Staff Member (Teaching)
P Stewart (until 31 August 2005)	Student Member

Borders College

College Committees

31 July 2005

APPOINTED MEMBERS OF THE FINANCE AND GENERAL PURPOSES COMMITTEE

N J Howitt, Chair (from 1 April 2005)
S Dawson
L Alexander
I P. Whittaker, Chair (until 31 March 2005)
R E T Kay CBE (until 31 March 2005)
A Wayness (from May 2005)
A Strain (from May 2005)

APPOINTED MEMBERS OF THE AUDIT COMMITTEE

A Bowlas (Chairman)
A Aitken
J S Crawford (until 31 March 2005)
M Wilson (from May 2005)
J Campbell, FCCA (co-opted)

APPOINTED MEMBERS OF THE REMUNERATION COMMITTEE

R E T Kay, Chair (until 31 March 2005)
S Dawson, Chair (from 1 April 2005)
L Alexander
A Bowlas
A Strain (from May 2005)
A Aitken (from June 2005)

Borders College
Report of the Board of Management
For The Year Ended 31 July 2005
Charity Reg No SCO21180

HISTORY OF COLLEGE

Borders College was formed in 1984 by the amalgamation of Galashiels Technical College, Henderson Technical College (Hawick), Duns Agricultural Centre and the Agricultural Centre, Newtown St Boswells. On 1 April, 1993, under the Further and Higher Education (Scotland) Act 1992, the College was transferred from the Borders Regional Council to a Body Corporate

STATUTORY BACKGROUND

The College is one of forty-three Colleges of Further Education in Scotland and is governed by a Board of Management. The College is funded directly by the Scottish Further Education Funding Council (SFEFC) and is responsible to the Scottish Executive.

PRINCIPAL FUNCTIONS

Borders College, together with its commercial subsidiary company operates from ten sites (Galashiels, Hawick, Duns, Newtown St Boswells, Peebles, Jedburgh and Edinburgh, Kelso, Eyemouth and Ettrick Riverside) and is the sole Further Education College and major provider of training in the Scottish Borders Region. Each year there are around 9,000 student enrolments on a wide range of courses and programmes, both day and evening, to HND level and beyond, particularly in subject areas that will enable students to dovetail into local employment opportunities. The College has developed its provision in line with local needs and has extensive links with industry and commerce by way of its industrial liaison network. The College has worked closely with the Local Enterprise Company to shape its curriculum against the forecast needs of the local labour market.

MISSION STATEMENT

The College's Mission is:

- ◆ **Core purpose** – to provide further and higher education that offers the opportunity and encouragement for each individual to develop to their full potential
- ◆ **Vision** – to continually strive to be recognised as being among the most innovative and responsive Colleges in the sector through;
 - successful students – taught and supported by
 - motivated and innovative staff – using
 - effective and efficient practices - in
 - a flexible learning environment in modern facilities of a high standard – and with
 - an open, coaching style of management

SETTING HIGH STANDARDS

We are determined to build on our standards so we are continuing to benchmark ourselves against other Colleges in Scotland. We are learning, adapting and applying the relevant best practices to the College. During the year the College took part with other Scottish FE Colleges in a National Cost Benchmarking Exercise sponsored by SFEFC. In addition the College takes part in the Rural Colleges Benchmarking Group.

KEY BUSINESS ACHIEVEMENTS

- Being awarded substantial Funding Council and EU funding to take forward the new campus development.
- Achieved funding of £6.2 million from the Scottish Further Education Funding Council (SFEFC).
- Continued to receive income from European activities resulting in income of £384k.
- Continued contribution from the College Company resulting in a reported profit of £99,104.
- The College continues to meet its student activity levels agreed with SFEFC.
- Continued exploration of various options, and discussions with SFEFC and South of Scotland European Partnership (SOSEP) regarding funds to support the cost of a new College campus.
- Re-accreditation of Investors in People status.
- Development of new Schools Link Programmes funded by both SFEFC and Europe.

ECONOMIC IMPORTANCE

With operations on ten sites (either in partnership or on our own), we have a growing impact on businesses throughout the Borders and beyond. We are ourselves employers, (202 full-time equivalent employees) and therefore it is important to the Borders economy that we continue to grow. It is recognised that a strong, vibrant College is a key element in the future economic development of the Scottish Borders Region.

THE FUTURE

The Learning Environment within the Scottish Borders is changing. Borders College is the only FE College serving the region, which has the most dispersed population outwith the Highlands. There has been significant growth in community-based programmes and part-time vocational training which has been driven by the demand for learning from SMEs (small-medium enterprise) in a wide range of companies including those in the care sector and in catering, hospitality and tourism. Activity levels have more than doubled in the last ten years. Increasingly, the demand is for greater flexibility, local access to a wide portfolio of learning opportunities and workplace-based learning.

The existing College infrastructure and estates present significant constraints on learning delivery and will not meet the future demands of learners, the majority of whom are those in employment, looking to develop and enhance their skills, or preparing for employment in SMEs across the Borders. With this in mind the College is committed to develop a new Borders College designed to sustain the provision of further and higher education in Scottish Borders and ensure that we meet current and future needs of learners.

The new Borders College will take the form of a Hub and Spoke model. The main curriculum will be delivered from the Hub, which will be situated in Galashiels and provide enhanced learning opportunities in the Borders by working in partnership with a number of Higher Education institutions.

The Hub will be complemented by a new Hawick Community Learning Facility and a network of outreach facilities (Spokes) in Kelso, Duns, Jedburgh, Peebles, Eyemouth, Newtown St Boswells with learning access points in a variety of small rural communities where any needs are identified. The Company will continue to operate out of their Edinburgh office.

The new Hub will provide modern teaching facilities with accommodation tailored to the needs of vocational specialisms with the additional benefit of a modern central learning resource centre along with a Virtual Learning Environment which will facilitate eLearning, guidance and support and is specifically designed to support remote users.

PHYSICAL DEVELOPMENTS

The College has continued to develop its strategy to move to one main site in the Galashiels area with community education facilities in other Borders towns. Substantial funding has been secured from SFEFC and the South of Scotland EU Partnership to take forward this project. The College continues to develop the design brief for the new campus.

However the College must continue to react to the needs of our students. During the year a number of minor works projects were completed:

- Relocation of the building department to Wheatlands Mill
- Installation of air conditioning in computer rooms
- Relocation of Jedburgh Centre to 6 Market Place

All other work carried out has focussed on that of a Health and Safety nature, reactive maintenance and upgrading of student and staff facilities to an acceptable standard.

FUTURE DEVELOPMENTS

The College Board of Management has concluded that the optimum solution for the Borders is the co-location of Borders College with Heriot-Watt University at the University campus at Netherdale in Galashiels. Hawick will be served by a new community education facility. This solution does at present give rise to a shortfall in capital funding available to the College and University. The scheme at present requires additional funds in the order of £8m to be made available.

A Value for Money Review was submitted in July 2005 to the Funding Council for funding for part-refurbishment and a new pavilion at Netherdale. Also included was a new building in Hawick. This option is in line with policy directions from Ministers requesting greater collaboration between the Further and Higher Education Sectors. The College is hopeful that the VFM Review will confirm that proposals presented offer the best financial and educational solution and that further capital funding will be made available, and that the go-ahead will be given to take the project forward.

FINANCIAL RESULTS FOR THE YEAR

The College's income has increased to £8.3m largely as a result of additional grant income from SFEFC sources. Salary costs were also higher in the period due to increased staff numbers and a pay award to all staff equivalent to 3%. The College originally set a break even budget for 2004-05. The surplus/deficit on continuing operations shows a deficit of £1.98m. This deficit on continuing operations is arrived at after charging a write down to depreciation of £2.564m in respect of write down in building values. This charge together with an associated release of deferred income of £0.518m gives rise to an exceptional one off "hit" in the Income and Expenditure account of £2.046m. Adding this exceptional charge back against the

reported deficit of £1.98m results in an operating surplus before exceptional write down of buildings of £66k (2003/04 £12k).

The corresponding effect on reserves is to increase the accumulated deficit balance on the Income and Expenditure Reserve to £516,000. However, when this is adjusted for pension provisions, together with a one-off write down of building additions of £187,000, as agreed by SFEFC there is an underlying net surplus balance of £275,000. As a result, the College has now recovered the operating element of the Income & Expenditure Account deficit in line with the Funding Council's Financial Security Campaign. The budget for 2005-06 forecasts a small operating surplus. However the College will strive to make efficiencies in its operations and actively seek opportunities for increasing income and profitability. In so doing, it is hoped that an operating surplus (excluding exceptional items) can be achieved for the fourth consecutive year. In addition the College will continue with its strategy to eliminate the major cost driver of a multi-site Campus.

GENERATION OF INCOME FROM OTHER SOURCES

The College generates income from activities such as consultancy, which is offset against the College's expenditure, thereby releasing funds to develop additional educational activities. The major elements of commercial activity are undertaken by BC Business Consultants Limited. This company is a wholly-owned subsidiary of the College. The company has generated a surplus of £99,104 in its seventh accounting period (2003/2004 £82,500) that is being transferred to the College as a Gift Aid donation.

EVENTS SINCE THE END OF THE YEAR

There have been no events since the end of the year that necessitate revision of the figures included in the accounts or inclusion in a note thereto.

BOARD OF MANAGEMENT

The names of members of the Board of Management are prefixed to this report.

APPOINTMENT OF AUDITORS

Audit Scotland is now responsible for the external audit of all colleges in the sector and Scott Moncrieff has been nominated as auditors for Borders College for financial years 2001/2002 to 2005/2006. This appointment has been approved by the Board of Management. The management of the audit process is undertaken by the Audit Committee who present an annual report to the Board.

EMPLOYMENT OF DISABLED PERSONS

The College's policy remains to afford equal opportunity to disabled people to apply for employment and during employment to receive appropriate training. In this respect the College is an approved Disability Symbol User.

RACIAL EQUALITY AND OPPORTUNITIES FOR ALL

The College promotes equality of opportunity for all and strives for good relations between people of different racial and religious backgrounds. The College produced a Racial Equality Policy in April 2003.

HEALTH AND SAFETY

All College Policies and procedures continue to be reviewed on an ongoing basis as required. Relevant health and safety information continues to be distributed to, and discussed by, the College Health and Safety Committee. Circulation of information such as copies of the Health and Safety Bulletin and Accident Report Summary includes Board of Management Members.

COSHH (Control of substances hazardous to health) assessment records and risk assessments continue to be reviewed on an ongoing basis and in many cases on an annual basis.

A summary of risk assessments carried out by the Health and Safety Officer is presented to the Health and Safety Committee.

Promotion of health awareness for staff continues with participation in the Scotland Health at Work scheme. New risk assessment activities are being carried out in the areas of noise and vibration in the workplace. This is to enable the College to fulfil its legal obligations and comply with impending changes in legislation during 2005 and 2006.

EMPLOYEES INVOLVEMENT

The College recognises the benefits of keeping employees informed on performance and encourages suggestions for the improvement of the College's position. In particular, a Joint Consultative Committee (JCC) comprising management, members of the recognised trade unions, both teaching and support staff, has been established for this purpose. In addition periodic Core Communication Sessions are held on all sites to brief staff on current developments and receive information. The College publishes newsletters that are readily available to all staff.

STATEMENT ON SYSTEM OF INTERNAL FINANCIAL CONTROL

We, the Board of Management are aware of the need for effective internal financial control and acknowledge our responsibility for the system for such control operated by Borders College. The system can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period. The system of internal financial control is based on a framework of regular management information, financial regulations and administrative procedures including the segregation of duties.

In particular it includes:

- comprehensive budgeting systems within an annual budget which is approved by the Board of Management,
- regular monthly reviews by the Finance and General Purposes Committee of financial reports which indicate financial performance against the forecasts,
- setting targets to measure financial and other performance,
- procedures for the Board of Management to review and agree the budgets,
- clearly defined capital investment control guidelines.

Borders College has an internal audit service, the work of which concentrates on areas of key activity determined by an analysis of the areas of greatest risk and in accordance with the annual internal audit plan approved by the Board of Management. The internal auditors report to the Principal and to the Audit Committee on a regular basis and have direct access to the chairman of the Audit Committee. The internal auditors have issued a report on the adequacy, reliability and effectiveness of the College's internal control

system. Our review of the effectiveness of the system of internal financial control is thus conducted through the work of the internal auditors, the Board of Management and the Audit Committee.

PROMPT PAYMENT TO SUPPLIERS

The College complies with the CBI prompt payment code and has a policy of paying its suppliers within 30 days of invoice on the 20th of each month unless the invoice is contested. The level of creditors in terms of the proportion of the year end creditors to the aggregate invoiced amounts during the year was 7%, equivalent on an annualised basis to 27 creditor days. During the year no interest was paid by the College in respect of invoices paid beyond that date.

PROFESSIONAL ADVISORS

The College's professional advisors during the year to 31 July 2005 were:

External Auditors	-	Scott-Moncrieff, 17 Melville Street, Edinburgh
Internal Auditors	-	Wylie & Bisset, 168 Bath Street, Glasgow
Bankers	-	Royal Bank of Scotland, 35 Bank Street, Galashiels
Solicitors	-	Morisons, Erskine House, 68 Queen Street, Edinburgh
Project Managers	-	Gleeds, Turnberry House, 93 West George Street, Glasgow

CHARITABLE AND TAXATION STATUS

The College is registered as a charity with the Inland Revenue and is not liable to Corporation Tax on its educational activities.

RELATED PARTY TRANSACTIONS

Due to the nature of the College's operations and the composition of its Board of Management (being drawn from local public and private sector organisations), it is inevitable that transactions will take place with organisations in which a member of the College Board of Management may have an interest. All transactions involving organisations in which a member of the Board of Management may have a material interest are conducted at arms length and in accordance with normal project and procurement procedures.

The College had transactions during the year or worked in partnership with the following bodies in which members of the Board of Management, or its Committees, hold or held official positions

<u>Member</u>	<u>Organisation</u>	<u>Position</u>
N Sargent	Scottish Enterprise Borders	Director of Partnership, Skills & Learning
A Aitken	Self-employed Consultant	Self-employed Consultant
L Alexander	Galashiels Academy	Deputy Head Teacher
J Campbell	Scottish Borders Council	Director of Corporate Resources
N J Howitt	Welch & Co	Senior Partner

The Board of Management of Borders College is a body incorporated under the Further and Higher Education (Scotland) Act 1992 sponsored by The Scottish Further Education Funding Council (SFEFC). SFEFC is regarded as a related party. A breakdown on income received from the Funding Council is included in Note 1.

During the year Borders College had various material transactions with SFEFC and with other entities for which SFEFC is regarded as the sponsor Department viz.: A number of other colleges and higher education institutions. In addition Borders College has had a small number of material transactions with other Government Departments and other central government bodies.

On behalf of the Board of Management on 15 December 2005,

S Dawson, Chair
Board of Management
Borders College
Thorniedean House
Melrose Road,
Galashiels, TD1 2AF

Borders College

31 July 2005

Corporate Governance Statement

The College is committed to exhibiting best practice in all aspects of Corporate Governance. The College complies fully with the provision of the Combined Code. This summary describes the manner in which the College has applied the principles set out in Section 1 of the Combined Code on Corporate Governance issued by the London Stock Exchange in June 1998. Its purpose is to help the reader of the accounts understand how the principles have been applied.

The College's Board of Management is responsible for the College'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 Board of Management is of the view that there is an ongoing process for identifying, evaluating and managing the College's significant risks, that it has been in place for the year ended 31 July 2005 and up to the date of approval of the annual report and financial statements. This process is regularly reviewed by the Board and accords with the internal control guidance for directors on the Combined Code as amended by the British Universities Finance Directors Group.

The College's Board of Management meets seven times a year and has a number of committees, including a Finance and General Purposes Committee, a Chairman's Committee, a Nominations Committee, a Remuneration Committee and an Audit Committee. All these Committees are formally constituted with terms of reference. They comprise mainly lay members of the Board, one of whom is the Chair.

In respect of its strategic and development responsibilities, the Board of Management receives recommendations and advice from the Finance and General Purposes Committee and from the Principal and the Senior Management Team.

The Finance and General Purposes Committee inter alia recommends to the Board of Management the College's annual revenue and capital budgets and monitors performance in relation to the approved budgets.

The Nominations Committee considers nominations for co-opted vacancies in the Board of Management membership under the relevant Statute.

The Remuneration Committee determines the remuneration of the most senior staff, including the Principal. It also reviews redundancy terms and conditions as required.

The Audit Committee meets five times a year, with the College's external and internal auditors in attendance as appropriate. The Committee considers detailed reports together with recommendations for the improvement of the College's systems of internal control and management's responses and implementation plans. It also receives and considers reports from the Scottish Further Education Funding Council as they affect the College's business and monitors adherence to the regulatory requirements. Whilst senior executives attend meetings of the Audit Committee as necessary, they are not members of the Committee. If the external auditors wish for independent discussions the Committee will meet without the senior executives in attendance.

The Senior Management Team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms that are embedded within the operational units and reinforced by risk awareness training.

The senior management team and the Audit Committee also receive regular reports from the internal auditors and from the Health and Safety Committee that include recommendations for improvement.

The Audit Committee's role in this area is confined to a high level review of the arrangements for internal control. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception.

The Board of Management considers that the College has adequate resources to continue in operation for the foreseeable future.

On behalf of the Board of Management on 15 December 2005,

S Dawson, Chair
Board of Management
Borders College
Thorniedean House
Melrose Road,
Galashiels, TD1 2AF

Borders College

31 July 2005

Responsibilities of the Board of Management

The members of the Board of Management of the College are required to present audited financial statements for each financial period.

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the College and the Group and enable it to ensure that the financial statements comply with the Further and Higher Education (Scotland) Act 1992 together with the Financial Memorandum issued thereunder and are presented in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education and other applicable accounting standards.

Meantime, within the terms and conditions of the Financial Memorandum agreed between Scottish Further Education Funding Council (SFEFC) and the Board of Management of the College, the Board through the Principal, as Accounting Officer, is required to prepare financial statements for each financial period which give a true and fair view of the state of the affairs of the College and the Group and the surplus or deficit and cash flows of the group for that period.

In preparing the financial statements the Board is required to:

- select suitable accounting policies then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare financial statements on the going concern basis unless it is inappropriate to assume that the College will continue on operation. The Board is satisfied that it has adequate resources to continue in operation for the foreseeable future.

The Board of Management have the responsibility to:

- ensure that funds from Scottish Further Education Funding Council (SFEFC) are used only in accordance with the Financial Memorandum with the SFEFC and any other conditions which SFEFC may from time to time prescribe;
- ensure that there are appropriate financial and management controls in place sufficient to safeguard public funds and ensure that they are used only in accordance with the conditions under which they have been made available;
- safeguard the assets of the College and hence to take reasonable steps to prevent and detect fraud and other irregularities;
- ensure reasonable steps have been taken to secure the economical, efficient and effective management of the College's resources and expenditure, so that the benefits that should be derived from application of public funds by the Board are not put at risk.

The key elements of the College's system in internal financial control, which is designed to discharge the responsibilities set out above, include the following:

- clear definitions of the responsibilities of, and the authority delegated to, heads of academic and administrative departments;
- a comprehensive medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets;
- regular reviews of key performance indicators and business risks and monthly reviews of financial results involving variance reporting and updates of forecast outturns;
- 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 approval levels set by the Board;
- comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Audit Committee and Finance & General Purposes Committee;
- a professional Internal Audit team whose annual programme is approved by the Audit Committee and endorsed by the Board and whose head provides the Board with a report on internal audit activity within the College and an opinion on the adequacy and effectiveness of the College's system of internal control, including internal financial control.

Any system of internal financial control can, however, only provide reasonable, but not absolute, assurance against material misstatement or loss.

Borders College

31 July 2005

INDEPENDENT AUDITORS' REPORT

To the members of the Board of Management of Borders College, the Scottish Parliament and the Auditor General for Scotland

We have audited the financial statements on pages 18 to 48 under the Further and Higher Education (Scotland) Act 1992. The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets, and in accordance with the accounting policies set out on pages 18 to 21.

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by Audit Scotland, dated July 2001.

Respective responsibilities of the Board of Management, Accountable Officer and Auditors

As described on pages 14 and 15 the Board of Management and the Accountable Officer are responsible for the preparation of the financial statements in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction issued by the Scottish Further Education Funding Council, which requires compliance with the Statement of Recommended Practice on Accounting in Further and Higher Education Institutions, and for ensuring the regularity of expenditure and income. Our responsibilities, as independent auditors, are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland, and guided by the auditing profession's ethical guidance.

We report our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with statute and the Accounts Direction. We also report if, in our opinion, the Board of Management has not kept proper accounting records, the accounting records do not agree with the financial statements, or if we have not received all the information and explanations we require for our audit.

We also report our opinion as to whether, in all material respects:

- the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers;
- funds provided by the Scottish Further Education Funding Council have been applied in accordance with the Financial Memorandum issued by the Council.; and
- funds from whatever source administered by the College for specific purposes have been properly applied for the intended purposes.

We review whether the Corporate Governance Statement on pages 12 and 13 complies with the requirements of the Scottish Further Education Funding Council. We report if, in our opinion, the statement does not meet these requirements or if the statement is misleading or inconsistent with other information we are aware of from our audit. We are not required to consider whether the statement covers all risks and controls, or form an opinion on the effectiveness of the College's corporate governance procedures or its risk and control procedures.

We read the other information published with the financial statements and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinions

We conducted our audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice, which requires compliance with relevant United Kingdom Auditing Standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures and the regularity of the expenditure and income shown in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Board of Management and the Accountable Officer in the preparation of the financial statements and of whether the accounting policies are appropriate to the College's circumstances, consistently applied and adequately disclosed.

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

Opinions

Financial Statements

In our opinion the financial statements give a true and fair view of the state of affairs of the College as at 31 July 2005 and its surplus of income over expenditure and cash flows for the year then ended and have been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction issued by the Scottish Further Education Funding Council.

Regularity

In our opinion, in all material respects:

- the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers;
- funds provided by the Scottish Further Education Funding Council have been applied in accordance with the Financial Memorandum dated 1 August 2000 and any other terms and conditions attached to them for the year ended 31 July 2005; and
- funds from whatever source administered by the College for specific purposes have been properly applied for the intended purposes.

Signature

Date: 2005

Scott-Moncrieff
Chartered Accountants
17 Melville Street
Edinburgh
EH3 7PH

Borders College

Statement of Principal Accounting Policies

For the Year Ended 31 July 2005

ACCOUNTING POLICIES

(a) **Basis of Preparation**

These financial statements have been prepared in accordance with the Statement of Recommended Practice: *Accounting in Further and Higher Education* and in accordance with applicable Accounting Standards. They conform to guidance published by the Scottish Further Education Funding Council.

(b) **Basis of Accounting**

The financial statements are prepared in accordance with the historical cost convention modified by the valuation of inherited fixed assets on acquisition.

(c) **Basis of Consolidation**

The consolidated financial statements include the College and its subsidiary undertaking, BC Business Consultants Limited. The results of subsidiaries acquired or disposed of during the period are included in the consolidated income and expenditure accounts from the date of acquisition or up to the date of disposal. Intra-group sales and profits are eliminated fully on consolidation.

(d) **Recognition of Income**

Income from grants, contracts and other services rendered is recognised in the income and expenditure account in proportion to the extent of completion of the contract or service concerned. All income from short-term deposits is credited to the income and expenditure account in the period in which it is earned. The main annual recurrent allocations from the Scottish Further Education Funding Council are recognised in the period in which they are receivable. Non-recurrent grants from the Scottish Further Education Funding Council or other bodies 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 related assets. Income from specific endowments is included to the extent of the relevant expenditure incurred during the period.

(e) **Bursary and Access Funds**

The College administers Bursary and Access Fund grants from the Scottish Further Education Funding Council on behalf of its students. Unexpended funds are included in creditors. As the income and expenditure does not represent College funds it is excluded from the income and expenditure account.

(f) **Maintenance of Premises**

The College has a three-year rolling long-term maintenance plan, which form the basis of the ongoing maintenance of the estate. The cost of long-term and routine corrective maintenance is charged to the income and expenditure account as incurred.

Borders College

Statement of Principal Accounting Policies (cont'd.)

For the Year Ended 31 July 2005

ACCOUNTING POLICIES (cont'd.)

(g) Foreign Currency Translation

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

(h) Pension Schemes

Retirement benefits to employees of the College are provided by the Teachers' Superannuation Scheme (Scotland) and the Scottish Borders Council Local Government Superannuation Fund. These are defined benefit schemes which are externally funded and contracted out of the State Earnings Related Pension Scheme. Contributions to the schemes are charged to the income and expenditure account so as to spread the cost of pensions over employees' working lives with the College in such a way that the pension cost is a substantially level percentage of current and future pensionable payroll. The contributions are determined by qualified actuaries on the basis of periodic valuations using the projected unit method.

Premature retirement compensation is financed by College funds and is not separately funded. Provision is made in the College accounts at the date of the award. In subsequent periods interest is credited to the provision and charged to income and expenditure account. Payments to pensioners are charged against the provision.

(i) Land and Buildings

Land and buildings inherited by the College at 1 April 1993, are stated in the balance sheet at depreciated replacement cost on the basis of a valuation on acquisition. Land and buildings acquired since incorporation are included in the balance sheet at cost. Feuhold land associated with the buildings and undeveloped feuhold land is not depreciated. New buildings are depreciated over their expected useful economic life to the College of 50 years.

A review for impairment of fixed assets is carried out if events or changes in circumstances indicated that the carrying amount of the fixed asset may not be recoverable. Major improvements to buildings, where no new floor space is created, are depreciated at 7.5%. Buildings under construction are accounted for at cost, based on the value of architects' certificates and other direct costs incurred to 31 July. Finance costs that are directly attributable to the construction of buildings are capitalised as part of the cost of those assets. Buildings are not depreciated until they are brought into use.

Borders College

Statement of Principal Accounting Policies (cont'd.)

For the Year Ended 31 July 2005

ACCOUNTING POLICIES (cont'd.)

(j) Equipment

Equipment costing less than £10,000 per individual item is written off to the income and expenditure account in the period of acquisition. All other equipment is capitalised at cost.

Capitalised equipment is depreciated over its expected useful economic life as follows:

Building improvements	7 ¹ / ₂ % per year
Motor vehicles and general equipment	25% per year
Computer equipment	25% per year
Buses	12 ¹ / ₂ % per year

Where equipment is acquired with the aid of specific grants it is capitalised and depreciated in accordance with the above policy, with the related grant being credited to a deferred capital grant account and released to the income and expenditure account over the expected useful economic life of the related equipment.

(k) Leased Assets

Costs in respect of operating leases are charged on a straight-line basis over the lease term. Leasing agreements that transfer to the College substantially all the benefits and risks of ownership of an asset are treated as if the asset 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. Assets held under hire purchase contracts that have the characteristics of finance leases are depreciated over their useful lives.

(l) Investments

Fixed asset investments that are not listed on a recognised stock exchange are carried at historical cost less any provision for impairment in their value.

Investments that form part of Endowment Assets are included in the balance sheet at market value.

Current asset investments are included in the balance sheet at the lower of their original cost and net realisable value.

Borders College

Statement of Principal Accounting Policies (cont'd.)

For the Year Ended 31 July 2005

ACCOUNTING POLICIES (cont'd.)

(m) **Taxation**

The College is an exempt charity within the meaning of the Taxes Acts and accordingly is not liable to Corporation Tax or Capital Gains Tax in respect of its charitable activities.

The College has no similar exemption in respect of Value Added Tax. Non-recoverable Value Added Tax arising from expenditure on non-trading activities is charged to the income and expenditure account.

The College's subsidiary companies are subject to Corporation Tax and VAT in the same way as any commercial organisation.

(n) **Provisions**

Provisions are recognised when the institution has a present legal or constructive obligation as a result of a past event, it is probable that a transfer of economic benefit will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

(o) **Deferred Taxation**

Deferred taxation is provided on timing differences, arising from the different treatment of items for accounting and taxation purposes, which are expected to reverse in the future calculated at the rates at which is expected that tax will arise.

(p) **Liquid Resources**

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

(q) **Stock**

Stocks are stated at the lower of their cost and net realisable value. Where necessary, provision is made obsolete, slow-moving and defective stocks.

Borders College

Consolidated Income and Expenditure Account

For The Year Ended 31 July 2005

	<u>Note</u>	<u>Year Ended</u> <u>31 July 2005</u>	<u>Year Ended</u> <u>31 July 2004</u>
		£000	£000
INCOME			
Funding council grants	1	6,156	5,856
Tuition fees & education contracts	2	1,407	1,381
Other grant income	3	574	547
Other operating income	4	94	78
Investment income	5	<u>93</u>	<u>44</u>
Total Income		<u>8,324</u>	<u>7,906</u>
EXPENDITURE			
Staff costs	6	5,773	5,439
Revaluation of pension provision	6	41	142
Other operating expenses	7	2,154	2,076
Depreciation	10	258	344
Interest payable	8	<u>32</u>	<u>35</u>
Total Expenditure		<u>8,258</u>	<u>8,036</u>
Surplus/(Deficit) on continuing operations after depreciation of assets at valuation and before tax and exceptional item.		66	(130)
Impairment Charge	34	<u>(2,046)</u>	=
Surplus/(Deficit) on continuing operations after depreciation of assets at valuation and exceptional item, and before tax.		<u>(1,980)</u>	-
Taxation	9	<u>0</u>	<u>0</u>
Surplus/(Deficit) on Continuing Operations after Depreciation of Assets at Valuation, Exceptional Item and Tax.		<u>(1,980)</u>	<u>(130)</u>

The income and expenditure account is in respect of continuing activities.

CONSOLIDATED STATEMENT OF HISTORICAL COST SURPLUSES AND DEFICITS

Surplus/(Deficit) on Continuing Operations after Depreciation of Assets at Valuation, Exceptional Item and Taxation		(1,980)	(130)
Difference between historical cost depreciation and the actual charge for the year calculated on the revalued amount.	22	93	93
Difference due to impairment of revalued assets in the year	22	1,859	=
Historical cost surplus/deficit for the period		<u>(28)</u>	<u>(37)</u>

Borders College

Statement of Total Recognised Gains and Losses

For the Year Ended 31 July 2005

	<u>Year</u> <u>31 July 2005</u> <u>£000</u>	<u>Year</u> <u>31 July 2004</u> <u>£000</u>
Surplus / (deficit) on continuing operations after depreciation of assets at valuation and taxation	(1,980)	(130)
Disposal / Write down of re-valued fixed assets	0	(180)
Endowment income retained for period	1	1
Total recognised gains / (losses) relating to the period	<u>(1,979)</u>	<u>(309)</u>
 Reconciliation		
Opening reserves and endowments	3,149	3,458
Total recognised gains and losses for the year	<u>(1,979)</u>	<u>(309)</u>
Closing reserves and endowments	<u>1,170</u>	<u>3,149</u>

Borders College

Balance Sheets

As at 31 July 2005

	<u>Note</u>	<u>Group</u> <u>31 July</u> <u>2005</u> <u>£000</u>	<u>College</u> <u>31 July</u> <u>2005</u> <u>£000</u>	<u>Group</u> <u>31 July</u> <u>2004</u> <u>£000</u>	<u>College</u> <u>31 July</u> <u>2004</u> <u>£000</u>
Fixed Assets					
Tangible assets	10	2,413	2,386	4,854	4,844
Investments	11	<u>0</u>	<u>10</u>	<u>0</u>	<u>10</u>
		<u>2,413</u>	<u>2,396</u>	<u>4,854</u>	<u>4,854</u>
Endowment Assets	11	<u>21</u>	<u>21</u>	<u>20</u>	<u>20</u>
Current Assets					
Stocks	12	4	4	1	1
Debtors	13	661	737	389	385
Cash at bank and in hand		<u>2,479</u>	<u>2,283</u>	<u>2,007</u>	<u>1,910</u>
		3,144	3,024	2,397	2,296
Creditors: amounts falling due within one year	14	<u>(2,610)</u>	<u>(2,485)</u>	<u>(2,005)</u>	<u>(1,914)</u>
Net current assets		<u>534</u>	<u>539</u>	<u>392</u>	<u>382</u>
Total assets less current liabilities		2,968	2,956	5,266	5,256
Creditors: amounts falling due after more than one year	15	(507)	(507)	(516)	(516)
Provision for liabilities and charges	19	<u>(604)</u>	<u>(604)</u>	<u>(601)</u>	<u>(601)</u>
TOTAL NET ASSETS		<u>1,857</u>	<u>1,845</u>	<u>4,149</u>	<u>4,139</u>
Deferred capital grants	20	314	303	686	676
Endowments – specific	21	21	21	20	20
SFEFC designated funds	17	373	373	314	314
Reserves					
Revaluation reserve	22	1,665	1,665	3,617	3,617
Income & expenditure account	22	<u>(516)</u>	<u>(516)</u>	<u>(488)</u>	<u>(488)</u>
		<u>1,149</u>	<u>1,148</u>	<u>3,129</u>	<u>3,129</u>
Total Funds		<u>1,857</u>	<u>1,845</u>	<u>4,149</u>	<u>4,139</u>

The financial statements on pages 18 to 48 were approved by the Board of Management on and signed on its behalf by:

S Dawson – Chair
R B Murray – Principal

Borders College

Consolidated Cash Flow Statement

For The Year Ended 31 July 2005

		<u>Year</u> <u>Ended</u> <u>31 July 2005</u>	<u>Year</u> <u>Ended</u> <u>31 July 2004</u>
	Note	<u>£000</u>	<u>£000</u>
Cash flow from operating activities	28	501	1,002
Returns on investments and servicing of finance	29	62	9
Capital expenditure and financial investment	29	(81)	112
Management of liquid resources	29	0	0
Financing	29	<u>(9)</u>	<u>(56)</u>
Increase/(Decrease) in Cash in the Period		<u>472</u>	<u>1,067</u>

Reconciliation of Net Cash Flow to Movement in Net Debt (Note 30)

Increase / (Decrease) in cash	472	1,067
Increase in endowment asset investments	1	1
Cash (outflow)/inflow from new unsecured loan	39	39
Cash (outflow) / inflow from liquid resources	0	0
Cash outflow on hire purchase and finance leases	<u>18</u>	<u>23</u>
Change in net debt resulting from cash flows	530	1,130
New hire purchase and finance leases	<u>(48)</u>	<u>0</u>
Movement in net debt in the period	482	1,130
Net debt at 31 July 2004	<u>1,455</u>	<u>325</u>
Net debt at 31 July 2005	<u>1,937</u>	<u>1,455</u>

Borders College

Notes to the Accounts

For the Year Ended 31 July 2005

	<u>Year Ended</u> <u>31 July 2005</u>	<u>Year Ended</u> <u>31 July 2004</u>
1. SFEFC GRANTS	£000	£000
Grant in aid	5,411	5,225
Financial Security	243	112
Estates Grants	84	111
Estates Grants - Feasibility Study		-
Capital Grant	1	11
Strategic Initiatives grant / Widening Access funds	204	195
CPD / Quality funding	49	39
Childcare Fund	114	90
Release of deferred capital grants (Note 20)	31	54
Release from designated fund (Note 17)	<u>19</u>	<u>19</u>
	<u>6,156</u>	<u>5,856</u>
Bursary and Hardship Funds are accounted for in Note 27		
2. TUITION FEES & EDUCATION CONTRACTS		
Higher Education – Home & EU	142	151
Further Education – Home & EU	<u>313</u>	<u>254</u>
	455	405
Education contracts	<u>952</u>	<u>976</u>
	<u>1,407</u>	<u>1,381</u>
3. OTHER GRANT INCOME		
Release of deferred capital grants – non SFEFC (Note 20)	46	62
European Union funds	384	333
Other grants & contracts	<u>144</u>	<u>153</u>
	<u>574</u>	<u>547</u>
4. OTHER OPERATING INCOME		
Exam & registration fees	2	4
Income from academic departments	44	38
Sundry income	47	34
Hire of accommodation & equipment	<u>1</u>	<u>2</u>
	<u>94</u>	<u>78</u>

As catering operations are managed for the College by an external agency, catering income has been excluded from the accounts.

Borders College

Notes to the Accounts (cont'd.)

For the Year Ended 31 July 2005

<u>Year Ended</u> <u>31 July 2005</u>	<u>Year Ended</u> <u>31 July 2004</u>
--	--

		<u>£000</u>	<u>£000</u>
5. INVESTMENT INCOME			
<u>Interest Receivable</u>			
Endowment income	(Note 21)	0	0
Other funds		<u>93</u>	<u>44</u>
		<u>93</u>	<u>44</u>
Access funds	(Note 27)	<u>2</u>	<u>1</u>

Interest received on Access Funds increases support funding available for H.E. students. Therefore it is not included in the College's income and expenditure account or cash flow statements.

6. STAFF COSTS

Employee Numbers

The average weekly number of persons (including senior post-holders) employed by the College during the period, expressed as full-time equivalents was:

	<u>Number</u>	<u>Number</u>
Senior management	7	7
Teaching departments	89	86
Teaching and other support services	20	21
Administration and central services	74	68
Premises	<u>12</u>	<u>13</u>
	<u>202</u>	<u>195</u>

The above figures exclude agents' staff

Staff costs for the above persons

	<u>£000</u>	<u>£000</u>
Wages and salaries	4,860	4,619
Social security costs	353	332
Other pension costs	560	488
Increase in pension provision	41	142
Restructuring costs	<u>0</u>	<u>0</u>
	<u>5,814</u>	<u>5,581</u>
Senior management	481	417
Teaching departments	2,975	2,741
Teaching and other support services	356	415
Administration and central services	1,749	1,659
Premises	212	207
Increase in pension provision	41	142
Restructuring costs	<u>0</u>	<u>0</u>
Total	<u>5,814</u>	<u>5,581</u>

Borders College
Notes to the Accounts (cont'd.)
For the Year Ended 31 July 2005

6. STAFF COSTS (cont'd.)

Additional pension costs of £3,000 (2003/04 £142,000) were incurred as a result of a revaluation of the College's pension provision for unfunded liabilities.

Staff costs are analysed as

	<u>Year Ended</u> <u>31 July 2005</u>	<u>Year Ended</u> <u>31 July 2005</u>	<u>Year Ended</u> <u>31 July 2004</u>	<u>Year Ended</u> <u>31 July 2004</u>
	<u>£000</u>	<u>Number</u>	<u>£000</u>	<u>Number</u>
Staff on permanent contracts	4,631	163	4,395	160
Staff on temporary contracts	<u>1,142</u>	<u>39</u>	<u>1,044</u>	<u>35</u>
	5,773	202	5,439	195
Increase in pension provision	<u>41</u>	<u>N/A</u>	<u>142</u>	<u>N/a</u>
	<u>5,814</u>	<u>202</u>	<u>5,581</u>	<u>195</u>

Senior Post-holders

The number of staff, including senior post-holders and the Principal, who received emoluments (excluding pension contributions) in the following ranges was:

Per Annum	<u>Year Ended</u> <u>31 July 2005</u>	<u>Year Ended</u> <u>31 July 2004</u>
	<u>Number</u>	<u>Number</u>
£50,001 to £60,000	1	0
£70,001 to £80,000	<u>1</u>	<u>1</u>
	<u>2</u>	<u>1</u>

Senior post-holders received a pay award of 3% during 2004-05. Pay awards for 2005-06 were being negotiated for all three staff negotiating groups at 31 July 2005.

	<u>Number</u>	<u>Number</u>
The number of senior post-holders including the Principal was:	8	7

	<u>Year Ended</u> <u>31 July 2005</u>	<u>Year Ended</u> <u>31 July 2004</u>
	<u>£</u>	<u>£</u>
Senior post-holders' emoluments are made up as follows:		
Salaries	388,846	339,969
Benefits in kind	1,380	1,380
Pension contributions	<u>54,079</u>	<u>44,292</u>
Total emoluments	<u>444,305</u>	<u>385,641</u>

Borders College

Notes to the Accounts (cont'd.)

For the Year Ended 31 July 2005

The above emoluments include amounts payable to the Principal (who is also the highest paid senior post-holder) of:

	<u>Year</u> <u>Ended</u> <u>31 July 2005</u>	<u>Year</u> <u>Ended</u> <u>31 July 2004</u>
	<u>£</u>	<u>£</u>
Salary	76,118	72,531
Benefits in kind	<u>0</u>	<u>0</u>
	<u>76,118</u>	<u>72,531</u>
Pension contribution	<u>9,523</u>	<u>8,450</u>

The pension contributions in respect of the Principal and senior post-holders are in respect of employers' contributions to the Scottish Teachers Superannuation Scheme and Local Government Superannuation Scheme and are paid at the same rate as for other employees.

Other than the Principal, no member of the Board of Management received any payment from the College other than the reimbursement of travel and subsistence expenses incurred in the course of their duties.

7. ANALYSIS OF EXPENDITURE

	<u>Other</u> <u>Operating</u> <u>Expenses</u> <u>£000</u>	<u>Depreciation</u> <u>£000</u>	<u>Interest</u> <u>Payable</u> <u>£000</u>	<u>Year</u> <u>Ended</u> <u>31 July 2005</u> <u>£000</u>	<u>Year</u> <u>Ended</u> <u>31 July 2004</u> <u>£000</u>
Teaching departments	666	58	32	756	750
Teaching and other support services	21			21	39
Administration & central services	891	77		968	1,032
Catering	43			43	32
Premises	<u>533</u>	<u>2,687</u>	<u>—</u>	<u>3,220</u>	<u>602</u>
TOTAL	<u>2,154</u>	<u>2,822</u>	<u>32</u>	<u>5,008</u>	<u>2,455</u>

	<u>Year Ended</u> <u>31 July 2005</u>	<u>Year Ended</u> <u>31 July 2004</u>
	<u>£000</u>	<u>£000</u>
<u>Other operating expenses include:</u>		
Auditors remuneration, including irrecoverable VAT	<u>£000</u>	<u>£000</u>
- external audit – audit services*	13	12
- internal audit – audit services	12	18
- external audit – other services	8	1
- internal audit – other services	0	0
Hire of land, buildings and equipment – operating leases	86	55
*includes £11,465 in respect of College (2004: £10,750)		

Borders College

Notes to the Accounts (cont'd.)

For the Year Ended 31 July 2005

8. INTEREST PAYABLE

	<u>Year Ended</u> <u>31 July 2005</u>	<u>Year Ended</u> <u>31 July 2004</u>
	<u>£000</u>	<u>£000</u>
On loans, repayable in more than five years	32	34
On hire purchase and finance leases	0	1
	<u>32</u>	<u>35</u>

9. TAXATION

Neither the College nor its subsidiary company has a current or deferred liability to corporation tax in respect of the period (2004: £nil).

10a. TANGIBLE FIXED ASSETS (Group)

	<u>Assets under</u> <u>Construction</u>	<u>Land &</u> <u>Buildings</u>	<u>Plant &</u> <u>Equipment</u>	<u>TOTAL</u>
	£000	£000	£000	
As at 1 August 2004	-	5,656	2,546	8,202
Additions	264	-	117	381
Disposals	-	-	-	-
Impairment of Land and Buildings	-	(3,814)	-	(3,814)
As at 31 July 2005	<u>264</u>	<u>1,842</u>	<u>2,663</u>	<u>4,769</u>

Depreciation

As at 1 August 2004	-	1,172	2,176	3,348
Charge for 12 months	-	123	135	258
Disposals	-	-	-	-
Impairment of Land and Buildings	-	(1,250)	-	(1,250)
As at 31 July 2005	<u>-</u>	<u>45</u>	<u>2,311</u>	<u>2,356</u>

Net book value

As at 31 July 2004	<u>-</u>	<u>4,484</u>	<u>370</u>	<u>4,854</u>
As at 31 July 2005	<u>264</u>	<u>1,797</u>	<u>352</u>	<u>2,413</u>

Net book value

	<u>Assets under</u> <u>Construction</u>	<u>Land &</u> <u>Buildings</u>	<u>Plant &</u> <u>Equipment</u>	<u>TOTAL</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Inherited (Note 22)	-	1,665	-	1,665
Financed by capital grant	264	-	31	295
Other	-	<u>132</u>	<u>321</u>	<u>453</u>
As at 31 July 2005	<u>264</u>	<u>1,797</u>	<u>352</u>	<u>2,413</u>

Borders College

Notes to the Accounts (cont'd.)

For the Year Ended 31 July 2005

In the year land and buildings were reviewed for impairment in line with FRS 11 due to the likely relocation of the College in 2007 or 2008 to the Netherdale site. Buildings were written down to their value-in-use. Where land and buildings were inherited a transfer was made from the revaluation reserve to the P & L reserve to match the difference between NBV as at 31 July 2005 prior to the impairment and the value-in-use.

Inherited Land and Buildings were inherited by the College at 1 April 1993 and are accounted for at depreciated replacement cost on the basis of a valuation on acquisition. If inherited land and buildings had not been valued they would have been included at Nil Value. Land and buildings with a net book value of £3,616,000 have been funded from Exchequer funds. These assets may not be disposed of without the prior approval of The Further Education Funding Council. In accordance with the College Estates Strategy to reduce the number of sites, completion of the disposal of the College's campus in Duns took place in August 2003. The College must use the proceeds of sale in accordance with the instructions of the Scottish Further Education Funding Council, and, in particular, reinvest proceeds of sale in accordance with the Property Strategy. A designated fund has been set up to hold the funds until they are reinvested.

10b. TANGIBLE FIXED ASSETS (College)

Cost or valuation	<u>Assets under Construction</u>	<u>Land & Buildings</u>	<u>Plant & Equipment</u>	<u>TOTAL</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
As at 1 August 2004	-	5,656	2,516	8,172
Additions	264	-	85	349
Disposals	-	-	-	-
Impairment of Land and Buildings	=	<u>(3,814)</u>	=	<u>(3,814)</u>
As at 31 July 2005	<u>264</u>	<u>1,842</u>	<u>2,601</u>	<u>4,707</u>
Depreciation				
As at 1 August 2004	-	1,172	2,156	3,328
Charge for Year	-	123	120	243
Disposals	-	=	=	=
Impairment of Land and Buildings	=	<u>(1,250)</u>	=	<u>(1,250)</u>
As at 31 July 2005	=	<u>45</u>	<u>2,276</u>	<u>2,321</u>
Net book value				
As at 31 July 2004	=	<u>4,484</u>	<u>360</u>	<u>4,844</u>
As at 31 July 2005	<u>264</u>	<u>1,797</u>	<u>325</u>	<u>2,386</u>

Borders College

Notes to the Accounts (cont'd.)

For the Year Ended 31 July 2005

		<u>Assets under</u> <u>Construction</u> <u>£000</u>	<u>Land &</u> <u>Buildings</u> <u>£000</u>	<u>Plant &</u> <u>Equipment</u> <u>£000</u>	<u>TOTAL</u> <u>£000</u>
Inherited	(Note 22)	-	1,665	-	1,665
Financed by capital grant		264	-	19	283
Other		-	<u>132</u>	<u>306</u>	<u>438</u>
As at 31 July 2005		<u>264</u>	<u>1,797</u>	<u>325</u>	<u>2,386</u>

10c. TANGIBLE FIXED ASSETS (cont'd.) (Group & College)

Plant and equipment includes assets under hire purchase and finance leases with a net book value of £54,536 (2004 £72,600).

The depreciation charge for the period is analysed as follows:

	<u>Year Ended</u> <u>31 July 2005</u> <u>£000</u>	<u>Year Ended</u> <u>31 July 2004</u> <u>£000</u>
Depreciation based on cost	165	251
Depreciation based on valuation on acquisition	<u>93</u>	<u>93</u>
	<u>258</u>	<u>344</u>
Owned assets	229	315
Assets held under hire purchase and finance leases	<u>29</u>	<u>29</u>
	<u>258</u>	<u>344</u>

11a. INVESTMENTS

	<u>College</u> <u>31 July 2005</u> <u>£000</u>	<u>College</u> <u>31 July 2004</u> <u>£000</u>
Subsidiary company	<u>10</u>	<u>10</u>

The College owns 100% of the issued ordinary £1 shares of BC Business Consultants Limited, a company incorporated in Scotland. The principal business activity of BC Business Consultants Limited is carrying out training of employees on behalf of their employers.

11b. ENDOWMENT ASSETS (Group & College)

	<u>Year</u> <u>Ended</u> <u>31 July 2005</u> <u>£000</u>	<u>Year</u> <u>Ended</u> <u>31 July 2004</u> <u>£000</u>
Balance at 1 August 2004	20	19
Increase in cash balances	<u>1</u>	<u>1</u>
Balance at 31 July 2005	<u>21</u>	<u>20</u>
Represented by: cash balances		

Notes to the Accounts (cont'd.)

For the Year Ended 31 July 2005

	<u>Group</u> <u>31 July</u> <u>2005</u> <u>£000</u>	<u>College</u> <u>31 July</u> <u>2005</u> <u>£000</u>	<u>Group</u> <u>31 July</u> <u>2004</u> <u>£000</u>	<u>College</u> <u>31 July</u> <u>2004</u> <u>£000</u>
12. STOCKS				
Stocks for resale	<u>4</u>	<u>4</u>	<u>1</u>	<u>1</u>
13. DEBTORS: Amounts falling due within one year				
Trade debtors	295	173	129	66
Other debtors	72	72	49	50
Prepayments & accrued income	246	185	211	119
Amounts owed by subsidiary undertakings	<u>0</u>	<u>260</u>	<u>0</u>	<u>150</u>
	613	690	389	385
Amounts falling due after one year	<u>47</u>	<u>47</u>	<u>0</u>	<u>0</u>
	<u>660</u>	<u>737</u>	<u>389</u>	<u>385</u>
	<u>Group</u> <u>31 July</u> <u>2005</u> <u>£000</u>	<u>College</u> <u>31 July</u> <u>2005</u> <u>£000</u>	<u>Group</u> <u>31 July</u> <u>2004</u> <u>£000</u>	<u>College</u> <u>31 July</u> <u>2004</u> <u>£000</u>
14. CREDITORS: Amounts falling due within one year				
Trade creditors	230	214	212	192
Other tax & social security	134	84	114	84
Loans (Note 16)	39	39	39	39
Financial Security grant	241	241	424	424
Hire purchase & finance leases (Note 18)	17	17	17	17
Other creditors & accruals	1,681	1,622	1,135	1,094
SFEFC claw-back of funds	113	113	6	6
Access funds (Note 27)	63	63	23	23
Bursary funds (Note 27)	92	92	35	35
Amounts owed to subsidiary undertakings	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<u>2,610</u>	<u>2,485</u>	<u>2,005</u>	<u>1,914</u>
15. CREDITORS: Amounts falling due after more than one year (Group & College)				
Bank loans (Note 16)	472	472	512	512
Financial Security Grant – restricted reserve	0	0	0	0
Hire purchase and finance leases (Note 18)	<u>35</u>	<u>35</u>	<u>4</u>	<u>4</u>
	<u>507</u>	<u>507</u>	<u>516</u>	<u>516</u>

Borders College

Notes to the Accounts (cont'd.)

For the Year Ended 31 July 2005

	<u>Group & College</u> <u>31 July 2005</u> <u>£000</u>	<u>Group & College</u> <u>31 July 2004</u> <u>£000</u>
16. LOANS (Group & College)		
Within one year	39	39
Between one and two years	39	39
Between two and five years	118	118
In more than five years	<u>315</u>	<u>355</u>
	<u>511</u>	<u>551</u>

Bank bridging loans totalling £590,000 were replaced by a term loan in May 2003, repayable over 15 years. Interest is charged at L.I.B.O.R. plus 1%. The loans are unsecured.

	<u>Group & College</u> <u>2005</u> <u>£000</u>	<u>Group & College</u> <u>2004</u> <u>£000</u>
17. DESIGNATED FUNDS (Group and College)		
<u>Sale of Exchequer-funded Assets</u>		
Balance b/fwd at 1 August	180	-
Received in year, from sale of building in Duns	-	180
Expenditure in year	-	-
Balance c/fwd at 31 July	180	180
<u>Bursary Reserve</u>		
Balance b/fwd at 1 August	134	-
Received in year	78	153
Expenditure in year	<u>(19)</u>	<u>(19)</u>
Balance c/fwd at 31 July	<u>193</u>	<u>134</u>
 Total SFEFC Designated Funds	 <u>373</u>	 <u>314</u>

	<u>Group & College</u> <u>31 July 2005</u> <u>£000</u>	<u>Group & College</u> <u>31 July 2004</u> <u>£000</u>
18. HIRE PURCHASE AND FINANCE LEASES (Group & College)		
The net obligations payable to which the College is committed are as follows:		
Within one year	17	17
Between one and two years	17	4
Between two and five years	<u>18</u>	<u>0</u>
	<u>52</u>	<u>21</u>

Notes to the Accounts (cont'd.)

For the Year Ended 31 July 2005

	<u>Group & College</u> <u>31 July 2005</u> <u>£000</u>	<u>Group & College</u> <u>31 July 2004</u> <u>£000</u>
19. PROVISION FOR LIABILITIES AND CHARGES (Group & College)		
<u>Unfunded retirement benefits</u>		
As at 1 August	601	459
Transferred from I & E in the year	41	179
Expenditure in year	<u>(38)</u>	<u>(37)</u>
As at 31 July	<u>604</u>	<u>601</u>

The pension provision for unfunded liabilities was re-valued at 31 July 2005 using actuarial tables prepared by Deloitte and Touche and provided by SFEFC.

20a. DEFERRED CAPITAL GRANTS (Group)

	<u>2005</u> <u>SFEFC</u> <u>£000</u>	<u>2005</u> <u>Other</u> <u>Grants</u> <u>£000</u>	<u>2005</u> <u>TOTAL</u> <u>£000</u>	<u>2004</u> <u>TOTAL</u> <u>£000</u>
<u>As at 1 August 2005</u>				
Land and buildings	241	369	610	607
Equipment	<u>39</u>	<u>37</u>	<u>76</u>	<u>170</u>
	<u>280</u>	<u>406</u>	<u>686</u>	<u>777</u>
<u>Grants received in period</u>				
Land and buildings	213	0	213	25
Equipment	<u>0</u>	<u>10</u>	<u>10</u>	<u>0</u>
	<u>213</u>	<u>10</u>	<u>223</u>	<u>25</u>
<u>Released to income and expenditure account</u>				
Land and buildings	9	11	20	22
Due to impairment of grant funded land and buildings	160	358	518	-
Equipment	<u>22</u>	<u>35</u>	<u>57</u>	<u>94</u>
	<u>191</u>	<u>404</u>	<u>595</u>	<u>116</u>
<u>As at 31 July 2005</u>				
Land and buildings	285	0	285	610
Equipment	<u>17</u>	<u>12</u>	<u>29</u>	<u>76</u>
	<u>302</u>	<u>12</u>	<u>314</u>	<u>686</u>

In the year land and buildings were written down due to an FRS 11 impairment charge. Where this was the case and the assets were grant funded the remaining grant was released to the Income and Expenditure account in the year. The release of 518 is shown on the face of the Income and Expenditure account within the impairment charge (see Note 34).

Borders College

Notes to the Accounts (cont'd.)

For the Year Ended 31 July 2005

20b Deferred Capital Grants (College)	<u>2005</u>	<u>2005</u>	<u>2005</u>	<u>2004</u>
	<u>SFEFC</u>	<u>Other</u>	<u>TOTAL</u>	<u>TOTAL</u>
	<u>£000</u>	<u>Grants</u>	<u>£000</u>	<u>£000</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
<u>As at 1 August 2005</u>				
Land and buildings	241	369	610	607
Equipment	<u>39</u>	<u>26</u>	<u>65</u>	<u>152</u>
	<u>280</u>	<u>395</u>	<u>675</u>	<u>759</u>
<u>Grants received in period</u>				
Land and buildings	212	-	212	25
Equipment	=	=	=	<u>0</u>
	<u>212</u>	<u>=</u>	<u>212</u>	<u>25</u>
<u>Released to income and expenditure account</u>				
Land and buildings	9	11	20	22
Due to impairment of grant funded land and buildings	160	358	518	-
Equipment	<u>22</u>	<u>24</u>	<u>46</u>	<u>86</u>
	<u>191</u>	<u>393</u>	<u>584</u>	<u>108</u>
<u>As at 31 July 2005</u>				
Land and buildings	284	0	284	610
Equipment	<u>17</u>	<u>2</u>	<u>19</u>	<u>66</u>
	<u>301</u>	<u>2</u>	<u>303</u>	<u>676</u>
21. ENDOWMENTS – SPECIFIC (Group & College)			<u>Year Ended</u>	<u>Year Ended</u>
			<u>31 July 2005</u>	<u>31 July 2004</u>
			<u>£000</u>	<u>£000</u>
As at 1 August 2004			20	19
Income for period			1	1
Transfer to income and expenditure account		(Note 5)	<u>0</u>	<u>0</u>
At 31 July 2005			<u>21</u>	<u>20</u>
Representing prize funds			<u>21</u>	<u>20</u>

Borders College

Notes to the Accounts (cont'd.)

For the Year Ended 31 July 2005

22. RESERVES

<u>Income and expenditure account reserve</u>	<u>Group and College 2005 £000</u>	<u>Group and College 2004 £000</u>
As at 1 August	(488)	(451)
College's deficit for the period	(2,079)	(213)
Surplus generated by subsidiary undertaking and transferred to the College under gift aid	99	83
Transfer from revaluation reserve	<u>1,952</u>	<u>93</u>
At 31 July	<u>(516)</u>	<u>(488)</u>

<u>Revaluation Reserve</u>	<u>Group and College 2005 £000</u>	<u>Group and College 2004 £000</u>
As at 1 August 2004	3,617	3,890
Release of revaluation reserve in respect of depreciation on inherited land and buildings	(93)	(93)
Release of revaluation reserve in respect of impairment of inherited land and buildings	(1,859)	-
Release of revaluation reserve in respect of disposal of property	-	<u>(180)</u>
At 31 July 2005	<u>1,665</u>	<u>3,617</u>

The Revaluation Reserve represents the valuation of assets inherited in 1993.

Borders College

Notes to the Accounts (cont'd.)

For the Year Ended 31 July 2005

23. PENSION COMMITMENTS

Two pension schemes have members drawn from the employees of the College. These pension schemes are The Teachers' Superannuation Scheme (Scotland) and the Scottish Borders Council Pension Fund (SBCPF) and are both of the defined benefit type. The Teachers Scheme is a notional fund regulated by the Government actuary. The Council Scheme is administered by Scottish Borders Council in accordance with the Local Government Pension Scheme (Scotland) Regulations 1998 as amended. The latest available actuarial valuation for the Teachers Scheme was at 31 March 1996. The Scheme was valued at 31 March 2002. Although the full report has not yet been made available an interim report has been published. The latest formal valuation of the Council Scheme was at 31 March 2002 with the next formal valuation due as at 31 March 2005. In order to assess the actuarial value of the Fund's liabilities as at 31 July 2005 the actuaries have rolled forward the actuarial value of the liabilities as recorded as at 31 March 2002, allowing for changes in financial assumptions reported.

Methods of Valuation

The valuation methods used by the actuaries for the two schemes are as follows:

Teachers' Scheme	Prospective Benefits Method
Council Scheme	Projected Unit Method

Financial Assumptions – Teachers' Scheme

	<u>Teachers Scheme</u> <u>Prospective Benefits</u> <u>Method</u>
Salary scale increases per annum	6.5%
Pension increases per annum	5.0%
Investment returns per annum	8.5%
Discount rate applied to scheme's liabilities	N/a
Price Inflation per annum	5.0%

Borders College

Notes to the Accounts (cont'd.)

For the Year Ended 31 July 2005

Financial Assumptions – SBCPF Scheme

	<u>Council Scheme</u> <u>Projected Unit</u> <u>Method</u> <u>Year ended</u> <u>31.07.05</u>	<u>Council Scheme</u> <u>Projected Unit</u> <u>Method</u> <u>Year ended</u> <u>31.07.04</u>	<u>Council Scheme</u> <u>Projected Unit</u> <u>Method</u> <u>Year ended</u> <u>31.07.03</u>
Price Inflation per annum	2.7%	2.9%	2.6%
Salary scale increases per annum	4.2%	4.4%	4.1%
Real salary increase	1.5%	1.5%	1.5%
Pension increases per annum	2.7%	2.9%	2.6%
Investment returns per annum	See below	See below	See below
Discount rate applied to scheme's liabilities	4.9%	5.8%	5.5%
Real discount rate	2.1%	2.8%	2.8%

The assumptions adopted for the Council Scheme (above) are based on a set of demographic assumptions that have been updated from those used for the normal funding valuation of the SBCPF as at 31 March 2002.

The consulting actuaries have used PA92 projected to calendar year 2005 for current pensioners and 2015 for active and deferred members. The actuaries expect that this will more accurately reflect the assumptions that we are likely to use for the 31st March 2005 valuation.

Borders College

Notes to the Accounts (cont'd.)

For the Year Ended 31 July 2005

The fair value of the SBCPF's assets as at 31 July 2005, of which the College is part, and which are not intended to be realised in the short-term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, are shown below together with those of the Teachers' Scheme. The expected long-term rates of return for both schemes are also shown:

Asset Value and Expected Return on Assets – Teachers' Scheme

	<u>Rates of Return</u>	<u>Teachers Scheme</u> <u>Value 31.03.96</u> <u>£m</u>	<u>Rates of Return</u>	<u>Council Scheme</u> <u>Value 31.07.03</u> <u>£m</u>
Equities	N/a	-	8.0%	126
Bonds	N/a	-	5.0%	33
Property	N/a	-	6.0%	13
Cash	N/a	-	3.5%	8
Notional Fund	8.5%	<u>4,370</u>		<u>180</u>
		<u>4,370</u>		
Surplus/(Deficiency)		<u>(230)</u>		<u>N/a</u>

The actuarial notional value of the Teachers Scheme showed a deficiency of £230m that required the supplementary provision by employers to be increased from 1 October 2003. The rate payable by employers rose from 7.4% to 12.5% on that date. The Funding Council funded 4.75% of the increase in 2004-05; the remaining 0.35% was funded by the College.

Asset Value and Expected Return on Assets – Council Scheme

<u>Assets</u> <u>(Employer)</u>	<u>Long-term</u> <u>Return at</u> <u>31 July 2005</u> <u>% p.a.</u>	<u>Assets at</u> <u>31 July 2005</u> <u>£000</u>	<u>Long-term</u> <u>Return at</u> <u>31 July</u> <u>2004</u> <u>% p.a.</u>	<u>Assets at</u> <u>31 July 2004</u> <u>£000</u>	<u>Long-term</u> <u>Return at</u> <u>31 July 2003</u> <u>% p.a.</u>	<u>Assets at</u> <u>31 July 2003</u> <u>£000</u>
Equities	7.5%	2,505	7.9%	1,947	8.0%	1,650
Bonds	5.3%	624	5.4%	516	5.0%	427
Property	7.0%	249	6.7%	211	6.0%	166
Cash	4.3%	<u>95</u>	4.5%	<u>82</u>	3.5%	<u>101</u>
Total	6.9%	3,473	7.2%	2,756	7.1%	2,344
Net Pension Asset as at		<u>31 July</u> <u>2005</u>		<u>31 July</u> <u>2004</u>		<u>31 July</u> <u>2003</u>
Estimated Employer Assets (A)		3,473		2,756		2,344
Present Value of Scheme liabilities		(4,654)		(3,711)		(3,270)
Present Value of Unfunded Liabilities		<u>(722)</u>		<u>(653)</u>		<u>(610)</u>
Total Value of Liabilities (B)		<u>(5,376)</u>		<u>(4,364)</u>		<u>(3,880)</u>
Net Pension Asset (A) – (B)		<u>(1,903)</u>		<u>(1,608)</u>		<u>(1,536)</u>

Borders College

Notes to the Accounts (cont'd.)

For the Year Ended 31 July 2005

23. PENSION COMMITMENTS (cont'd)

	<u>Year</u> <u>Ended</u> <u>31 July 2005</u> <u>£000</u>	<u>Year</u> <u>Ended</u> <u>31 July 2004</u> <u>£000</u>
The total pension cost of the College and its subsidiaries was:		
Contributions to Teachers Scheme	249	214
Contributions to the Council Scheme	<u>310</u>	<u>274</u>
Total Pension Cost	<u>559</u>	<u>488</u>

Financial Reporting Standard 17 – Retirement Benefits

Financial Reporting Standard 17 that sets out the requirements for accounting for retirement benefits was published in November 2000. Although the Standard will not be fully operational until 22 June 2005, all employers who use a defined benefit pension scheme are required to make certain disclosures in their financial statements. As the Teachers' Scheme is a notional fund this information is not available. However, the relevant disclosures for the Council Scheme are as follows: colleges will implement FRS17 in full for the first time for the financial year ending 31 July 2006.

Analysis of amount charged to operating profit

The following amounts would be charged to operating profit:

	<u>Borders</u> <u>College</u> <u>Year ended</u> <u>31 July 2005</u> <u>£000</u>	<u>Borders</u> <u>College</u> <u>Year ended</u> <u>31 July 2004</u> <u>£000</u>	<u>BC Consultants</u> <u>Year ended</u> <u>31 July 2005</u> <u>£000</u>	<u>BC Consultants</u> <u>Year ended</u> <u>31 July 2004</u> <u>£000</u>
Service cost	(223)	(205)	(135)	(124)
Curtailment and settlements	0	0	0	0
Total operating charge (A)	<u>(223)</u>	<u>(205)</u>	<u>(135)</u>	<u>(124)</u>
Expected return on employer assets	209	174	76	59
Interest on pension scheme liabilities	<u>(246)</u>	<u>(220)</u>	<u>(72)</u>	<u>(60)</u>
Net Return (B)	(38)	(46)	4	(1)
Net revenue Account Cost (A) - (B)	<u>(261)</u>	<u>(251)</u>	<u>(131)</u>	<u>(125)</u>

Borders College

Notes to the Accounts (cont'd.)

For the Year Ended 31 July 2005

23. PENSION COMMITMENTS (cont'd)

Financial Reporting Standard 17 – Retirement Benefits

Analysis of amounts recognised in the Statement of Total Recognised Gains and Losses (STRGL)

The following amounts would be recognised in the STRGL:

	<u>Borders College Year ended 31 July 2005 £000</u>	<u>Borders College Year ended 31 July 2004 £000</u>	<u>BC Consultants Year ended 31 July 2005 £000</u>	<u>BC Consultants Year ended 31 July 2004 £000</u>
Actual return less expected return on assets	266	29	97	10
Experience gains / (losses) on liabilities	-	(48)	0	0
Change in assumptions underlying present value of scheme liabilities	<u>(528)</u>	<u>(6)</u>	<u>(167)</u>	<u>(2)</u>
Actuarial gain / (loss) recognised in the STRGL	<u>(262)</u>	<u>(25)</u>	<u>(70)</u>	<u>8</u>

Movement in deficit in the year

The movement in deficit in the year was as follows:

	<u>Borders College Year ended 31 July 2005 £000</u>	<u>Borders College Year ended 31 July 2004 £000</u>	<u>BC Consultants Year ended 31 July 2005 £000</u>	<u>BC Consultants Year ended 31 July 2004 £000</u>
Surplus / (deficit) at 1 August 2004	(1,608)	(1,537)	(260)	(251)
Current service cost	(223)	(205)	(135)	(124)
Employer contributions	229	167	124	109
Impact of settlements and curtailments	0	38	0	0
Net return on assets	(38)	(46)	4	(1)
Actuarial gains / (losses)	<u>(262)</u>	<u>(25)</u>	<u>(70)</u>	<u>8</u>
Surplus / (deficit) at 31 July 2005	<u>(1,902)</u>	<u>(1,608)</u>	<u>(337)</u>	<u>(259)</u>

Borders College

Notes to the Accounts (cont'd.)

For the Year Ended 31 July 2005

23. PENSION COMMITMENTS (cont'd)

Financial Reporting Standard 17 – Retirement Benefits

History of actuarial gains / (losses)

Actuarial gains and losses over the year were as follows:

	<u>Borders College Year ended 31 July 2005 £000</u>	<u>Borders College Year ended 31 July 2004 £000</u>	<u>BC Consultants Year ended 31 July 2005 £000</u>	<u>BC Consultants Year ended 31 July 2004 £000</u>
Actual return less expected return on assets	266	29	97	10
Value of assets	3,473	2,756	1,300	971
Return as a percentage of year end Fund assets	8.0%	1.0%	7.0%	1.0%
Experience gains / (losses) on liabilities	-	(48)	0	0
Present value of liabilities	5,375	4,365	1,638	1,231
Percentage of the present value of liabilities	0.0%	(1.1%)	0.0%	0
Actuarial gain / (losses) recognised in the STRGL	(262)	(25)	(70)	8
Present value of liabilities	5,375	4,365	1,638	1,231
Percentage of the present value of liabilities	(4.9%)	(0.6%)	(4.3%)	0.6%

Balance Sheet Presentation

	<u>Borders College Year ended 31 July 2005 £000</u>	<u>Borders College Year ended 31 July 2004 £000</u>	<u>BC Consultants Year ended 31 July 2005 £000</u>	<u>BC Consultants Year ended 31 July 2004 £000</u>
Net Assets				
Net assets excluding pensions liability and pension provision	2,440	4,730	21	21
Pension liability	(1,903)	(1,608)	(337)	(259)
Net assets / (liabilities) including pension liability	<u>537</u>	<u>3,122</u>	<u>316</u>	<u>(238)</u>

Borders College

Notes to the Accounts (cont'd.)

For the Year Ended 31 July 2005

23. PENSION COMMITMENTS (cont'd)

Financial Reporting Standard 17 – Retirement Benefits

Balance Sheet Presentation – Reserves Note

	<u>Borders College Year ended 31 July 2005 £000</u>	<u>Borders College Year ended 31 July 2004 £000</u>	<u>BC Consultants Year ended 31 July 2005 £000</u>	<u>BC Consultants Year ended 31 July 2004 £000</u>
Income and expenditure reserve excluding pension liability and pension provision (Note 22)	88	113	0	0
Pension reserve	(1,903)	(1,608)	(337)	(259)
Income and expenditure account including FRS17 pension liability	<u>(1,815)</u>	<u>(1,495)</u>	<u>(337)</u>	<u>(259)</u>

The Income and Expenditure Reserve for BC Consultants is zero at the year-end as all profits made in the year are paid over to the College as Gift-aid. An adjustment would be made for the pension reserve before the year-end that would reduce the amount of Gift-aid due to the College. This would either reduce or eliminate any deficit on the Income and Expenditure Reserve.

24. CAPITAL COMMITMENTS

	<u>31 July 2005 £000</u>	<u>31 July 2004 £000</u>
Outstanding capital commitments not provided for in the accounts amounted to:		
Contracted, but not provided in these accounts	<u>-</u>	<u>2</u>
Expenditure authorised but not yet contracted	<u>233</u>	<u>0</u>

25. OPERATING LEASE COMMITMENTS

Annual rental commitments under operating leases are as follows:

	<u>Land, Buildings And Equipment Year Ended 31 July 2005 £000</u>	<u>Land, Buildings and Equipment Year Ended 31 July 2004 £000</u>
Leases which expire in less than one year	<u>3</u>	<u>23</u>
Leases which expire between one and five years	<u>100</u>	<u>56</u>

26. CONTINGENT LIABILITIES

	<u>31 July 2005</u>	<u>31 July 2004</u>
Material contingent liabilities	<u>0</u>	<u>0</u>

27a. BURSARY FUNDS

	<u>2004-05</u> <u>Bursary</u>	<u>2004-05</u> <u>Hardship</u>	<u>2004-05</u> <u>EMAs</u>	<u>2004-05</u> <u>Total</u>	<u>2003-04</u> <u>Total</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Balance b/fwd	35	10	8	53	110
Allocation received in year	1,281	63	94	1,438	1,241
Expenditure	(1,191)	(32)	(110)	(1,333)	(1,183)
Transferred to Restricted Reserve	(78)	0	0	(78)	(110)
Repayable to SFEFC (clawback)	0	(34)	0	(34)	0
Virements	0	0	0	0	(5)
Balance c/fwd	<u>47</u>	<u>7</u>	<u>(8)</u>	<u>46</u>	<u>53</u>

FE CHILDCARE FUNDS

	<u>Year ended</u> <u>31 July 2005</u>	<u>Year ended</u> <u>31 July 2004</u>
	<u>£000</u>	<u>£000</u>
Balance b/fwd	0	0
Allocation received in year	91	90
Expenditure	(82)	(90)
Repayable to Funding Council/funding body (clawback)	0	0
Virements	0	0
Balance c/fwd	<u>9</u>	<u>0</u>

27b. H.E. STUDENT SUPPORT FUNDS

	<u>2004-05</u> <u>Hardship</u>	<u>2004-05</u> <u>MSBF</u>	<u>2004-05</u> <u>Total</u>	<u>2003-04</u> <u>Total</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Balance b/fwd	4	3	7	4
Allocation received in year	5	35	40	33
Interest earned in year	0	2	2	1
Virements	0	0	0	0
Disbursements in support of students	(2)	(2)	(4)	(12)
Allowable administration costs	0	(1)	(1)	(3)
Excess grant to be returned	(4)	(34)	(38)	(16)
Balance c/fwd	<u>3</u>	<u>3</u>	<u>6</u>	<u>7</u>

Funding Council grants are available solely for students; the College acts only as paying agent. The grants and related disbursements are therefore excluded from the income and expenditure account.

Notes to the Accounts (cont'd.)

For the Year Ended 31 July 2005

28. RECONCILIATION OF CONSOLIDATED OPERATING SURPLUS TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	<u>Year Ended</u> <u>31 July 2005</u> <u>£000</u>	<u>Year Ended</u> <u>31 July 2004</u> <u>£000</u>
(Deficit)/surplus on continuing operations after depreciation of assets at valuation	(1,980)	(130)
Depreciation	2,822	344
Deferred capital grants released to income	(595)	(116)
Interest receivable	(93)	(44)
Interest payable	32	35
(Increase)/Decrease in stock	(3)	2
(Increase)/Decrease in debtors	(271)	110
Increase/(Decrease) in restricted reserves	(202)	405
Increase/(Decrease) in creditors	788	254
Increase/(Decrease) in provisions	<u>3</u>	<u>142</u>
Net cash inflow from operating activities	<u>501</u>	<u>1,002</u>

29. ANALYSIS OF GROSS CASH FLOWS FOR HEADINGS NETTED IN CASH FLOW STATEMENT

	<u>Year</u> <u>Ended</u> <u>31 July 2005</u> <u>£000</u>	<u>Year</u> <u>Ended</u> <u>31 July 2004</u> <u>£000</u>
<u>Returns on investment and servicing of finance</u>		
Interest from endowments	1	0
Other interest received	93	44
Interest paid		(34)
Interest element of Term Loan repaid	(32)	0
Interest element of hire purchase and finance lease payments	<u>0</u>	<u>(1)</u>
Net cash inflow from returns on investment and servicing of finance	<u>62</u>	<u>9</u>
<u>Capital expenditure and financial investment</u>		
Payments to acquire tangible fixed assets	(381)	(246)
Sale of tangible fixed assets		180
Deferred capital grants received	222	25
Bursary funding received	78	153
Endowment income invested	<u>0</u>	<u>0</u>
Net cash inflow/(outflow) from capital expenditure and financial investment	<u>(81)</u>	<u>112</u>
<u>Management of liquid resources</u>		
Net cash inflow/(outflow) from short-term deposits	<u>0</u>	<u>0</u>
<u>Financing</u>		
Debt due after more than one year -		
Loan repayments	(39)	(39)
Capital element of hire purchase and finance lease rental payments	(18)	(17)
New finance leases	<u>48</u>	<u>=</u>
	<u>(9)</u>	<u>(56)</u>

Borders College

Notes to the Accounts (cont'd.)

For the Year Ended 31 July 2005

30. ANALYSIS OF CHANGE IN NET DEBT

	<u>As at</u> <u>31 July</u> <u>2004</u> <u>£000</u>	<u>Cash</u> <u>flows</u> <u>£000</u>	<u>Other</u> <u>non-cash</u> <u>changes</u> <u>£000</u>	<u>As at</u> <u>31 July</u> <u>2005</u> <u>£000</u>
Cash in hand and at bank	2,007	472		2,479
Endowment asset investments	20	1		21
Debt due within one year	(39)	0		(39)
Debt due after more than one year	(512)	39		(473)
Hire purchase and finance leases	(21)	(30)		(51)
Short term deposits	<u>0</u>	<u>0</u>	-	<u>0</u>
Net Debt	<u>1,455</u>	<u>482</u>	=	<u>1,937</u>

31. LOSSES AND SPECIAL PAYMENTS

The total value of amounts written off during the year in respect of losses and special payments under a general authority from SFEFC are summarised as follows:

	<u>Year Ended</u> <u>31 July 2005</u> <u>£</u>	<u>Year Ended</u> <u>31 July 2004</u> <u>£</u>
Compensation payments	<u>0</u>	<u>0</u>
Bursary money written off	<u>12,600</u>	<u>11,742</u>
Impairment of assets (Note 34)	<u>2,046,000</u>	<u>0</u>

32. RELATED PARTY TRANSACTIONS

Due to the nature of the College's operations and the composition of the Board of Management (being drawn from public and private sector organisations) it is inevitable that transactions will take place with organisations in which a member of the Board of Management may have an interest. All transactions involving organisations in which a member of the Board of Management may have an interest are conducted at arm's length and in accordance with the College's financial regulations and normal procurement procedures. Further details are disclosed on Page 11 within the report of the Board of Management

33. POST BALANCE SHEET EVENTS

On 12 October 2005 a flood in Hawick resulted in serious damage to the main campus on Commercial Road and the adjacent Bath Street premises. The College believes that its insurance cover will meet the anticipated cost of repairs of around £120,000. The College implemented a Business Continuity Plan which developed a strategy to relocate both staff and students to other locations within the College. The College prioritised work to bring back to use those areas which had a direct bearing on the student experience. Students were unable to use the Hawick for two weeks. The College anticipates that the building will not be brought fully back into use until the start of the New Year.

34. EXCEPTIONAL ITEM

The impairment charge was calculated as described in Note 10a together with the one-off release of

the associated deferred capital grants as described in Note 20. The figure shown on the face of the Income and Expenditure Account was calculated as follows:

		<u>As at</u> <u>31 July 2005</u> <u>£000</u>
Impairment of land and buildings – cost	Note 10	(3,814)
Impairment of land and buildings – depreciation	Note 10	1,250
Deferred grants released	Note 20	<u>518</u>
Impairment charge		<u>(2,046)</u>