

Board of Management Report and Financial Statements

For the eight month period ended
31 March 2014

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OPERATING AND FINANCIAL REVIEW

The Board of Management of Ayrshire College presents their Operating and Financial Review together with the Audited Financial Statements for the Eight Months to 31 March 2014.

Ayrshire College

Ayr College, Kilmarnock College and the North Ayrshire Campuses of James Watt College merged on 1 August 2013 to form Ayrshire College. Ayr College was chosen as the host college for the new merged entity.

The College has adopted the provisions of FRS 6 (Merger Accounting) which means that the results of the College are shown as if the College had always been in existence as a merged body. Accordingly, whilst 1 August 2013 was the first day of the new College's existence, these financial statements also include comparative figures for the year ended 31 July 2013 for Ayrshire College, being the financial results of the three former Colleges as modified as shown in Note 32 to these Financial Statements.

References to the College and the Board of Management in these financial statements can therefore refer to either Ayr College, Kilmarnock College and the North Ayrshire Campuses of James Watt College (if referring to previous activities up to and including 31 July 2013) or Ayrshire College (if referring to current or proposed activities) as the context allows.

These financial statements have been approved by the Board of Management of Ayrshire College.

Legal Status

The Board of Management was established under the Further and Higher Education (Scotland) Act 1992 to manage and conduct Ayrshire College. It was designated a regional college on 3 March 2014 under the Further and Higher Education (Scotland) Act 2005.

The College is a registered Charity (Scottish Charity Number SC021177) for the purposes of the Law Reform (Miscellaneous Provision) (Scotland) Act 2005.

Board of Management Report

The Ayrshire Partnership Board (APB) met regularly in the period up to vesting day. The APB was constituted by Members of the Boards of Management of the three legacy Colleges. A shadow Board of Management met once in July 2013 with Ayrshire College vesting on 1 August 2013. The first meeting of the Ayrshire College Board of Management took place on 5 August 2013.

The Board of Management published the College's strategic plan, "Ambitious for Ayrshire". This describes how the College will deliver the highest quality learning for our students, be innovative in all aspects of our work and make a real difference to the regional economy and our communities.

The College's mission statement is to

"Inspire learners to achieve their full potential by playing a lead role in the development of skills, the economy and community life"

This mission is supported by the College's vision of ***"Raising Aspirations / Inspiring Achievement / Increasing Opportunities"***.

The Board of Management has endorsed an aspiration to be a 'seven star' college which reflects the Board's stretching ambitions for the College.

1. To deliver excellence in learning and teaching
2. To have an excellent reputation locally, regionally and nationally
3. To nurture new and further develop excellent partnership working with employers and Community Planning Partners
4. To recruit and retain highly skilled staff and enable students to flourish in excellent learning environments
5. To be the college of first choice for students
6. To be the training partner of choice for employers
7. To demonstrate excellence in financial sustainability

The Board of Management has aligned the mission and vision of Ayrshire College with the strategic priorities of our partners, in particular to support the overarching ambitions of the three Community Planning Partnerships in Ayrshire focused around:

- Economy and Skills
- Tackling Inequalities
- Building Community Capacity

To achieve our ambitions, significant progress has been made in the eight months to March 2014 throughout the College and its services. These milestone achievements have provided a solid foundation to move forward positively in a period of transformation and change to realise our ambitions.

Financial Objectives

The College's Financial Objectives are to be financially sustainable while continuing to invest in the development of student centred services, infrastructure and resources.

Throughout 2013/14 the College has continued to develop its budgeting, monitoring and financial reporting systems to support a complex organisation of the scale of Ayrshire College.

Improvements have been made to financial planning and this will continue to be a key priority going forward given the challenges for the College Sector around the levels of funding made available while continuing to demonstrate financial sustainability.

The Executive Management Team (EMT) continues to work with the Board of Management and its Committees to review financial information requirements and key performance data to be presented to ensure good Governance in relation to challenge and scrutiny.

Financial Review

Introduction

The income and expenditure account shows an operating deficit for the eight month period to 31 March 2014 of (£11,500,000). This is compared to a surplus in 2012/13 of £1,009,000.

The deficit in 2013/14 is explained by a number of exceptional items in 2013/14. The presentation of the Income and Expenditure Account in these financial statements therefore analyses trading in the period between Recurring and Exceptional Items.

Recurring Trading

The College recorded an operating surplus of £678,000 in 2013/14 which represents approximately 2.5% of overall recurring income. The financial budget for 2013/14 was based on an operating surplus of £43,000. The College has significant reliance on the SFC for its funding which is largely from recurrent grants. In 2013/14 the SFC provided 80.8% of the College's total recurring revenue income (2012/13: 82.4%).

Senior Management have continually reviewed and refined the College's operations during the period. Robust financial management, innovative delivery models and prioritisation of expenditure commitments has enabled the delivery of a recurring trading surplus.

Exceptional Items

The eight month period under consideration has been a time of exceptional change within Ayrshire College and the College Sector. The deficit arising from Exceptional Items in this period was (£12,178,000).

This comprises the following elements

- **Donation to the Ayrshire College Foundation - charge of £6,611,000**

The ONS reclassification of incorporated Colleges in Scotland was effective from 1 April 2014 and the Board of Management, following specialist advice and approvals from SFC, made a significant donation to the newly established Ayrshire College Foundation from the College's Income & Expenditure reserves. This donation will be used in future years by the Ayrshire College Foundation in line with its charitable objectives.

- **New Campus Development in Kilmarnock: net charge of £6,258,000**

During 2013-14 the College announced "C3 Investments in Ayrshire College Education" as the Preferred Bidder for the New Campus Project in Kilmarnock. During the period of these accounts, the College completed the transfer of title to the 10 acres of land at Hill Street, Kilmarnock, gifted by Diageo to the College.

Due to the scale of the Project and as a result of reaching Financial Close in June 2014, the College is required to recognise the accounting impact in respect of its current premises in Holehouse Road, Kilmarnock. The College, as part of this set of accounts, has written down the value in line with accounting standards with a net charge to the Income & Expenditure account of £8,764,000, offset by the accelerated release of SFC deferred capital grants amounting to £1,653,000 and non SFC grants of £53,000 together with the £800,000 valuation of the land at Hill Street

- **SFC College Transformation Fund: net charge of £68,000**

The College received £2,193,000 from SFC in the period with corresponding expenditure of £2,261,000.

- **SFC Capital Grants – net income of £1,188,000**

In line with SFC guidance, the College released unspent capital funding of £1,188,000 to the Income and Expenditure account in the period.

- **Deferred PFI Expenditure – net charge of £429,000**

The College assumed responsibility for the Kilwinning PFI campus contract on 1 August 2013 and, after review, has written off £429,000 of historic development costs previously being released over the contract length.

Reserves

The surplus brought forward on the income and expenditure reserve at 1 August 2013 was £9,299,000. After the recurring surplus for the period of £678,000, the exceptional items noted above, the transfers in respect of the pension reserve, and the transfers from the revaluation reserve are taken into account, the surplus on the College's income and expenditure reserve at 31 March 2014 is £5,440,000.

Capital Additions

Tangible Fixed Asset additions in 2013/14 amounted to £1,487,000. All of this expenditure related to capital purchases to support curriculum areas, ICT equipment and furniture/fittings.

Core Financial Performance Indicators

The Scottish Funding Council (SFC) has developed a series of core performance indicators which are designed to provide an overall summary view of an Institution's performance. This is one aspect of the SFC's Institutional Sustainability agenda.

The table below notes the College performance against these indicators which should be considered in conjunction with the narrative provided elsewhere in the operating and financial review.

No	Performance Indicator	Eight months to 31.3.14	Year to 31.7.13
1	Recurring Operating Surplus as % of total recurring income	2.5%	2.4%
2	Non SFC Income as % of Total Income	19.2%	17.6%
3	Current Assets: Current Liabilities	1.1:1	2.3:1
4	Staff Turnover *	* See below	* See below
5	% Working Days Lost through Sickness Absence	** See below	** See below

6	WSUMS activity target set by SFC for year to July	183,269	159,636
7	Activity Target WSUMS per curriculum staff FTE	417	356
8	Gearing/ debt	Nil	Nil
9	Days of recurring expenditure represented by period end cash	27	66

**The College undertook a comprehensive Organisational Review during 2013-14 and a comparison to previous years for the three legacy Colleges would not provide a reliable measureable KPI.*

*** With the College financial year now different from the academic year, a comparison to the previous year for the three legacy Colleges would not provide a reliable measurable KPI.*

Treasury Management Policies and Objectives

Treasury Management is the management of the College's cash flows, its banking, money market and capital transactions; the effective control of risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

The College has a policy of placing any surplus funds with the College's retail banker with a view to maintain security of capital and maximising the yield from any short term deposits made.

Cash Flows

The College had a net reduction in cash in 2013/14 of £4,408,000, primarily represented by the donation of £6,611,000 in the period to the Ayrshire College Foundation, partially offset by the recurring surplus in the period, as adjusted for the (non-cash) depreciation charge.

Liquidity

The College continues to have sufficient liquidity in terms of cash resources.

Payment Performance

The College has a policy of paying its suppliers within agreed terms unless an invoice is disputed. All disputes are dealt with as quickly as possible. No interest was paid by the College under the Late Payment of Commercial Debts (Interest) Act 1998.

SFC Outcome Agreement

One practical aspect of the ONS reclassification was a resultant change in the College's financial reporting year. Colleges for a number of years aligned their academic operating year with their financial reporting year. This has allowed the Colleges within their annual financial statements to include KPI's in relation to student statistics including numbers, retention and achievement. Due to timing this is not available within the completion period for these Financial Statements. In addition, the College in 2013/14 has agreed an Outcome Agreement with the Scottish Funding Council (SFC). This is the second year of the operation of this model.

The Outcome Agreement has five strategic outcomes:

1. Efficient and Effective College Structures
2. Right Learning in the Right Place
3. High Quality and Efficient Learning
4. Developing the Workforce
5. Sustainable Institutions

The College will report separately on the 2013/14 Outcome Agreement including KPI's.

Within the 2013/14 Outcome Agreement the College activity target was 183,269 WSUMS in the academic year to 31 July 2014 which attracts funding support of £31,975,352.

Curriculum Developments

The College reviews its portfolio of courses on an annual basis. Courses no longer in demand, not achieving success or not related to skills were removed from the Curriculum Delivery Plan (CDP). The College ensures that its portfolio of programmes offer skills development opportunities. Planning was completed pre vesting by the legacy Colleges to develop the first Ayrshire Region CDP. During the eight month period in 2013/14 significant development activity has taken place to develop the CDP for 2014/15.

Resources

The College has various resources that it can deploy in pursuit of its strategic objectives.

Property

Tangible resources include the eight Campuses of Ayrshire College. Ayrshire College has main Campuses in all three Local Authority areas. The main Campuses are located in Ayr, Kilwinning and Kilmarnock. Other Campuses are used to support our communities due to their location or specialist curriculum provision such as our Nethermains Campus in Kilwinning which focuses on the STEM curriculum or Townholm in Kilmarnock which focuses on Sports and Construction.

Financial Performance

The College generated an operating surplus of £678,000 in the period which represents approximately 2.5% of overall recurring income. This compares to an operating surplus in 2012/13 of £1,009,000.

After recording significant net exceptional costs amounting to £12,178,000, the Historical Cost final deficit was £(11,500,000) for 2013/14 (2012/13 – surplus of £1,009,000).

The College, at March 2014, has £32,227,000 of net assets (after deducting £7,298,000 pension liability). At July 2013 the College had £47,420,000 of net assets (after deducting £4,455,000 pension liability).

The decrease of £15,193,000 in net assets is primarily due to the impairment of the Holehouse Road campus, the donation to the Ayrshire College Foundation and the £2,843,000 increase in the pension liability.

People

In 2013/14 the College had 697 employees (expressed as full time equivalents) of whom 440 are Curriculum Staff and 257 are Service Staff. The 694 employees in 2012/13 comprised 448 Curriculum Staff and 246 Service Staff.

Principal Risks and Uncertainties

The College's Board of Management is ultimately 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 Executive Management Team (EMT) monitor key performance and risk indicators and consider possible control issues brought to their attention through operational planning and monitoring. The EMT and the Audit Committee also receive regular reports from Internal Audit which include recommendations for improvement. The Internal Audit service for 2013-14 was performed by Scott Moncrieff and concentrates on areas of key activities determined by risk analysis and in accordance with the annual internal audit plan approved by the Audit Committee. The Internal Auditors have direct access to the Chair of the Audit Committee and issue an annual report with an opinion on the adequacy, reliability and effectiveness of the College's internal control system.

The Audit Committee considers risk at each Committee Meeting. The College Risk Register is updated quarterly by the EMT and presented to the next Audit Committee.

The individual risks identified in the College Risk Register are clustered together based on the remit of the Board and each College Committee, with the risk groupings relating to:

- Board of Management
- Finance
- Human Resources and Organisational Wellbeing
- Learning and Teaching
- Estates and New Campus Development

There is no 'Risk Cluster' specifically identified for the Audit Committee as the overall management of Risks are within this Committee's Terms of Reference.

The Board of Management also review the College Risk Register at each of their meetings.

Individual risks are classified as either High, Medium or Low based on scales for Likelihood and Impact.

The College Risk Register at the end of 2013-14 identified 23 strategic risks.

- 4 risks were viewed as High
- 11 risks were assessed as Medium
- 8 risks were classified as Low.

The following risks have been assessed as High

- Failure to address 'ONS' issues and meet timescales for College reclassification
- Failure to nurture good employee relations
- Failure to recruit and retain key staff
- Failure to meet the SFC Activity and Performance Targets

Stakeholder Relationships

Ayrshire College has many stakeholders, including:

- Students
- Student Association
- Staff
- Scottish Funding Council
- Education Scotland
- Local Employers/Businesses
- Community Planning Partnerships
- Local Authorities
- Scotland's Colleges
- Skills Development Scotland
- Trade Unions
- Higher Education Institutions
- The Voluntary Sector
- Scottish Futures Trust

The College recognises the importance of these relationships and engages in regular communication with them through a variety of routes.

Staff Involvement and Participation

All staff are fully informed of College developments through a range of communication and consultation frameworks. Joint Consultation and Negotiation Committees take place with the Trade Unions recognised by the College and regular all staff meetings take place to provide updates and information.

In addition, there are also two elected staff representatives on the Board of Management.

Staff Development

The College has continued to invest in the development of all staff during 2013-14 and a broad range of staff learning and development activities have taken place.

Equality and Diversity

The College is committed to ensuring that we are an inclusive Regional college, accessible by all sections of the communities we serve. The College's main strategic aim is to exceed its statutory requirements in order to enable equality, diversity and inclusion to be integrated into all aspects of daily business. A range of activities have been carried out during 2013-2014 in conjunction with the external Equality Challenge Unit (ECU).

The Executive Management Team and Board of Management lead the College's equality and diversity strategy and monitoring arrangements.

Health Safety and Wellbeing

It is the policy of the College to pursue progressive improvement in the Health, Safety and Wellbeing of staff, students and visitors and take all reasonable steps to provide safe and healthy conditions in which to study, learn and work.

A range of developments have been undertaken during 2013-14 to promote our culture of health, safety and wellbeing.

Student Involvement

The College recognises the importance of the Student Voice and the role of the three Sabbatical Presidents. Two of the Sabbatical Presidents are members of the Board of Management with the third being an observer at Board meetings. In addition, each year students are invited to give feedback to the College through a range of formal and informal routes.

Disclosure of Information to Auditors

The members of the Board of Management confirm that, so far as they are aware, there is no relevant audit information of which the College Auditor is unaware; and each member has taken all the steps that he or she ought to have taken to be aware of any relevant audit information and to establish that the College's Auditors are aware of that information.

Post Balance Sheet Events

During 2013-14 the College announced "C3 Investments in Ayrshire College Education" as the Preferred Bidder for the New Campus Project in Kilmarnock. During the period of these accounts the College completed the transfer of title to the 10 acres of land at Hill Street, Kilmarnock, gifted by Diageo to the College.

Financial Close was reached on 4 June 2014. This was a significant milestone in the Project and construction activities started on site on the same day. This exciting £53 million Project will provide a fit for purpose learning environment for the 21st century and has a number of sector leading elements. This Project will also contribute to the regeneration of the Hill Street area of Kilmarnock as well as the Town Centre initiatives.

The new Campus has a target service commencement date of 19 May 2016.

Due to the scale of the Project and as a result of reaching Financial Close, the College requires to recognise the accounting impact in respect of its current premises in Holehouse Road, Kilmarnock. The College as part of this set of accounts has written down the value in line with accounting standards and this is described in more detail above under exceptional costs.

Approved by order of the members of the Board of Management and signed on its behalf by:

W Mackie
Chair

30 September 2014

STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL

The College is committed to exhibiting best practice in all aspects of Corporate Governance. This summary describes the manner in which the College has applied the principles set out in the UK Corporate Governance Code. Its purpose is to help the reader of the accounts understand how the principles have been applied.

In the opinion of the Board of Management, the College complies with all provisions of the UK Corporate Governance Code in so far as they apply to the Further Education sector and it has complied throughout the eight month period ended 31 March 2014.

Board of Management

The remit of the Board of Management is to manage and conduct the affairs of the College including the equality and diversity of staff and students; corporate governance and risk management; finance, planning, monitoring and audit; maintaining quality and standards; and maintaining the College estate. The Board of Management must also ensure that there is an adequate system of accounting and internal control which meets accepted accounting, budgetary control and auditing standards.

The Board of Management is provided with regular information on the overall financial performance of the College together with other information such as performance against targets, quality matters and personnel related issues such as health and safety.

The Board of Management meets on a quarterly basis and during this period of change a number of extra-ordinary meetings were also convened.

Full minutes of all Board of Management meetings, except those deemed to be confidential by the Board of Management, are available from the Secretary to the Board of Management at Ayrshire College, Dam Park, Ayr KA8 0EU.

The Secretary to the Board of Management maintains a register of financial and personal interests, in so far as it relates to the activities of Ayrshire College, of the members of the Board of Management. The register is available for inspection at Ayrshire College, Ayr Campus, Dam Park, Ayr KA8 0EU.

Formal agendas, papers and reports are supplied to Members in a timely manner prior to Board Meetings and Board Committee Meetings. Briefings are also provided on an ad-hoc basis.

Chair of the Board of Management

The Chair of the Board of Management was Willie Mackie from 1 August 2013. From March 2014 the implementation of The Post-16 Education (Scotland) Act 2013 required that Chairs of Regional College Boards of Management be appointed by Scottish Ministers. Following a public appointments process, Willie Mackie was appointed by the Cabinet Secretary for Education and Lifelong Learning as Chair of the Ayrshire College Board of Management with effect from 3 March 2014.

Members of the Board of Management

The Members who served on the Board of Management during the eight months to 31 March 2014 were as follows:

Board Member	Committees Served	Status of Appointment	Date of Appointment	Date of Resignation
Mr W Mackie	<ul style="list-style-type: none"> • Finance • Estates and New Campus Development • Performance, Review & Remuneration • Search & Nomination 	Chair of Ayrshire College BOM Chair of Ayrshire Regional College BOM	01.08.13 03.03.14	
Mrs H Dunk	<ul style="list-style-type: none"> • Human Resources & Organisational Wellbeing • Learning and Teaching • Estates and New Campus Development • Finance 	Principal	01.08.13	
Ms N A M Beveridge	<ul style="list-style-type: none"> • Human Resources & Organisational Wellbeing • Audit • Estates and New Campus Development • Performance, Review & Remuneration • Search & Nomination 	Board Member	01.08.13	
Mrs K Cole	<ul style="list-style-type: none"> • Learning & Teaching • Finance 	Elected Curriculum/ Teaching Staff	01.08.13	31.7.14
Mr B Costley	<ul style="list-style-type: none"> • Learning & Teaching • Audit 	Board Member	01.11.13	
Mr S Fegan	<ul style="list-style-type: none"> • Learning & Teaching • Estates and New Campus Development 	Student Member Co-opted Board Member until January 2014. Board member from February 2014.	01.08.13 03.02.14	
Ms B Graham	<ul style="list-style-type: none"> • Learning & Teaching • Human Resources & Organisational Wellbeing • Audit • Performance, Review & Remuneration • Search & Nomination 	Board Member	01.08.13	

Board Member	Committees Served	Status of Appointment	Date of Appointment	Date of Resignation
Mr S Greenwood	<ul style="list-style-type: none"> Human Resources & Organisational Wellbeing Audit 	Elected Service/ Support Staff	01.08.13	
Dr W-y Hatton	<ul style="list-style-type: none"> Finance Estates and New Campus Development Performance, Review & Remuneration Search & Nominations 	Board Member	01.08.13	
Mr G James	<ul style="list-style-type: none"> Human Resources & Organisational Wellbeing Audit 	Board Member	01.08.13	
Ms Carol Kirk	<ul style="list-style-type: none"> Learning and Teaching Performance Review & Remuneration Search & Nomination 	Board Member	01.08.13	March 2014
Ms M Macklin	<ul style="list-style-type: none"> Learning & Teaching Finance 	Board Member	01.11.13	
Ms M Palmer	<ul style="list-style-type: none"> Learning & Teaching Estates and New Campus Development 	Student Vice President. Co-opted Board member from February 2014	03.02.14	31.7.14
Ms S Rennie	<ul style="list-style-type: none"> Estates Learning & Teaching 	Student Member	01.08.13	Left Board January 2014
Mr A Walker	<ul style="list-style-type: none"> Finance Audit Estates and New Campus Development Performance, Review & Remuneration Search & Nomination 	Board Member	01.08.13	
Mr T Wallace	<ul style="list-style-type: none"> Finance Learning & Teaching Estates and New Campus Development Performance Review & Remuneration Search & Nomination 	Board Member	01.08.13	

The following additional Board Members were appointed to the Board of Management after 31 March 2014:

Board Member	Status of Appointment	Date of Appointment
Prof Alan McGregor	Board Member	1 August 2014
Dr Robin Northcote	Board Member	1 August 2014
Fiona Skilling	Board Member	1 August 2014
James English	Board Member	1 August 2014
Julie Bradley	Curriculum/Teaching Staff member	1 August 2014
Emma Hall	Student Member	1 August 2014
Angela Alexander	Student Member	1 August 2014

The College has an Independent Board Secretary to support the Board of Management.

The Board of Management conducts its business through a number of Committees as highlighted below.

The Committees comprise mainly lay members of the Board of Management. The Board of Management has a strong and independent non-executive element and no individual or group dominates its decision making process. The Board of Management considers that each of its non-executive members is independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement.

Appointments to the Board of Management

The Board of Management consisted of not less than ten, but not more than sixteen persons, of which not less than half were drawn from persons engaged in industrial, commercial or employment matters or from the professions. The other Board members included the Principal, a Teaching Staff representative, a Service Staff representative and two Student representatives. There was also provision for a co-opted student member.

With effect from August 2014 and the roll out of The Post-16 Education (Scotland) Act 2013, the structure of the Board changed to not less than fifteen, but not more than eighteen persons, of which not less than half shall be drawn from persons engaged in industrial, commercial or employment matters or from the professions or persons with an interest in and the ability to contribute to the management of the College. The other Board members shall include the Principal, a Curriculum/Teaching Staff representative, a Support/Service Staff representative and two Student representatives.

Any new appointments to the Board of Management are a matter for the consideration of the Board of Management as a whole. As such, there is a Search Committee which is responsible for the selection and nomination of any new member for the Board of Management's consideration. The Board of Management have an induction programme in place and Board development activities were held during 2013-14.

Audit Committee

The Audit Committee consists of Members from the Board of Management. The Chair of the Board of Management and Principal are not members of the Committee. Its responsibilities are to oversee the External and Internal Audit of the College and provide assurance to the Board that the requirements of the Code of Audit Practice published by Audit Scotland are observed.

Finance Committee

The Finance Committee consists of Members from the Board of Management including the Principal and the Chair of the Board. Its responsibilities are to oversee the strategic and operational financial planning of the College and provide assurance to the Board on the financial expenditure and financial management and performance of the College.

Human Resources and Organisational Wellbeing Committee

The Human Resources and Organisational Wellbeing Committee consists of Members from the Board of Management including the Principal. Its responsibilities are to oversee the strategic and operational planning of Organisational Development within the College and provide assurance to the Board on Organisational/HR issues as well as the organisational performance of the College.

Learning and Teaching Committee

The Learning and Teaching Committee consists of Members from the Board of Management including the Principal. Its responsibilities are to oversee the strategic and operational planning of Learning and Teaching within the College and provide assurance to the Board on student issues and the learning and teaching performance of the College.

Estates and New Campus Development Committee

The Estates and New Campus Development Committee consists of Members of the Board of Management including the Principal. Its responsibilities are to oversee the strategic and operational planning of the Estates function within the College, including the new build Campus Project in Kilmarnock, and to provide assurance with regard to the New Build activity and College Estates matters to the Board.

Remuneration Committee

Membership of this Committee comprises the Chair of the Board of Management and the Chairs of the Board's Committees. Its responsibilities are to agree remuneration for the Principal and other Senior Managers, take account of performance in the reward system, take account of any advice given by the SFC in the remuneration of the Principal and Senior Managers, take account of any guidelines issued by the UK Treasury on public sector salaries, use benchmarking information across the sector as appropriate in determining remuneration strategies for the Principal and Senior Managers and report to the Board of Management on remuneration policies for Senior Staff.

Search and Nomination Committee

Membership of this Committee comprises the Chair of the Board of Management and the Chairs of the Board's Committees. Its responsibilities are to oversee the recruitment and recommendation of new Board Members and to consider the reappointment of current members to the Board of Management by ensuring that the search and nomination process is conducted in a fair and non-discriminatory manner with due regard to issues of equality, diversity and opportunity in any appointments recommended.

Scope of Responsibility

The College's Governing Body is its Board of Management which 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.

Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on ongoing processes designed to identify and prioritise the risks to the achievement of College policies, aims and objectives, to evaluate the likelihood of these risks being realised and the impact should they be realised, and to manage them effectively and economically.

Capacity to Handle Risk

The Board of Management has reviewed the key risks to which the College is exposed, together with the operating, financial and compliance controls that have been implemented to mitigate those risks. These key risks are identified and addressed within the risk register maintained by the College during the eight months to 31 March 2014.

The Risk and Control Framework

The system of internal control is based on a framework of regular management information, administrative procedures including the segregation of duties and a system of delegation and accountability. In particular, it includes:

- Comprehensive budgeting systems with an annual budget which is reviewed and approved by the Board of Management.
- Regular reviews by the Board of Management of periodic and annual financial reports which indicate financial performance against targets.
- Setting targets to measure financial and other performance.
- The operation of and reporting to the Board of Management from an Internal Audit service.

The College Internal Auditors monitor the systems of internal control, risk management controls and governance processes in accordance with an agreed plan of input, and report their findings to Management and the Audit Committee.

Management is responsible for the implementation of agreed audit recommendations and Internal Auditors undertake periodic follow-up reviews to ensure that such recommendations have been implemented. The Audit 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 Funding Council as they affect the College's business and monitors adherence to the regulatory requirements.

Review of Effectiveness

The review of effectiveness of the system of internal control is informed by:

- The work of Internal Auditors, including their Annual Report on the College's control environment
- The work of College Managers, who have responsibility for the development and maintenance of internal control framework
- Comments made by the College's External Auditors
- Comments made by the Auditors appointed to audit specific areas such as WSUMs and Student Funds.

The Executive Management Team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning systems which are embedded within the operational units and reinforced by risk awareness training. The Executive Management Team and the Audit Committee also receive regular reports from Internal Audit which include recommendations for improvement.

Going Concern

After making appropriate enquiries, the Board of Management considers that the College has adequate resources to continue in operational existence for the foreseeable future. For this reason it continues to adopt the going concern basis in preparing the financial statements.

Conclusion

The College has made significant progress over the last eight months particularly in the areas of Corporate Governance, high quality Learning and Teaching, strategies to enhance efficiency and effectiveness, communication, strategic planning as well as maintaining the estate.

Approved by order of the members of the Board on 30 September 2014 and signed on its behalf by:

.....
W Mackie
Chair

.....
Heather Dunk
Principal

STATEMENT OF THE BOARD OF MANAGEMENT'S RESPONSIBILITIES

The Board of Management are required to present audited financial statements for each financial year.

In accordance with the Further and Higher Education (Scotland) Act 1992, the Board of Management is responsible for the administration and management of the College's affairs, including ensuring an effective system of internal control, and is required to present audited financial statements for each financial year.

The Board of Management is responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the College and enable it to ensure that the financial statements are prepared in accordance with the Further and Higher Education (Scotland) Act 1992, the 2007 Statement of Recommended Practice - Accounting for Further and Higher Education Institutions and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between the Scottish Funding Council and the College's Board of Management, the Board of Management, through its designated office holder, is required to prepare financial statements for each financial period which give a true and fair view of the College's state of affairs and of the surplus or deficit and cash flows for that period.

The financial statements are prepared in accordance with the Accounts Direction issued by the Scottish Funding Council, which brings together the provisions of the Financial Memorandum with other formal disclosures that the Scottish Funding Council require the Board of Management to make in the financial statements and related notes.

In preparing the financial statements, the Board of Management is required to:

- Select suitable accounting policies and 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 presume that the College will continue in operation.

The Board of Management is satisfied that it has adequate resources to continue in operation for the foreseeable future and for this reason the going concern basis continues to be adopted in the preparation of the financial statements.

The Board of Management has taken reasonable steps to:

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

The key elements of the College's system of 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 short and medium-term planning process, supplemented by detailed annual budgets including income, expenditure, capital and cash flows;
- 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 of Management;
- Comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Audit Committee, Finance Committee and the Board of Management;
- A professional internal audit team whose annual programme is approved by the Audit Committee and endorsed by the Board of Management and whose head provides the Board of Management 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.

Approved by order of the members of the Board of Management and signed on its behalf by:

W Mackie
Chair
30 September 2014

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE BOARD OF MANAGEMENT OF AYRSHIRE COLLEGE, THE AUDITOR GENERAL FOR SCOTLAND AND THE SCOTTISH PARLIAMENT

We have audited the financial statements of the Board of Management of Ayrshire College for the eight month period ended 31 March 2014 set out on pages 23 to 50. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Board of Management of Ayrshire College and to the Auditor General for Scotland in accordance with sections 21 and 22 of the Public Finance and Accountability (Scotland) Act 2000. Our audit work has been undertaken so that we might state to those two parties those matters we are required to state to them in an auditor's report and for no other purpose. In accordance with the Code of Audit Practice approved by the Auditor General for Scotland, this report is also made to the Scottish Parliament, as a body. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Board of Management of Ayrshire College and the Auditor General for Scotland, for this report, or the opinions we have formed.

Respective responsibilities of the Board of Management and auditor

As explained more fully in the Statement of the Board of Management's Responsibilities on pages 19 to 20, the Board of Management is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and is also responsible for ensuring the regularity of expenditure and income. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Management; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the College's affairs as at 31 March 2014 and of its deficit for the eight month period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and the Statement of Recommended Practice: accounting for further and higher education; and
- have been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005 and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE BOARD OF MANAGEMENT OF AYRSHIRE COLLEGE, THE AUDITOR GENERAL FOR SCOTLAND AND THE SCOTTISH PARLIAMENT (continued)

Opinion on regularity prescribed by the Public Finance and Accountability (Scotland) Act 2000

In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Opinion on other matters prescribed by the Public Finance and Accountability (Scotland) Act 2000

In our opinion the information given in the Operating and Financial Review for the financial period for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Public Finance and Accountability (Scotland) Act 2000 requires us to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- the Statement of Corporate Governance and Internal Control does not comply with Scottish Funding Council requirements.

David Watt

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

KPMG LLP is eligible to act as an auditor in terms of Section 1212 of the Companies Act 2006

191 West George Street

Glasgow

G2 2LJ

1 October 2014

INCOME AND EXPENDITURE ACCOUNT FOR THE EIGHT MONTHS TO 31 MARCH 2014

	Note	Recurring	Exceptional	Period ended 31 March 2014 £000	Year ended 31 July 2013 £000
INCOME					
SFC grants	2	22,384	5,034	27,418	34,600
Tuition fees and education contracts	3	3,158	-	3,158	4,829
Other grant income	4	81	53	134	222
Other operating income	5	1,938	800	2,738	2,130
Investment income	6	153	-	153	203
Total Income		27,714	5,887	33,601	41,984
EXPENDITURE					
Staff costs	7	17,769	58	17,827	25,960
Exceptional restructuring costs	7	-	1,867	1,867	1,550
Deferred PFI Expenditure released	14	-	429	429	-
Impairment of Building/Asset write down	12	-	8,764	8,764	104
Donation to Ayrshire College Foundation	31	-	6,611	6,611	-
Other operating expenses	9	7,698	336	8,034	10,762
Depreciation	12	1,569	-	1,569	2,496
Interest payable	10	-	-	-	103
Total Expenditure		27,036	18,065	45,101	40,975
Surplus/(Deficit) on continuing operations after depreciation of assets at valuation and before tax		678	(12,178)	(11,500)	1,009
Taxation	11	-	-	-	-
Surplus/(Deficit) on continuing operations after depreciation of assets at valuation and tax		678	(12,178)	(11,500)	1,009
Transfer from accumulated income within specific endowments		-	-	-	-
Surplus/(Deficit) for the Period retained within reserves		678	(12,178)	(11,500)	1,009

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

STATEMENT OF HISTORICAL COSTS SURPLUSES AND DEFICITS

	Note	Period ended 31 March 2014 £000	Year ended 31 July 2013 £000
Surplus/(deficit) on continuing operations before taxation		(11,500)	1,009
Difference between historical cost depreciation and the actual charge for the period calculated on the revalued amount	19	545	252
Release of Revaluation Reserve re Building Impairment		7,058	-
Realisation of property revaluation gains of previous years		-	-
Historical cost Surplus/(Deficit) for the period before and after taxation		(3,897)	1,261

STATEMENT OF THE TOTAL RECOGNISED GAINS AND LOSSES FOR THE EIGHT MONTHS TO 31 MARCH 2014

	Note	Period ended 31 March 2014 £000	Year ended 31 July 2013 £000
Surplus/(Deficit) on continuing operations for the period after depreciation of assets and valuation and tax		(11,500)	1,009
Unrealised Surplus/(Deficit) on revaluation of fixed assets	12	-	9,744
Actuarial gain/(loss) in respect of pension scheme	25	(2,805)	2,223
Restricted reserves	19	1	(5)
New endowments		-	-
Total gain/(loss) recognised since last annual report		(14,304)	12,677
Reconciliation			
Opening reserves		36,437	23,466
Total recognised gains for the period		(14,304)	12,971
Closing reserves and endowments		22,133	36,437

BALANCE SHEET AS AT 31 MARCH 2014

	Note	Period ended 31 March 2014 £000	Year ended 31 July 2013 £000
Fixed Assets			
Tangible assets	12	<u>51,002</u>	59,048
Total fixed assets		51,002	59,048
Current Assets			
Stocks		13	8
Debtors	13	4,024	2,028
Debtors outwith one year	14	-	393
Cash at bank and in hand		<u>3,013</u>	7,421
Total current assets		7,050	9,850
Less: Creditors – amounts falling due within one Year	15	<u>6,573</u>	4,271
Net current assets		<u>477</u>	5,579
Total assets less current liabilities		51,479	64,627
Less: Creditors – amounts falling due after more than one year	16	10,253	11,002
Less: Provision for liabilities	17	<u>1,701</u>	1,750
Net Assets excluding pension liability		39,525	51,875
Net pension liability	25	<u>(7,298)</u>	(4,455)
NET ASSETS INCLUDING PENSION LIABILITY		<u>32,227</u>	<u>47,420</u>
Deferred capital grants	18	<u>10,094</u>	10,983
Income and expenditure account excluding pension reserve	19	5,440	9,299
Pension reserve	19	<u>(7,298)</u>	(4,455)
Income and expenditure account including pension reserve	19	<u>(1,858)</u>	4,844
Restricted reserves	19	470	470
Capital Reserve	19	6,057	6,057
Revaluation reserve	19	<u>17,464</u>	25,066
Total reserves		<u>22,133</u>	36,437
TOTAL		<u>32,227</u>	<u>47,420</u>

The financial statements on pages 23 to 50 were approved by the Board of Management of Ayrshire College on 30 September 2014 and were signed on its behalf by:

.....
W Mackie
Chair

.....
H Dunk
Principal

CASH FLOW STATEMENT FOR THE EIGHT MONTHS TO 31 MARCH 2014

	Note	Period ended 31 March 2014 £000	Year ended 31 July 2013 £000
Cash inflow/(outflow) from operating activities	20	(4,780)	1,041
Returns on investments and servicing of finance	21	153	141
Taxation		-	-
Capital expenditure and financial investment	22	700	355
PFI Capital Payment	16	(481)	(684)
Financing		-	-
Increase/(decrease) in cash in the period		(4,408)	853
 Reconciliation of net cash flow to movement in net funds			
Increase/(decrease) in cash in the period		(4,408)	853
Cash inflow from liquid resources		-	-
Change in net funds resulting from cash flows		-	-
Movement in net funds in the period		(4,408)	853
Net funds at 1 August 2013	24	7,421	6,568
Net funds at 31 March 2014	24	3,013	7,421

NOTES TO THE FINANCIAL STATEMENTS

1 Statement of Principal Accounting Policies

a) FRS 6 Merger Accounting

The combination of Ayr College, Kilmarnock College and the North Ayrshire Campuses of James Watt College has met the merger accounting criteria under Financial Reporting Standard 6 – Acquisitions and Mergers. Each College Board approved the Merger Proposal Document (MPD) which ensured each college would have an equal number of members on the new Board with further independent Board members appointed following vesting day. The MPD also ensures that key merger related decisions required unanimity. The Board of the new college includes representatives from each of the combining colleges. It was agreed that Ayr College should be the host college for the merger.

Merger accounting principles are applied in accordance with FRS 6. With merger accounting, the carrying values of the assets and liabilities of the parties to the merger are not required to be adjusted to fair value, although appropriate adjustments are made to achieve uniformity of accounting policies where necessary.

The merger accounting adopted restates the financial statements as if the three former colleges had always been merged. It therefore requires that the historic comparative figures, in this case for the year ended 31 July 2013, are restated on the basis of common accounting policies with the source for the historic comparative figures being:

- the audited financial statements for Ayr College for the year ended 31 July 2013
- the audited financial statements for Kilmarnock College for the year ended 31 July 2013
- the financial statements for the North Ayrshire Campuses, extracted from the audited financial statements of James Watt College for the year ended 31 July 2013

Note 32 to these financial statements analyses the net assets and reserves of the former colleges as at 31 July 2013 and the merger adjustments required.

Note 32 to these financial statements also shows the principal components of income and expenditure and recognised gains and losses for the year ended 31 July 2013, analysed between the former colleges and the merger adjustments required.

b) Basis of Preparation

The financial statements are prepared on a going concern basis and show a recurring operating surplus for the period of £679,000 with an accumulated surplus on the income and expenditure reserve of £5,440,000. At 31 March 2014, current assets of £7,050,000 included cash and bank balances of £3,013,000. Creditors falling due within one year were £6,573,000, with net current assets of £477,000.

In light of the above, the financial statements are prepared on a going concern basis. The approved cash flow projections for Ayrshire College for the year to 31 March 2015 indicate no requirement for an overdraft facility.

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

The College has adopted FRS 17 Retirement Benefits in the financial statements. Details of the effect of adopting FRS 17 are shown in Note 25.

c) Basis of Accounting

The financial statements are prepared under the historical cost convention, modified by the revaluation of certain fixed assets.

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 grant allocation from SFC, which is intended to meet recurrent costs, is credited directly to the income and expenditure account. The College has recognised income from European Funds on a work completed basis for the accounting period.

Non-recurrent grants from SFC and 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 assets.

e) Maintenance of premises

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

f) Pension schemes

Retirement benefits to employees of the College are provided by the Scottish Teachers' Superannuation Scheme (STSS) and the Strathclyde Pension Fund (SPF). The STSS is a defined benefit scheme which is externally funded and contracted out of the State Earnings Related Pension Scheme. Contributions to the STSS are charged to the income and expenditure account so as to spread the cost of pensions over employees' working lives with the College. The contributions are determined by qualified actuaries on the basis of periodic valuations using the projected unit method. The SPF is a defined benefit scheme under the definitions set out in Financial Reporting Standard (FRS 17) Retirement Benefits. FRS 17 has been adopted by the College and details of the effect of adopting FRS 17 are shown in Note 25.

g) Tangible fixed assets

Private Finance Initiative ('PFI') Assets

PFI contracts are agreements to receive services, where the responsibility for making available the Property, Plant and Equipment needed to provide the service passes to a PFI contractor.

Where the College is subject to the majority of the potential variations in property related profits or losses and has access to the risks and rewards of ownership (which is assessed having regard, in particular, to the quantum of finance provided by the private sector that is, in fact, at risk to the performance of the project) it recognises an asset and a corresponding liability for amounts due to the scheme operator to pay for the asset.

Assets recognised on balance sheet are revalued and depreciated in the same way as Property, Plant and Equipment owned by the College.

The amounts payable to the PFI operators each year are analysed into three elements:

- Fair value of the services received during the year
- Finance cost and interest charge on the outstanding Balance sheet liability
- Payment towards liability – applied to write down the Balance sheet liability towards the PFI operator.

The annual cost of the service charge and finance cost are separately disclosed within the Other Operating Expenses note to these financial statements.

Land and buildings

Land and buildings inherited from the former Strathclyde Regional Council in 1993 are stated in the balance sheet at a valuation on the basis of depreciated replacement cost for specialised properties and open market value for non-specialised properties, as at 31 July 2013, less amounts written off by way of depreciation.

Land and buildings acquired since incorporation are included in the balance sheet at revaluation plus cost where this is over £5,000. Project expenditure is counted as a single asset. Freehold land associated with the buildings and undeveloped freehold land is not depreciated. Freehold building costs are depreciated on a straight line basis over their useful economic life, as assessed by external valuers, as follows:-

Main buildings and infrastructure	(up to) 50 years
Temporary buildings	(up to) 10 years

Leased assets are depreciated over the life of the lease.

Equipment

The College has attributed no value to equipment inherited from the former Strathclyde Regional Council in 1993. Other equipment is capitalised as follows:-

IT assets	- Over £1,000 for single items or over £5,000 for groups of related assets
Other assets	- Over £5,000 for single items or over £10,000 for groups of related assets

Equipment is depreciated on a straight line basis over its useful economic life as follows:-

Computer and media equipment	4 years
Other motor vehicles and equipment	4-5 years
Furniture and fittings	8-10 years

h) 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 element of the leasing commitments is 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 which are held under hire purchase contracts which have the characteristics of finance leases are depreciated over their useful lives.

i) Stocks

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

j) Taxation

As a Scottish charity, the College benefits by being exempt from corporation tax on income and surpluses which have been derived in pursuing activities designed to carry out the main objects of its charitable status.

The College is exempted from levying VAT on most of the services it provides to students. For this reason, the College is generally unable to recover input VAT it suffers on goods and services purchased for Curriculum Areas. The College is able to recover VAT on certain trading activities and can partially recover some input tax on other non Curriculum Area expenditure.

k) Provisions

Provisions are recognised when the College 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.

	Note	Period ended 31 March 2014 £000	Year ended 31 July 2013 £000
2 SFC grants			
FE recurrent grant (including fee waiver)		20,640	30,241
HE & FE childcare funds		736	836
Release of deferred capital grants	18	716	1,390
Release of deferred capital grants re impairment of Holehouse Road Campus	(1)	1,653	-
Release of deferred capital grants unspent	(1)	1,188	-
College Transformation Fund Grants	(1)	2,193	1,153
New Build Campus grants		272	653
Other SFC grants		20	327
Total		27,418	34,600
1): The above three items totalling £5,034,000 are shown as exceptional within the 2013-14 income & expenditure account.			
3 Tuition fees and education contracts			
FE fees - UK		349	328
FE fees - EU		-	-
FE fees – non EU		-	29
HE fees		2,014	2,720
Education contracts		631	1,152
Other contracts		164	600
Total		3,158	4,829
4 Other grant income			
European funds		23	136
Release of deferred capital grants – ongoing	18	58	86
Release of deferred capital grants – re impairment	18	53	-
		134	222
5 Other operating income			
Catering		694	912
Other income-generating activities		469	502
Other income		775	716
Other income re Gift of Land – Hill Street, Kilmarnock		800	-
Total		2,738	2,130

		Period ended 31 March 2014 £000	Year ended 31 July 2013 £000
6 Investment income			
Other interest receivable		56	203
Net return on pension asset/liability	25	<u>97</u>	<u>-</u>
Total		<u>153</u>	<u>203</u>
7 Staff costs			
Wages and salaries		14,710	21,272
Social security costs		1,081	1,671
Other pension costs		1,901	2,884
		<u>17,692</u>	<u>25,827</u>
FRS 17 adjustments	25	135	133
Total		<u>17,827</u>	<u>25,960</u>
Academic/Teaching Departments		10,495	15,144
Academic/Teaching Services		1,956	3,787
Administration and Central Services		4,455	5,588
Premises staff		661	1,055
Catering staff		260	386
Sub-total		<u>17,827</u>	<u>25,960</u>
Exceptional restructuring costs		1,867	1,550
Total		<u>19,694</u>	<u>27,510</u>

The average number of full-time equivalent employees, including higher paid employees, during the period was:

	No.	No.
Academic/Teaching Departments	335	331
Academic/Teaching Services	105	117
Administration and Central Services	191	176
Premises staff	45	49
Catering staff	21	21
Total	<u>697</u>	<u>694</u>

The number of staff, including senior post holders and the Principal, who received emoluments in the following ranges were:

	2014	2013
	No.	No.
£50,001 to £60,000 per annum	4	1
£60,001 to £70,000 per annum	12	-
£70,001 to £80,000 per annum	-	4
£80,001 to £90,000 per annum	3	1
£90,001 to £100,000 per annum	-	2
£100,001 to £110,000 per annum	-	1
£110,001 to £120,000 per annum	-	2
£120,001 to £130,000 per annum	1	1
£150,001 to £160,000 per annum (1)	-	1
£170,001 to £180,000 per annum (1)	-	1
£200,001 to £210,000 per annum (1)	-	1

(1) Relates to the former Ayr College and includes compensation for loss of office

The above figures for 2014 represent the annual equivalent of salaries paid in this eight month period

8 Senior post-holders' emoluments

	2014	2013
	No.	No.
The number of senior post-holders, including the Principal was:	5	11

	Period ended 31 March 2014	Year ended 31 July 2013
Senior post-holders' emoluments are made up as follows:		
Salaries	290	1,170
Benefits in kind	-	-
Pension contributions	50	192
Total emoluments	340	1,362

The above emoluments include amounts payable to the Principal, who was also the highest paid senior post-holder, of:

	£000	£000
Salary: (2012-13 relates to three individuals)	87	264
Compensation for loss of office (1)	-	132
Bonus	-	-
Benefits in kind	-	-
	87	396
Employers Pension contributions	13	90
Severance payment to a former senior post holder (2)	0	109

- (1) Relates to the former Ayr College
 (2) Relates to the former James Watt College

In 2013-14 the Principal and one other senior post-holder were members of the Scottish Teachers Superannuation Scheme and the other three senior post-holders were members of the Strathclyde Pension Fund. All pension contributions were paid at the same rate as for other members.

The members of the Board of Management, other than the Principal and staff members, did not receive any payment from the College other than the reimbursement of travel and subsistence expenses incurred in the course of their duties.

	Period ended 31 March 2014 £000	Year ended 31 July 2013 £000
9 Other operating expenses		
Teaching departments	1,309	1,285
Administration and central services	2,154	3,148
Kilwinning Campus PFI Charge	946	1,395
Other premises costs	1,928	2,578
Childcare costs	736	836
New Build Campus Costs	199	459
College Transformation expenditure	336	541
Catering	426	520
Total	8,034	10,762

Other operating costs include:

Auditors' remuneration		
- external audit of these financial statements	50	48
- internal audit services	21	35
- other services	-	21
Operating lease payments	173	253

10 Interest payable

On overdrafts	-	1
On finance leases	-	0
Pension finance costs	-	102
Total	-	103

11 Taxation

The Board does not consider that the College was liable for any corporation tax arising out of its activities during the period.

12 Tangible Fixed Assets

	Freehold Land and Buildings £000	Leasehold Land and Buildings £000	PFI Building £000	Equipment £000	Total £000
Cost or Valuation					
At 1 August 2013	39,546	1,483	18,223	8,520	67,772
FRS6 adjustment	-	-	-	(854)	(854)
Additions	236	-	-	1,251	1,487
Gift of Land at Hill Street, Kilmarnock	800	-	-	-	800
Impairment of Holehouse Road Campus	(8,764)	-	-	-	(8,764)
Disposals	-	-	-	(1,314)	(1,314)
At 31 March 2014	31,818	1,483	18,223	7,603	59,127
Depreciation					
At 1 st Aug 2013	470	710	390	7,055	8,625
FRS6 adjustment	-	-	-	(755)	(755)
Provided during year	937	50	260	322	1,569
On disposals	-	-	-	(1,314)	(1,314)
At March 2014	1,407	760	650	5,308	8,125
Net Book Value at 31 March 2014	30,411	723	17,573	2,295	51,002
Net Book Value at 31 July 2013	39,076	773	17,833	1,366	59,048
Inherited	17,464	-	-	-	17,464
Financed by capital grant	7,819	344	-	1,931	10,094
Other	5,128	379	17,573	364	23,444
At March 2014	30,411	723	17,573	2,295	51,002

The College's Kilwinning Campus building was valued at 31 July 2013 by Ryden in the capacity of external valuer. The basis of valuation adopted was fair value, being market value for existing use or depreciated replacement costs (as defined by the Statements of Asset Valuation Practice and Guidance Notes issued by the Royal Institution of Chartered Surveyors), depending on the type of asset being valued. The land valuation for Kilwinning has not been included in these financial statements as its value has been adversely impacted by a 100 year ground lease granted in favour of the PFI operator of that building.

The College's other land and buildings were revalued by District Valuer Services at 31 July 2013 on the same basis as noted immediately above.

The College completed, in February 2014, the transfer of title to the 10 acres of land at Hill Street, Kilmarnock, gifted by Diageo to the College. This land has been valued as at that date by District Valuer Services at £800,000

Land and Buildings with a net book value of £17,464,000 have been financed by local authorities in Ayrshire. Should these assets be sold, the College may be liable, under the terms of the Financial Memorandum with the Scottish Funding Council, to surrender the proceeds.

Included in Land & Buildings is land at a value of £9,035,000 which is not depreciated.

	Period ended 31 March 2014	Year ended 31 July 2013
	£000	£000
13 Debtors: Amounts falling due within one year		
Trade debtors – net of provision for doubtful debts	363	240
European funding	334	383
Other Debtors	90	17
Prepayments and accrued income	474	1,264
Deferred PFI Expenditure, Kilwinning Campus	-	36
Amounts owed by the Scottish Funding Council	<u>2,763</u>	<u>88</u>
	4,024	2,028
	£000	£000

14 Debtors: Amounts falling due outwith one year

Deferred PFI Expenditure, Kilwinning Campus	<u>-</u>	<u>393</u>
	-	393

The Deferred PFI expenditure for the Kilwinning Campus, including the amount due within one year, amounted to £429,000 and was released to revenue expenditure as an Exceptional Item in the period.

15 Creditors: Amounts falling due within one year

	£000	£000
Bank loans and overdrafts	-	-
Trade creditors	388	501
Other taxation and social security	4	3
Other Creditors	1,168	61
Accruals and deferred income	3,691	1,998
Capital Grant Deferred Income	-	491
Capital element of Kilwinning PFI expenditure (Note 16)	749	480
Amounts owed to Scottish Funding Council	444	737
Bursaries and Student Support Funds for future disbursement	<u>129</u>	<u>-</u>
	6,573	4,271

	Period ended 31 March 2014	Year ended 31 July 2013
	£000	£000
16 Creditors: Amounts falling due after more than one year		
Capital element of Kilwinning PFI expenditure		
At 1 August 2013	11,482	12,166
Capital payments in year	<u>(480)</u>	<u>(684)</u>
	11,002	11,482
Less portion due within one year (Note 15)	<u>(749)</u>	<u>(480)</u>
At 31 March 2014	<u><u>10,253</u></u>	<u><u>11,002</u></u>

17 Provisions for liabilities and charges

At 1 August 2013	1,750	1,784
Expenditure in the period	(67)	(102)
Additional provision required in the period	18	68
Interest charged	-	-
At 31 March 2014	<u><u>1,701</u></u>	<u><u>1,750</u></u>

The above liability is in respect of future pension liabilities arising from early retirements prior to 2006 and now relating to 32 individuals receiving benefits (2012-13: 32). The College's liabilities relating to the unfunded early retirement pension provision have been revalued by an independent firm of actuaries.

18 Deferred Capital Grants

	SFC £000	Other £000	Total £000
At 1 August 2013			
Land and Buildings	7,300	2,680	9,980
Equipment	<u>1,003</u>	<u>-</u>	<u>1,003</u>
	8,303	2,680	10,983
Grants received in the period			
Land and Buildings	341	-	341
Equipment	<u>1,250</u>	<u>-</u>	<u>1,250</u>
	1,591	-	1,591
Released to Income and Expenditure Account			
Land and Buildings	394	58	452
Equipment	<u>322</u>	<u>-</u>	<u>322</u>
	716	58	774
Release re building impairment			
Land and Buildings	1,653	53	1,706
At 31 March 2014			
Land and Buildings	5,594	2,569	8,163
Equipment	<u>1,931</u>	<u>-</u>	<u>1,931</u>
	<u><u>7,525</u></u>	<u><u>2,569</u></u>	<u><u>10,094</u></u>

	Period ended 31 March 2014	Year ended 31 July 2013
	£000	£000
19 Reserves		
General Reserve		
At 1 August 2013	4,844	1,360
Surplus/(deficit) for the period	(11,500)	1,009
Impairment of Holehouse Road Campus	7,058	-
Transfer from revaluation reserve	545	252
Actuarial gain/(loss) in pension scheme	(2,805)	2,223
At 31 March 2014	(1,858)	4,844
Represented by:		
Income & Expenditure Account		
At 1 August 2013	9,299	7,803
Surplus/(Deficit) for the period	(11,500)	1,009
Transfer to/(from) pension reserve	38	235
Transfer from revaluation reserve	545	252
Impairment of Holehouse Road Campus	7,058	-
At 31 March 2014	5,440	9,299
Pension Reserve		
At 1 August 2013	(4,455)	(6,443)
Current service cost	(875)	(1,230)
Impact of curtailments	-	(37)
Employer contributions	765	1,114
Contributions re unfunded benefits	19	20
Past service costs	(44)	-
Net return on pension scheme	97	(102)
Actuarial gains/(losses) in pension scheme	(2,805)	2,223
At 31 March 2014	(7,298)	(4,455)
Summary		
Income and expenditure account	5,440	9,299
Pension reserve	(7,298)	(4,455)
At 31 March 2014	(1,858)	4,844
Revaluation Reserve		
At 1 August 2013	25,066	15,574
Revaluation of land and buildings	-	9,744
Transfer to Income & Expenditure account in respect of:		
Depreciation on revalued assets	(545)	(252)
Impairment of Holehouse Road Campus	(7,057)	-
At 31 March 2014	17,464	25,066

	Period ended 31 March 2014	Year ended 31 July 2013
Note	£000	£000
Capital Reserve		
At 1 August 2013	6,057	6,057
Movements in the period	-	-
At 31 March 2014	6,057	6,057

The capital reserve relates to the difference between the Kilwinning PFI building valuation as at 1 August 2012 and the related capital liabilities at that date.

Restricted Reserves

At 1 August 2013	470	475
Transferred to General Reserves	-	-
Payments made	-	(5)
At 31 March 2014	470	470

The restricted reserves balance at 31 March 2014 comprises:

Irvine Property Endowment Fund: £434,000 (2013: £434,000)

This fund represents ring fenced monies held for capital projects

Walker Trust Fund: £36,000 (2013: £36,000)

This fund is held for the benefit of students in Ayrshire.

20 Reconciliation of operating surplus/(deficit) to net cash flow from operating activities

Operating surplus/(deficit) after depreciation of assets at valuation and tax		(11,500)	1,009
Depreciation	12	1,569	2,496
Net (gain)/loss on disposal of fixed assets	8,12	-	(10)
FRS 6 Adjustment		-	54
Reduction in value of asset – Saltcoats Property		-	105
Deferred capital grants released to income	18	(3,075)	(1,475)
Decrease (increase) in stock		(5)	6
Decrease (increase) in debtors	13,14	(1,603)	(190)
Increase/(decrease) in creditors	15	2,033	(1,009)
(Decrease)/Increase in provisions	17	(49)	(32)
(Decrease)/Increase in reserves		-	(4)
Interest receivable – bank interest	6	(153)	(203)
Interest payable		-	84
Impairment of Holehouse Road Campus	12	8,765	-
Gift of Land – Hill Street, Kilmarnock	12	(800)	-
Net return on pension liability	25	38	210
Net cash inflow from operating activities		(4,780)	1,041

	Note	Period ended 31 March 2014 £000	Year ended 31 July 2013 £000
21 Returns on investments and servicing of finance			
Interest received	6	153	203
Interest paid		-	(62)
Interest element of finance lease repayments		-	-
Net cash inflow/outflow from returns on investments and servicing of finance		<u>153</u>	<u>141</u>

22 Capital expenditure and financial investment

Purchase of tangible fixed assets	12	(1,487)	(1,132)
Sales of tangible fixed assets		-	40
Deferred capital grants received	18	2,187	1,447
Net cash inflow/(outflow) from capital expenditure		<u>700</u>	<u>355</u>

23 Financing

Capital element of finance lease rental payments		-	-
New loans		-	-
Repayment of amounts borrowed		-	-
Net cash inflow/(outflow) from financing		<u>-</u>	<u>-</u>

24 Analysis of changes in net funds

	At 1 August 2013 £000	Cash Flows £000	Other Changes £000	At 31 March 2014 £000
Cash	7,421	(4,408)	-	3,013
Total	<u>7,421</u>	<u>(4,408)</u>	<u>-</u>	<u>3,013</u>

25 Pensions and similar obligations

The College's employees belong to two principal pension schemes, the Scottish Teachers Superannuation Scheme (STSS) and the Strathclyde Pension Fund Scheme (SPF),

The total pension costs for the period were:

STSS: contributions paid		1,117	1,717
SPF: Contributions paid		784	1,167
FRS 17 charge to the Income and Expenditure Account	7	135	133
Total pension cost for the period		<u>2,036</u>	<u>3,017</u>

Scottish Teachers' Superannuation Scheme (STSS)

The last audited full actuarial and funding valuation was carried out at 31 March 2009. The results of this valuation were rolled forward to give an overall scheme liability of £24.0 billion at 31 March 2013.

Ayrshire College is unable to identify separately its share of the scheme's underlying assets and liabilities. However, as the scheme is unfunded there can be no surplus or shortfall. Pension contribution rates will be set by the scheme's actuary at a level to meet the cost of pensions as they accrue.

Ayrshire College has no liability for other employers' obligations to the multi-employer scheme.

Valuation date	31 March 2005
Valuation method	Prospective benefits
Value of notional assets	£13,000,000,000
Rate of return in investments in excess of rate of increase in salaries	2%
Rate of return in investments in excess of rate of increase in pensioners	3.50%

Under the definitions set out in Financial Reporting Standard (FRS 17) Retirement Benefits, the STSS is a multi-employer pension scheme. The College is unable to identify its share of the underlying assets and liabilities of the scheme.

Accordingly, the College has taken advantage of the exemption in FRS 17 and has accounted for its contributions to the scheme as if it were a defined-contribution scheme. The College has set out above the information available on the scheme and the implications for the College in terms of the anticipated contribution rates.

Strathclyde Pension Fund (SPF)

SPF is a funded defined-benefit scheme, with the assets held in separate trustee-administered funds. The total contribution by the employer made for the eight months to 31 March 2014 was £784,000.

Under the requirements of Accounting for Retirement Benefits under Financial Reporting Standard 17 (FRS 17), the College is required to disclose information on its share of assets and liabilities of the Strathclyde Pension Fund on a market value basis at the end of the accounting period. The figures quoted form the basis of the balance sheet and funding status of Ayrshire College as at 31 March 2014, in respect of its pension obligations under this Local Government Pension Scheme (LGPS). This information is set out below:-

Principal Actuarial Assumptions

	At 31 March 2014	At 31 July 2013
Rate of increase in salaries	5.1%	5.1%
Rate of increase for pensions in payment/inflation	2.8%	2.8%
Discount rate for liabilities	4.3%	4.6%
Expected return on assets	6.0%	5.8%

The current mortality assumptions include allowance for future improvements in mortality rates. The assumed life expectations on retirement age 65 are:

		At 31 March 2014	At 31 July 2013
Current pensioners	Males	21.0	21.0
	Females	23.4	23.4
Future pensioners	Males	23.3	23.3
	Females	25.3	25.3

The assets and liabilities in the scheme and the expected rates of return were:

	Long-term rate of return expected at 31 March 2014	Value at 31 March 2014	Long-term rate of return expected at 31 July 2013	Value at 31 July 2013
		£'000		£'000
Equities	6.6%	23,543	6.4%	22,447
Bonds	3.7%	3,717	3.8%	4,150
Property	4.8%	2,168	4.6%	2,113
Cash	3.7%	1,549	3.4%	928
Total market value of assets		30,977		29,638
Present value of scheme liabilities				
Funded		(37,702)		(33,593)
Unfunded		(573)		(500)
Surplus/(deficit) in the scheme		(7,298)		(4,455)
			2014	2013
			£'000	£'000
Employer service cost (net of employee contributions)			875	1,230
Past service cost			44	-
Total operating charge			919	1,230
Analysis of pension finance income/(costs)				
Expected return on pension scheme assets			1,143	1,199
Interest on pension liabilities			(1,046)	(1,301)
Pension finance income/(costs)			97	(102)

	Period ended 31 March 2014	Year ended 31 July 2013
	£000	£000
Movements on Pension Scheme Deficit		
(Deficit) in scheme at 1 August 2013	(4,455)	(7,230)
Movement in period		
Current service charge	(875)	(1,230)
Contributions by members	765	1,108
Contributions in respect of unfunded benefits	19	26
Past service (costs)/gains	(44)	-
Net return on pension assets	97	(102)
Actuarial gain/(loss)	(2,805)	2,973
(Deficit) in scheme at 31 March 2014	(7,298)	(4,455)
Asset and Liability Reconciliation		
Reconciliation of Liabilities		
Liabilities at 1 August 2013	34,093	31,256
Service cost	875	1,230
Interest cost	1,046	1,301
Contributions by Members	225	338
Actuarial (gain)/loss	2,465	601
Past service cost/(gain)	44	-
Losses/(Gains) on curtailments	-	37
Estimated Unfunded Benefits Paid	(19)	(26)
Estimated Benefits Paid	(454)	(644)
Liabilities at 31 March 2014	38,275	34,093
Reconciliation of Assets		
Assets at 1 August 2013	29,638	24,063
Expected return on assets	1,143	1,199
Contribution by members	225	338
Actuarial gain/(loss)	(340)	3,574
Employer contributions	765	1,108
Unfunded benefits contributions	19	26
Estimated Unfunded Benefits Paid	(19)	(26)
Estimated Benefits paid	(454)	(644)
Assets at 31 March 2014	30,977	29,638
Amounts for the current and previous accounting periods		
Fair value of employer assets	30,977	29,638
Present value of defined benefit obligation	<u>(38,275)</u>	<u>(34,093)</u>
Surplus/(Deficit)	(7,298)	(4,455)
Experience Gains/(Losses) on Assets	(340)	3,574
Experience Gains/(Losses) on Liabilities	(47)	(4)

26 Related Party Transactions

The Board of Management of Ayrshire College is a body incorporated under the Further and Higher Education (Scotland) Act 1992 and is funded by the Scottish Funding Council (SFC), which is sponsored by the Scottish Government's Enterprise and Lifelong Learning department.

SFC is regarded as a related party. During the eight months to 31 March 2014 Ayrshire College had various material transactions with SFC and Scottish Government Departments, as well as with other entities for which the Scottish Government is regarded as the sponsor via the Student Awards Agency for Scotland and a number of other Colleges and higher education institutions. In addition Ayrshire College has had a small number of material transactions with other Government Departments and other central government bodies.

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's 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 arm's length and in accordance with normal project and procurement procedures

The College had transactions during the period or worked in partnership with publicly funded or representative bodies in which members of the Board of Management hold or held official positions as noted below:

Board Member	Position	Organisation
Mr W Mackie	Independent Consultant	Willie Mackie Consulting
Dr W-y Hatton	Founder/Director	Wai Beyond Consultancy
Ms N Beveridge	Independent Consultant	NB Coaching and HR Consulting
Mr B Costley	Managing Director	Costley & Costley Hoteliers Ltd
Ms B Graham	Adult Education Tutor	University of Strathclyde
Mr G James	Logistics Director	NHS National Services Scotland
Ms M Macklin	Chief Executive	The Klin Group
Mr A Walker	Managing Director	Maxim Consumer Electronics Ltd
Mr T Wallace	Business & Compliance Manager	Diageo plc

There were no transactions exceeding £5,000 with any of the above organisations in 2013-14.

Gift of Land by Diageo plc

As disclosed in Note 12, Diageo plc gifted land at Hill Street, Kilmarnock, to the College, this gift being effective as at February 2014. Mr T Wallace is an employee of Diageo plc but had no role in this transaction.

Six Members/former members of the Board of Management were employed by the College in the period as follows:

Mrs H Dunk	Principal
Mrs K Cole	Teaching Staff Rep
Mr S Greenwood	Service Staff Rep
Ms M Palmer	Student Member
Mr S Fegan	Student Member
Ms S Rennie	Student Member

27 FE Bursary and Other Student Support Funds

	FE Bursary £000	FE Hardship £000	EMA's £000	Other £000	Period ended 31 March 2014 £000	Year ended 31 July 2013 £000
Brought forward: August 2013	401	6	(51)	-	356	531
Allocation received in period	6,507	349	699	218	7,773	9,918
Interest	-	-	-	-	-	-
	6,908	355	648	218	8,129	10,449
Expenditure	(6,904)	(85)	(659)	(45)	(7,693)	(10,174)
Repayable to Funding Council as clawback	(401)	(6)	-	-	(407)	(561)
College contribution to funds	-	-	-	-	-	143
Virements	-	-	-	-	-	530
Carried forward: March 2014	(397)	264	(11)	173	29	387
Represented by:						
Repayable to Funding Council as clawback	-	-	-	-	-	367
Retained by College for students	(397)	264	(11)	173	29	20
	(397)	264	(11)	173	29	387

The above grants are available solely for students, the College acting only as paying agent. The grants and related disbursements are therefore excluded from the Income and Expenditure Account.

28 HE & FE Childcare Funds

	Period ended 31 March 2014 £000	Year ended 31 July 2013 £000
Brought forward: August 2013	99	-
Allocation received in period	836	946
	935	946
Expenditure	(736)	(892)
Repayable to Funding Council as clawback	(99)	-
Virements to Other Student Support Funds	-	45
Carried forward: March 2014	100	99
Represented by:		
Repayable to Funding Council as clawback	-	99
Retained by College for students	100	-
	100	99

Childcare Fund transactions are included within the College Income and Expenditure Account in accordance with Accounts Direction issued by the Scottish Funding Council.

29 Commitments under Operating Leases

As at 31 March 2014 the College had annual commitments under non-cancellable operating leases as set out below:

	Period ended 31 March 2014 £000	Year ended 31 July 2013 £000
Operating Leases which expire:		
In more than five years	129	123
Total	129	123

30 Capital Commitments

Contracted for at 31 March 2014	13	81
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31 Ayrshire College Foundation

The Ayrshire College Foundation was formed on 20 December 2013. The Foundation, an independent Scottish Charity, has as its charitable objectives, the furtherance of the charitable objectives of the College which, broadly, are the advancement of education in Ayrshire. The College has been reclassified as a central public sector organisation as from 1 April 2014 and, in common with most other Colleges in Scotland, had revenue reserves that would otherwise have been restricted in their use as from 1 April 2014. The College made a donation to the Foundation of £6,611,000 on 28 March 2014.

It is intended that the College will apply to the Foundation for grant assistance in the future, primarily to assist in the College's capital investment programmes.

32 FRS 6 Merger Adjustments

As shown in Note 1, the College has used the provisions of FRS 6 (Merger Accounting) to account for the combination of Ayr College, Kilmarnock College and the North Ayrshire Campuses of James Watt College as a merger as at 1 August 2013. This business combination has included the income & expenditure accounts and balance sheets of the three merged entities together with necessary adjustments. These adjustments principally relate to asset capitalisation policy and also the accounting for the Kilwinning PFI campus, as set out in Note 1, in accordance with FRS 5.

Reserves and Net Assets at Date of Merger

	REVALUA- TION RESERVE AT 1.8.13 £000'S	CAPITAL RESERVE AT 1.8.13 £000'S	OTHER RESERVES AT 1.8.13 £000'S	RESERVES AT 1.8.13 £000'S	NET ASSETS AT 1.8.13 £000'S
Ayr College	13,436	-	3,691	17,127	24,717
Kilmarnock College	11,630	-	1,774	13,404	16,570
North Ayrshire Campuses	-	-	(346)	(346)	(119)
Total Reserves/Net Assets	25,066	-	5,119	30,185	41,168
Capitalisation threshold adjustments	-	-	(99)	(99)	(99)
Kilwinning PFI adjustments – Building Valuation	-	6,057	294	6,351	17,833
Kilwinning PFI adjustments – Capital Creditor	-	-	-	-	(11,483)
Total Reserves/ Net Assets after adjustments	25,066	6,057	5,314	36,437	47,419

Year ended 31 July 2013

Income & Expenditure Account

	Ayr College £000'S	Kilmarnock College £000'S	North Ayrshire £000'S	Adjust ments £000'S	TOTAL £000'S
Income & Expenditure					
<u>Income</u>					
SFC Income	11,766	11,580	11,254	-	34,600
Other Income	3,168	2,520	1,696	-	7,384
Total Income	14,934	14,100	12,950	-	41,984
<u>Expenditure</u>					
Salary Costs inc Exceptional	10,187	8,815	6,958	-	25,960
Exceptional Restructuring Costs	704	16	830	-	1,550
Other Operating Expenditure	2,813	3,768	2,732	54	9,367
PFI Expenditure	-	-	2,079	(684)	1,395
Other Expenditure inc Dep'n	1,144	1,020	149	390	2,703
Total Expenditure	14,848	13,619	12,748	(240)	40,975
Surplus/(Deficit) in that year	86	481	202	240	1,009
Statement of total recognised gains and losses					
Surplus/(Deficit) in 2012-13	86	481	202	240	1,009
Difference between Depreciation and actual charge on revalued amount	105	147	-	-	252
Other adjustments	-	-	-	-	-
Historical Cost Surplus/(Deficit)	191	628	202	240	1,261

33 PFI Contract at Kilwinning Campus

During 1999-2000 James Watt College entered into a 25 year partnership with KE Projects Ltd for the provision of a College campus and the associated facility management. Following the merger, the PFI contract transferred to Ayrshire College.

The College makes an agreed payment each year which is increased each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year – but otherwise it is fixed. The PFI contract runs until 2025 at which time the facilities and all operational services revert to full College management and the ownership of the asset will pass to the College at the end of the contract for no additional charge.

As such, it is considered that there is insufficient finance at risk to the performance of the contract and the College is deemed to control the services provided by KE Projects under its PFI scheme. As a result assets used to provide services have been recognised on the College's Balance Sheet. This is in line with the College's Accounting Policy which shows the depreciated replacement cost valuation of that campus in the balance sheet, partially offset by the liability of the capital element of the remaining PFI payments up to June 2025.

Payments remaining to be made under the PFI contract at 31 March 2014 are as follows:

	Payment for services £'000	Reimbursement of Capital Expenditure £'000	Interest £'000	Total £'000
Payable in 2014-15	711	749	619	2,079
Payable within 2-5 years	2,842	3,443	2,031	8,316
Payable within 6-10 years	3,552	5,513	1,330	10,395
Payable within 11-15 years	710	1,296	73	2,079
Total	7,815	11,001	4,053	22,869

Payments made to the contractor have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The outstanding liability to the contractor for capital expenditure is as follows:

	31 March 2014 £'000	31 July 2013 £'000
Balance at start of year	11,482	12,166
Payments made in the year	(481)	(684)
Balance outstanding at end of the year	11,001	11,482

34 Post Balance Sheet Events

Kilmarnock New Build

During 2013-14 the College announced "C3 Investments in Ayrshire College Education" as the Preferred Bidder for the New Campus Project in Kilmarnock. During the period of these accounts the College completed the transfer of title to the 10 acres of land at Hill Street, Kilmarnock, gifted by Diageo to the College.

Financial Close was reached on 4 June 2014. This was a significant milestone in the Project and construction activities started on site on the same day. This exciting £53 million Project will provide a fit for purpose learning environment for the 21st century and has a number of sector leading elements. This Project will also contribute to the regeneration of the Hill Street area of Kilmarnock as well as the Town Centre initiatives.

The new Campus has a target service commencement date of 19 May 2016.

Due to the scale of the Project and as a result of reaching Financial Close, the College requires to recognise the accounting impact in respect of its current premises in Holehouse Road, Kilmarnock. The College, as part of this set of accounts, has written down the value in line with accounting standards and this is described in more detail above under exceptional costs.

35 Contingent Liabilities

There are no contingent liabilities at 31 March 2014 (31 July 2013: £ nil)