

**LANCASTER & MORECAMBE
COLLEGE**

**Annual Report and Financial Statements
For the Year Ended 31 July 2014**

LANCASTER & MORECAMBE COLLEGE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2014

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LANCASTER & MORECAMBE COLLEGE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2014

Operating and Financial Review

NATURE, OBJECTIVES AND STRATEGIES

The members present their report and the audited financial statements of Lancaster & Morecambe College (the College) for the year ended 31 July 2014.

LEGAL STATUS

The Corporation was established under The Further and Higher Education Act 1992 for the purpose of conducting the affairs of Lancaster & Morecambe College. The corporation was incorporated as Lancaster & Morecambe College on 1 April 1993. The college is an exempt charity for the purposes Part 3 of the Charities Act 2011.

MISSION

“Providing Lancaster and Morecambe and surrounding communities with an outstanding student experience fulfilling academic, personal and employment goals”.

PUBLIC BENEFIT

Lancaster & Morecambe College is an exempt charity under the Part 3 of the Charities Act 2011 and from 1st September 2013, is regulated by the Secretary of State for Business, Innovation and Skills as Principal Regulator for all FE Corporations in England. The members of the Governing Body, who are trustees of the charity, are disclosed on pages 9 to 10.

In setting and reviewing the College’s strategic objectives, the Governing Body has had due regard for the Charity Commission’s guidance on public benefit and particularly upon its supplementary guidance on the advancement of education. The guidance sets out the requirement that all organisations wishing to be recognised as charities must demonstrate, explicitly, that their aims are for the public benefit.

In delivering its mission, the College provides the following identifiable public benefits through the advancement of education:

- High-quality teaching;
- Widening participation and tackling social exclusion;
- Excellent employment record for students;
- Strong student support systems;
- Links with employers, industry and commerce.

IMPLEMENTATION OF STRATEGIC PLAN

During the year the Corporation monitored the College against its 2013-2014 Strategic Plan which covered the period from 1 August 2013 to 31 July 2014. The Strategic Plan is updated each year and contains targets across the following core strategies:

- Empowering learners to develop their potential for learning, life and work;
- Making a positive contribution to sustainable economic growth in the local and wider community;
- Providing its students and staff with an outstanding environment in which to learn, teach and work.

A selection of the College’s specific targets and achievement of those targets in 2013/2014 are shown below:

- 95% of parents surveyed would recommended the College to a friend compared to a target of 98%;
- Recruited 1,234 16/18 FE learners against a target of 1,225;
- 96% of teaching staff qualified against a target of 98%;
- Staff sickness 4.8% against a target of 4%

FINANCIAL OBJECTIVES

The College’s overriding financial objective is to maintain its financial health grade as ‘Outstanding’.

LANCASTER & MORECAMBE COLLEGE

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Operating and Financial Review (continued)

Specific financial targets included:

- Generate a positive cash flow from operations each year;
- Maintain at least 100 cash days in hand;
- Maintain a positive reserve on the income and expenditure account excluding the FRS17 pension reserve;
- Generate an underlying surplus before FRS17 each year;
- Restrict total borrowing to 0% of total annual income;
- Maintain a current ratio of at least 1.5.

The College met all the above targets, and its grade for financial health remains as 'Outstanding'.

PERFORMANCE INDICATORS

FE Choices (formerly the "Framework for Excellence") has four key performance indicators:

- Success rates;
- Learner destinations;
- Satisfaction (formerly "learner views");
- Satisfaction survey (formerly "employer views").

The College is committed to observing the importance of the measures and indicators and is monitoring these through the completion of the annual Finance Record for the Skills Funding Agency/Education Funding Agency. The current rating of Outstanding is considered an acceptable outcome.

FINANCIAL POSITION

FINANCIAL RESULTS

The College generated an operating surplus in the year of £521k (2013 : £247k).

At 31 July 2014 the College had accumulated reserves of £17,952k (2013 : £17,074k) and cash balances of £6,473k (2013 : £7,706k). The cash surplus is intended for the development of existing accommodation.

The College has no subsidiary companies.

Tangible fixed asset additions during the year amounted to £3,183k. This included £1,527k relating to Assets still under Construction at 31 July 2014 in relation to the erection of a new building for construction provision and the extension of the Hexagon building to accommodate a new learning centre.

The College has significant reliance on the funding bodies for its principal funding source, largely from recurrent grants. In 2013/14 the funding bodies provided 72.9% of the College's total income.

TREASURY POLICIES AND OBJECTIVES

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

The College has a separate treasury management policy in place.

CASH FLOWS

At £236k (2012/13 £2,076k), operating cash inflow was strong. The net cash outflow of £1,233k (2012/13 outflow £4,614k) resulted from net cash inflow from operating activities of £293k, returns on investment of £67k and capital expenditure of £1,593k.

LANCASTER & MORECAMBE COLLEGE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2014

Operating and Financial Review (continued)

LIQUIDITY

The College has no borrowings.

CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE

STUDENT NUMBERS

In 2013/14 the College has delivered activity that has produced £8,839k in funding body main allocation funding (2012/13 : £9,080k). The College had 4,148 (2012/13 : 3,780) funded and 1,787 (2012/13 : 1,659) non-funded students.

STUDENT ACHIEVEMENTS

Success rates across all qualifications were 87% (2012/13 : 86%)

CURRICULUM DEVELOPMENTS

The College rigorously reviews and plans its curriculum offering each year on a course by course basis. Individual courses are assessed for quality, fulfilment of learner needs, financial viability and contribution to government targets.

During 2013/2014 the College introduced a range of new Higher Education Courses and also developed new level 1 and 2 courses in Horticulture.

PAYMENT PERFORMANCE

The Late Payment of Commercial Debts (Interest) Act 1998, which came into force on 1 November 1998, requires colleges, in the absence of agreement to the contrary, to make payments to suppliers within 30 days of either the provision of goods or services or the date on which the invoice was received. The target set by the Treasury for payment to suppliers within 30 days is 95%. During the accounting period 1 August 2013 to 31 July 2014, except where custom and practice has dictated otherwise, the College has endeavoured to pay suppliers within 30 days. The College incurred no interest charges in respect of late payment for this period.

POST-BALANCE SHEET EVENTS

There were no post balance sheet events.

FUTURE DEVELOPMENTS

For 2014/15 the College has received funding allocations from the Skills Funding Agency of £2,355k for its core adult provision and £701k for 16-18 Apprentices. The Education Funding Agency has confirmed the college's allocation of £6,302k for 16-18 provision (including some 19-24 learners with high learning support needs).

Construction work will continue through 2014/2015 and 2015/2016 on the Heysham - M6 link road that will cut through the college campus. The College has reached an agreement with Lancashire County Council in respect of mitigation measures and the works around the College have been planned to minimise any disruption to its activities.

The College will continue to upgrade its campus through the implementation of the Property Master Plan. During 2014/15 new facilities for Hair and Beauty, Animal Care and Horticulture will be opened together with external façade improvements and landscaping works. These works costing c£1,477K will be funded from existing cash reserves supplemented by a £500K grant from the Skills Funding Agency.

Operating and Financial Review (continued)

RESOURCES

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

Tangible resources include the main college site.

FINANCIAL

The College has £23,045k of net assets (after deducting £4,734k pension liability but excluding deferred capital grants). It has no long term debt.

The College has cash reserves of £6,473k. The Corporation has resolved to utilise the majority of these reserves to undertake the initial phases of the College's accommodation strategy whilst retaining sufficient cash balances to maintain appropriate levels of cash days in hand.

PEOPLE

The College employs 295 people (expressed as full time equivalents), of whom 104 are teaching staff.

REPUTATION

The College has a good reputation locally and nationally. Maintaining a quality brand is essential for the College's success at attracting students and external relationships.

PRINCIPAL RISKS AND UNCERTAINTIES

The College has undertaken further work during the year to develop and embed the system of internal control, including financial, operational and risk management which is designed to protect the College's assets and reputation.

Based on the strategic plan, the Risk Management Group undertakes a comprehensive review of the risks to which the College is exposed. They identify systems and procedures, including specific preventable actions which should mitigate any potential impact on the College. The internal controls are then implemented and the subsequent year's appraisal will review their effectiveness and progress against risk mitigation actions. In addition to the annual review, the Risk Management Group will also consider any risks which may arise as a result of a new area of work being undertaken by the College.

A risk register is maintained at the College level which is reviewed three times a year by the Audit Committee and more frequently where necessary. The risk register identifies the key risks, the likelihood of those risks occurring, their potential impact on the College and the actions being taken to reduce and mitigate the risks. Risks are prioritised using a consistent scoring system.

Outlined below are examples of the principal risk factors that may affect the College. Not all the factors are within the College's control. Other factors besides those listed below may also adversely affect the College.

- Failure to meet learner numbers and funding targets. The College prepares a detailed curriculum plan that will deliver learner number and funding targets. Learner number and funding performance against targets are closely monitored by the Senior Management Team and action is taken where necessary.
- Failure to meet target success rates. The College has embedded quality systems and action is taken to address under-performing courses.

Operating and Financial Review (continued)

STAKEHOLDER RELATIONSHIPS

In line with other colleges and with universities, Lancaster & Morecambe College has many stakeholders. These include:

- Students;
- Staff;
- Local employers (with specific links);
- Local Authorities;
- Education sector funding bodies;
- Government Offices/ Regional Development Agencies/LEPs;
- The local community;
- Other FE institutions;
- Trade unions;
- Professional bodies.

The College recognises the importance of these relationships and engages in regular communication with them through the College Internet site and by meetings.

EQUALITY AND DIVERSITY

The College has a comprehensive Single Equality Scheme and firmly believes that individuals are entitled to the same rights and responsibilities, regardless of race, colour, gender, age, religious belief, language, disability/learning difficulty, sexuality, culture or marital status.

The College has set targets for equality and diversity within the strategic key performance indicators which are monitored on a frequent basis.

Equality and Diversity Targets and Actuals for 2013/14 were:

	Target 2013/2014	Actual 2013/2014
Reduce the non disclosure of disability by students	<3%	3.4%
Narrow success rates between 16/18 FE males and females.	<2%	0%

DISABILITY EQUALITY

The College seeks to achieve the objectives set down in the Disability Discrimination Act 2000 as amended by the Special Educational Needs and Disability Acts 2001 and 2005. The college published its Single Equality Scheme in June 2010. This is available on request in Braille, large print, audio tape and is published on the college website and intranet.

The College considers all applications from disabled persons, bearing in mind the aptitudes of the individuals concerned. Where an existing employee becomes disabled, every effort is made to ensure that employment with the College continues. The College's policy is to provide training, career development and opportunities for promotion, which are, as far as possible, identical to those for other employees.

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FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2014

Operating and Financial Review (continued)

GENDER EQUALITY

The College has a legal duty to positively promote gender equality and its Single Equality Scheme was published on the college website and intranet in June 2010 and is available on request in Braille, large print and audio tape.

RACE EQUALITY

As a result of the Race Relations Act 1976 (as amended by the Race Relations (Amendment) Act 2001) the College has developed a comprehensive Single Equality Scheme and procedures to ensure that individuals and communities have equal access to our learning programmes and facilities. This is available on request in Braille, large print or audio tape, and is published on the college website and intranet.

DISCLOSURE OF INFORMATION TO AUDITORS

The members who held office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the College's auditors are 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.

Approved by order of the members of the Corporation on 15 December 2014 and signed on its behalf by:

.....

R Thorpe
Chairman

LANCASTER & MORECAMBE COLLEGE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2014

Operating and Financial Review (continued)

PROFESSIONAL ADVISERS

Financial Statement & Regularity auditors:
Baker Tilly UK Audit LLP
3 Hardman Street
Manchester
M3 3HF

Internal Auditors:
Baker Tilly Risk Advisory Services LLP
1 Hollinswood Court
Stafford Park 1
Telford
Shropshire
TF3 3DE

Bankers:
Barclays Bank Plc
Barclays Business Centre
38 Market Street
Lancaster
LA1 1HR

Solicitors:
Eversheds LLP
Eversheds House
70 Great Bridgewater Street
Manchester
M1 5ES

Barclays Wealth
1 Churchill Place
London
E14 5HP

CAF Bank
25 Kings Hill Avenue
Kings Hill
West Malling
Kent
ME19 4JQ

Lloyds TSB Bank Plc
25 Gresham Street
London
EC2V 7HN

Santander Corporate Banking
298 Deansgate
Manchester
M3 4HH

LANCASTER & MORECAMBE COLLEGE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2014

Statement of Corporate Governance and Internal Control

The following statement is provided to enable readers of the annual report and accounts of the College to obtain a better understanding of its governance and legal structure.

The College endeavours to conduct its business:

- i. in accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership);
- ii. in full accordance with the guidance to colleges from the Association of Colleges in The English Colleges' Foundation Code of Governance ("the Foundation Code"); and
- iii. having due regard to the UK Corporate Governance Code ("the Code") insofar as it is applicable to the further education sector

The College is committed to exhibiting best practice in all aspects of corporate governance and in particular the College/Board has adopted and complied with the Foundation Code. We have not adopted and therefore do not comply with the UK Corporate Governance Code. However, we have reported on our Corporate Governance arrangements by drawing upon best practice available, including those aspects of the UK Corporate Governance Code we consider to be relevant to the further education sector and best practice.

In the opinion of the governors, the College complies with all the provisions of the Foundation Code, and it has complied throughout the year ended 31 July 2014. The Governing Body recognises that, as a body entrusted with both public and private funds, it has a particular duty to observe the highest standards of corporate governance at all times. In carrying out its responsibilities, it takes full account of The English Colleges' Foundation Code of Governance issued by the Association of Colleges in December 2011, which it formally adopted in December 2011, and the Audit and Accountability Annex to the Foundation Code that was issued in March 2013 and adopted by the College in June 2013.

The College is an exempt charity within the meaning of Part 3 of the Charities Act 2011. The Governors, who are also the Trustees for the purposes of the Charities Act 2011, confirm that they have had due regard for the Charity Commission's guidance on public benefit and that the required statements appear elsewhere in these financial statements.

THE CORPORATION

The Governors who served on the Board during the year and up to the date of signature of this report were as follows:

Name	Date of Appointment	Term of Office	Date of Resignation	Status of appointment	Committees Served	Meeting Attendance
Mr R Thorpe	26 March 2012	4 years		Chair w.e.f 1 April 2014 Independent Member	Capital Project; Remuneration; Search	91%
Mr A Cheetham	1 August 2008 (Re-appointed 26 March 2012)	4 years		Vice Chair w.e.f 1 September 2012 Independent Member	Audit; Capital Project; Remuneration ; Search	82%
Ms H Bailey	1 April 2014	4 years		Independent Member		60%
Miss S Bailey	1 July 2013	4 years	30 June 2014	Student Member		29%
Dr A Bathgate	22 September 2008 (Re-appointed 1 April 2012)	4 years		Staff Member (Support)	Capital Project	100%
Mr M Burrow	7 November 2011	4 years		Independent Member	Audit; Capital Project; Remuneration	100%

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Statement of Corporate Governance and Internal Control (continued)

Mr C Casey	15 November 2010	4 years	24 November 2013	Independent Member		100%
Mrs S Cassey	1 April 2012	4 years		External Member	Audit	100%
Mr J Haslam	1 October 2013	4 years		Student Member		89%
Mr B Jefferson MBE	19 February 2007 (Re-appointed 1 April 2011)	4 years		Chair w.e.f 1 April 2008 (Re-appointed 1 April 2011) Independent Member	Capital Project; Remuneration; Search	94%
Mr J Kirton	13 July 2009 (Re-appointed 8 July 2013)	4 years		Independent Member	Capital Project; Remuneration	95%
Mr M Leather	25 March 2013	4 years		Independent Member	Audit	85%
Mrs R Marsdin	15 December 2008 (Re-appointed 25 March 2013)	4 years		Independent Member	Audit	71%
Mr G Mervin	1 April 2012	4 years		Staff Member (Academic)		78%
Miss C Nicholson	1 July 2014	4 years		Student Member		100%
Mrs H Shukla	1 August 2008 (Re-appointed 26 March 2012)	4 years		Independent Member	Search	70%
Mrs V White	1 April 2008 (Re-appointed 26 March 2012)	4 years		Independent Member	Audit; Search	87%
Mr D Wood	27 August 2003			Staff Member (Principal)	Capital Project; Search In attendance at Remuneration;	90%
Mr J Yazdani	15 November 2010	4 years		Independent Member	Remuneration	90%
Julie Wilkinson acted as Clerk to the Corporation.						

The Corporation conducts its business within a revised governance structure, with only Audit, Capital Project, Remuneration and Search Committees. The Corporation meets monthly September to December and February to July.

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FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2014

Statement of Corporate Governance and Internal Control (continued)

It is the Corporation's responsibility to bring independent judgement to bear on issues of strategy, performance, resources and standards of conduct.

The Corporation is provided with regular and timely information on the overall financial performance of the College, against funding targets, proposed capital expenditure, quality matters, teaching and learning performance and personnel-related matters such as health and safety and environmental issues. The Corporation meets at least twice each term.

Full minutes of all meetings, except those deemed to be confidential by the Corporation, are available for inspection from the Clerk to the Corporation and the College Library at:

Lancaster & Morecambe College
Morecambe Road
Lancaster
LA1 2TY

Agendas and minutes (excluding confidential items) are also available on the College's website.

The Clerk to the Corporation maintains a register of financial and personal interests of the governors. The register is available for inspection at the above address and on the college website.

All governors are able to take independent professional advice in furtherance of their duties at the College's expense and have access to the Clerk to the Corporation, who is responsible to the Board for ensuring that all applicable procedures and regulations are complied with. The appointment, evaluation and removal of the Clerk are matters for the Corporation as a whole.

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

The Corporation has a strong and independent non-executive element and no individual or group dominates its decision-making process. The Corporation 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.

There is a clear division of responsibility in that the roles of the Chairman and Accounting Officer are separate.

Governors self-assessed their collective performance during the year as Good.

APPOINTMENTS TO THE CORPORATION

Members of the Corporation are appointed for a term of office not exceeding four years, but can be re-appointed for a further 4 years; 8 years maximum. The Corporation is responsible for ensuring that appropriate training is provided as required.

Any new appointments to the Corporation are a matter for the consideration of the Corporation as a whole.

SEARCH COMMITTEE

The Corporation has a search committee, comprising six members of the Corporation, which is responsible for the selection and nomination of any new member for the Corporation's consideration. The rules and remit of the search committee are published on the College's website.

LANCASTER & MORECAMBE COLLEGE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2014

Statement of Corporate Governance and Internal Control (continued)

REMUNERATION COMMITTEE

Throughout the year ending 31 July 2014 the College's remuneration committee comprised six members. The committee's responsibilities are to make recommendations to the Board on the remuneration and benefits of the Accounting Officer, Clerk and other senior post-holders.

Details of remuneration for the year ended 31 July 2014 are set out in note 8 to the financial statements.

AUDIT COMMITTEE

The audit committee comprises of six members of the Corporation (excluding the Accounting Officer). The committee operates in accordance with written terms of reference approved by the Corporation. Its purpose is to advise the corporation on the adequacy and effectiveness of the college's systems of internal control and its arrangements for risk management control and governance processes.

The audit committee meets at least on a termly basis and provides a forum for reporting by the College's internal and financial statement and regularity auditors, who have access to the committee for independent discussion, without the presence of College management. The committee also receives and considers reports from the main FE funding bodies as they affect the College's business.

The College's 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 audit undertakes periodic follow up reviews to ensure such recommendations have been implemented.

The audit committee also advises the Corporation on the appointment of internal, financial statements and regularity auditors and their remuneration for both audit and non-audit work.

INTERNAL CONTROL

Scope of responsibility

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

The Corporation has delegated the day-to-day responsibility to the Principal, as Accounting Officer, for maintaining a sound system of internal control that supports the achievement of the College's policies, aims and objectives, whilst safeguarding the public funds and assets for which he is personally responsible, in accordance with the responsibilities assigned to him in the Financial Memorandum between Lancaster & Morecambe College and the funding bodies. He is also responsible for reporting to the Corporation any material weaknesses or breakdowns in internal control.

The 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 an ongoing process designed to identify and prioritise the risks to the achievement of college policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Lancaster & Morecambe College for the year ended 31 July 2014 and up to the date of approval of the annual report and accounts.

Statement of Corporate Governance and Internal Control (continued)

Capacity to handle risk

The Corporation 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. The Corporation is of the view that there is a formal ongoing process for identifying, evaluating and managing the College's significant risks that has been in place for the period ending 31 July 2014 and up to the date of approval of the annual report and accounts. This process is regularly reviewed by the Corporation.

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 agreed by the governing body;
- regular reviews by the governing body of periodic and annual financial reports which indicate financial performance against forecasts;
- setting targets to measure financial and other performance;
- clearly defined capital investment control guidelines;
- the adoption of formal project management disciplines, where appropriate.

Lancaster & Morecambe College has an internal audit service, which operates in accordance with the requirements of the EFA's and SFA's Joint Audit Code of Practice. The work of the internal audit service is informed by an analysis of the risks to which the college is exposed, and annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the Corporation on the recommendation of the audit committee. At minimum annually, the Head of Internal Audit (HIA) provides the governing body with a report on internal audit activity in the college. The report includes the HIA's independent opinion on the adequacy and effectiveness of the college's system of risk management, controls and governance processes.

Review of effectiveness

As Accounting Officer, the Principal has responsibility for reviewing the effectiveness of the system of internal control. His review of the effectiveness of the system of internal control is informed by:

- the work of the internal auditors (where appointed);
- the work of the executive managers within the College who have responsibility for the development and maintenance of the internal control framework;
- comments made by the College's financial statements and regularity auditors in their management letters and other reports.

The Accounting Officer has been advised on the implications of the result of his review of the effectiveness of the system of internal control by the audit committee which oversees the work of the internal auditor, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The Accounting Officer and senior management team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the departments and reinforced by risk awareness training. The Principal and senior management team and the audit committee also receive regular reports from internal audit, which include recommendations for improvement. The audit committee's role in this area is confined to a high level review of the arrangements for internal control. The Corporation's agenda includes a regular item for consideration of risk and control and receives reports thereon from the senior management team and the audit committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its 17 November 2014 meeting the Corporation carried out the annual assessment for the year ended 31 July 2014 by considering documentation from the senior management team and internal audit, and taking account of events since 31 July 2014.

LANCASTER & MORECAMBE COLLEGE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2014

Statement of Corporate Governance and Internal Control (continued)

Based on the advice of the Audit Committee and the Principal, the Corporation is of the opinion that the College has an adequate and effective framework for governance, risk management and control, and has fulfilled its statutory responsibility for “the effective and efficient use of resources, the solvency of the institution and the body and the safeguarding of their assets”.

Governing Body’s statement on the College’s regularity, propriety and compliance with Funding body terms and conditions of funding

The Corporation has considered its responsibility to notify the Skills Funding Agency of material irregularity, impropriety and non-compliance with Skills Funding Agency terms and conditions of funding, under the financial memorandum in place between the College and the Skills Funding Agency. As part of its consideration the Corporation has had due regard to the requirements of the financial memorandum.

We confirm, on behalf of the Corporation, that to the best of its knowledge, the Corporation believes it is able to identify any material irregular or improper use of funds by the College, or material non-compliance with the Skills Funding Agency’s terms and conditions of funding under the College’s financial memorandum. We further confirm that any instances of material irregularity, impropriety or funding non-compliance discovered to date have been notified to the Skills Funding Agency.

GOING CONCERN

The Corporation has reviewed the 3 year financial forecast, rolling 12 month cash flow forecast and risk register and as a result 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.

Approved by order of the members of the Corporation on 15 December 2014 and signed on its behalf by:

R Thorpe
Chair

D Wood
Principal

LANCASTER & MORECAMBE COLLEGE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2014

Statement of Responsibilities of the Members of the Corporation

The members of the Corporation are required to present audited financial statements for each financial year.

The law applicable to charities in England and the terms and conditions of the Financial Memorandum between the Skills Funding Agency / Education Funding Agency and the Corporation of the College, requires the corporation of the college to prepare financial statements and the Operating and Financial Review for each financial year in accordance with the 2007 Statement of Recommended Practice – Accounting for Further and Higher Education Institutions the annual Accounts Direction issued jointly by the Skills Funding Agency and the Education Funding Agency, and applicable United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and which give a true and fair view of the state of affairs of the College and of the College's surplus/deficit of income over expenditure for that period.

In preparing the financial statements, the Corporation 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 assume that the College will continue in operation.

The Corporation is responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the College, and which enable it to ensure that the financial statements are prepared in accordance with the and other relevant accounting standards. It is responsible for taking steps that are reasonably open to it in order to safeguard the assets of the College and to prevent and detect fraud and other irregularities.

Members of the Corporation are responsible for ensuring that expenditure and income are applied for the purposes intended by Parliament and that the financial transactions conform to the authorities that govern them. In addition they are responsible for ensuring that funds from the Skills Funding Agency are used only in accordance with the Financial Memorandum with the Skills Funding Agency and any other conditions that may be prescribed from time to time. Members of the Corporation must ensure that there are appropriate financial and management controls in place in order to safeguard public and other funds and to ensure they are used properly. In addition, members of the Corporation are responsible for securing economical, efficient and effective management of the College's resources and expenditure, so that the benefits that should be derived from the application of public funds from the Skills Funding Agency are not put at risk.

Approved by order of the members of the Corporation on 15 December 2014 and signed on its behalf by:

R Thorpe
Chair

LANCASTER & MORECAMBE COLLEGE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2014

Independent Auditors' Report to the Corporation of Lancaster & Morecambe College

We have audited the College financial statements ("the financial statements") set out on pages 18 to 42. The financial reporting framework that has been applied in their preparation is United Kingdom accounting standards (United Kingdom Generally Accepted Accounting Practice) as set out in our engagement letter dated 30 October 2014.

This report is made solely to the Corporation, as a body, in accordance with the Financial Memorandum published by the Chief Executive of Skills Funding and our engagement letter dated 30 October 2014. Our audit work has been undertaken so that we might state to the Corporation, as a body, those matters we are required under our engagement letter dated 30 October 2014 to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Corporation, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the Corporation of Lancaster & Morecambe College and Auditor

As explained more fully in the Statement of the Corporation's Responsibilities set out on page 15, the Corporation is responsible for the preparation of financial statements which give a true and fair view.

Our responsibility is to audit, and express an opinion on, the financial statements in accordance with the terms of our engagement letter dated 30 October 2014, Joint Audit Code of Practice issued by the Skills Funding Agency and Education Funding Agency and International Standards on Auditing (UK and Ireland). The International Standards on Auditing (UK and Ireland) require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at <http://www.frc.org.uk/auditscopeukprivate>

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 July 2014 and of the College's surplus of income over expenditure for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

LANCASTER & MORECAMBE COLLEGE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2014

Independent Auditors' Report to the Corporation of Lancaster & Morecambe College (Continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the revised Joint Audit Code of Practice issued jointly by the Skills Funding Agency and the Education Funding Agency requires us to report to you if, in our opinion:

- adequate accounting records have not been kept;
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations required for our audit.

Baker Tilly UK Audit LLP
Chartered Accountants
3 Hardman Street
Manchester
M3 3HF

Date:

LANCASTER & MORECAMBE COLLEGE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2014

INCOME AND EXPENDITURE ACCOUNT

	Notes	2014 £'000	2013 £'000
INCOME			
Funding body grants	2	9,700	11,066
Tuition fees and education contracts	3	1,304	1,025
Research grants and other contracts	4	480	346
Other income	5	1,755	1,075
Investment income	6	71	227
		<hr/>	<hr/>
TOTAL INCOME		13,310	13,739
EXPENDITURE			
Staff costs	7	8,547	8,804
Other operating expenses	9	3,250	3,732
Depreciation	12	920	856
Interest and other finance costs	10	72	100
		<hr/>	<hr/>
TOTAL EXPENDITURE		12,789	13,492
SURPLUS ON CONTINUING OPERATIONS AFTER DEPRECIATION OF TANGIBLE FIXED ASSETS AT VALUATION AND BEFORE TAX			
		521	247
Taxation	11	-	-
		<hr/>	<hr/>
SURPLUS ON CONTINUING OPERATIONS AFTER DEPRECIATION OF TANGIBLE FIXED ASSETS AT VALUATION AND TAX/SURPLUS FOR THE YEAR RETAINED WITHIN GENERAL RESERVES		521	247
		<hr/> <hr/>	<hr/> <hr/>

The Income and Expenditure Account is in respect of continuing activities.

LANCASTER & MORECAMBE COLLEGE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2014

STATEMENT OF HISTORICAL COST SURPLUSES AND DEFICITS

	Notes	2014 £'000	2013 £'000
Surplus on continuing operations before taxation		521	247
Difference between historical cost depreciation and the actual charge for the year calculated on the revalued amount	16	194	252
		<hr/>	<hr/>
HISTORICAL COST SURPLUS FOR THE YEAR BEFORE TAXATION		715	499
		<hr/>	<hr/>
HISTORICAL COST SURPLUS FOR THE YEAR AFTER TAXATION		715	499
		<hr/>	<hr/>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Notes	2014 £'000	2013 £'000
Surplus on continuing operations after depreciation of assets at valuation and tax		521	247
Actuarial gain in respect of pension scheme	22	357	1,155
		<hr/>	<hr/>
TOTAL RECOGNISED GAINS/(LOSSES) SINCE LAST REPORT		878	1,402
		<hr/>	<hr/>
RECONCILIATION			
Opening reserves		17,074	15,672
Total recognised gains for the year		878	1,402
		<hr/>	<hr/>
CLOSING RESERVES		17,952	17,074
		<hr/>	<hr/>

LANCASTER & MORECAMBE COLLEGE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2014

BALANCE SHEET AS AT 31 JULY 2014

	Notes	2014 £'000	2013 £'000
FIXED ASSETS			
Tangible assets	12	22,732	20,469
		<hr/>	<hr/>
TOTAL FIXED ASSETS		22,732	20,469
		<hr/>	<hr/>
CURRENT ASSETS			
Debtors	13	335	329
Cash at bank and in hand		6,473	7,706
		<hr/>	<hr/>
		6,808	8,035
CREDITORS: amounts falling due within one year	14	(1,761)	(2,902)
		<hr/>	<hr/>
NET CURRENT ASSETS		5,047	5,133
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		27,779	25,602
		<hr/>	<hr/>
NET ASSETS EXCLUDING PENSION LIABILITY		27,779	25,602
		<hr/>	<hr/>
Net pension liability	22	(4,734)	(4,928)
		<hr/>	<hr/>
NET ASSETS INCLUDING PENSION LIABILITY		23,045	20,674
		<hr/>	<hr/>
Deferred capital grants	15	5,093	3,600
		<hr/>	<hr/>
RESERVES			
Income and expenditure account excluding pension reserve	17	15,681	14,803
Pension reserve	22	(4,734)	(4,928)
		<hr/>	<hr/>
Income and expenditure account including pension reserve	17	10,947	9,875
Revaluation reserve	16	7,005	7,199
		<hr/>	<hr/>
TOTAL RESERVES		17,952	17,074
		<hr/>	<hr/>
TOTAL FUNDS		23,045	20,674
		<hr/>	<hr/>

The financial statements on pages 18 to 42 were approved and authorised for issue by the Corporation on 15 December 2014 and were signed on its behalf on that date by:

R Thorpe

Chair

D Wood

Accounting Officer

LANCASTER & MORECAMBE COLLEGE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2014

CASH FLOW STATEMENT

	Notes	2014 £'000	2013 £'000
CASH INFLOW FROM OPERATING ACTIVITIES	18	293	2,076
Returns on investments and servicing of finance	19	67	223
Capital expenditure and financial investment	20	(1,593)	(6,913)
Management of liquid resources		(675)	3,109
		<hr/>	<hr/>
DECREASE IN CASH IN THE YEAR	21	(1,908)	(1,505)
		<hr/> <hr/>	<hr/> <hr/>
 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS			
Decrease in cash in the year		(1,908)	(1,505)
Cash inflow/(outflow) from liquid resources		675	(3,109)
		<hr/>	<hr/>
Movement in net funds in the period		(1,233)	(4,614)
Net funds at 1 August		7,706	12,320
		<hr/>	<hr/>
NET FUNDS AT 31 JULY		6,473	7,706
		<hr/> <hr/>	<hr/> <hr/>

LANCASTER & MORECAMBE COLLEGE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2014

Notes to the Accounts

1 ACCOUNTING POLICIES

Statement of accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Basis of preparation

These financial statements have been prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education 2007 (the SORP) Accounts Direction for 2013-14 financial statements published jointly by the Skills Funding Agency and the Education Funding Agency and in accordance with applicable Accounting Standards.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention modified by the revaluation of certain fixed assets and in accordance with applicable United Kingdom Accounting Standards.

Going concern

The activities of the College, together with the factors likely to affect its future development and performance, are set out in the Operating and Financial Review. The financial position of the College, its cashflow and liquidity are described in the Financial Statements and accompanying Notes. The College currently has no borrowings.

Accordingly the College has a reasonable expectation that it has adequate resources to continue in operational existence for the foreseeable future, and for this reason will continue to adopt the going concern basis in the preparation of its Financial Statements.

Recognition of income

Funding body recurrent grants are recognised in line with best estimates for the period of what is receiveable and depend on the particular income stream involved. Any under or over achievement for the Adult Skills Budget is adjusted for and reflected in the level of recurrent grant recognised in the income and expenditure account. The final grant income is normally determined with the conclusion of the year end reconciliation process with the funding body at the end of November following the year end. Where this process involves negotiations in respect of over achievement or adjustment to clawback in respect of under achievement and the negotiations are subsequent to the year end, they are not reflected in the income recognised. 16-18 learner-responsive funding is not normally subject to reconciliation and is therefore not subject to contract adjustments. The income recognised is the allocation for this year.

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

Income from tuition fees is recognised in the period for which it is received and includes all fees payable by students or their sponsors.

Income from grants, contracts and other services rendered is included to the extent the conditions of funding have been met or to the extent of the 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.

Notes to the Accounts (continued)

1 ACCOUNTING POLICIES (CONTINUED)

Post retirement benefits

Retirement benefits to employees of the College are provided by the Teachers' Pension Scheme (TPS) and the Local Government Pension Scheme (LGPS). These are defined benefit schemes, which are externally funded and contracted out of the State Earnings-Related Pension Scheme (SERPS). The assets are held separately from those of the college.

The TPS is an unfunded scheme and contributions are calculated so as to spread the cost of pensions over employees' working lives with the College in such a way that the pension cost is a substantially level percentage of current and future pensionable payroll. The contributions are determined by the Government Actuary on the basis of quinquennial valuations using a prospective benefit method. As stated in Note 22, the TPS is a multi employer scheme and the College is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis. The TPS is therefore treated as a defined contribution scheme and the contributions recognised as they are paid each year.

The LGPS is a funded scheme and the assets are held separately from those of the college in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent term and currency to the liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The amounts charged to operating surplus are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the income and expenditure account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The expected return on assets and the interest cost are shown as a net finance amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Tangible fixed assets

LAND AND BUILDINGS

Land and buildings inherited from the Local Education Authority are stated in the balance sheet at valuation on the basis of depreciated replacement cost as the open market value for existing use is not readily obtainable. Land and buildings acquired since incorporation are included in the balance sheet at cost. Freehold land is not depreciated. Freehold buildings are depreciated over their expected useful economic life to the college of between 38 and 50 years.

Where land and buildings are acquired with the aid of specific grants, they are capitalised and depreciated as above. The related grants are credited to a deferred capital grant account and are released to the income and expenditure account over the expected useful economic life of the related asset on a basis consistent with the depreciation policy.

A review for impairment of a fixed asset is carried out if events or changes in circumstances indicate that the carrying amount of any fixed asset may not be recoverable.

On adoption of FRS 15, the college followed the transitional provision to retain the book value of land and buildings, which were revalued in 1994, but not to adopt a policy of revaluations of these properties in the future. These values are retained subject to the requirement to test assets for impairment in accordance with FRS 11.

LANCASTER & MORECAMBE COLLEGE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2014

Notes to the Accounts (continued)

1 ACCOUNTING POLICIES (CONTINUED)

ASSETS UNDER CONSTRUCTION

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

SUBSEQUENT EXPENDITURE ON EXISTING FIXED ASSETS

Where significant expenditure is incurred on tangible fixed assets it is charged to the income and expenditure account in the period it is incurred, unless it meets one of the following criteria, in which case it is capitalised and depreciated on the relevant basis:

- Asset capacity increases
- Substantial improvement in the quality of output or reduction in operating costs
- Significant extension of the asset's life beyond that conferred by repairs and maintenance

EQUIPMENT

Equipment costing less than £1,000 per individual item is written off to the income and expenditure account in the period of acquisition. All other equipment is capitalised at cost. Equipment inherited from the Local Education Authority is valued by the Corporation on a depreciated replacement cost basis.

Inherited equipment is depreciated on a straight line basis over its remaining useful economic life to the College of 4 years. All other assets are depreciated over their useful economic life as follows:

Motor vehicles and general equipment	-	25% per year on straight line basis
Computer equipment	-	25% per year on straight line basis
Other assets	-	10% per year on straight line basis
Assets in course of construction	-	Nil

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

LEASED ASSETS

Costs in respect of operating leases are charged on a straight-line basis over the lease term. There are no finance leases.

Notes to the Accounts (continued)

1 ACCOUNTING POLICIES (CONTINUED)

Foreign currency translation

Transactions denominated in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the end of the financial period with all resulting exchange differences being taken to the income and expenditure account in the period in which they arise.

Taxation

The College is considered to pass the tests set out in Paragraph 1 Schedule 6 of the Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the College is potentially exempt from taxation in respect of income or capital gains received within categories covered by Chapter 3 Part 11 of the Corporation Tax Act 2010 and Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

The College is partially exempt in respect of Value Added Tax, so it can only recover a minor element of VAT charged on its inputs. Irrecoverable VAT on inputs is included in the costs of such inputs and added to the cost of tangible fixed assets as appropriate, where the inputs are tangible fixed assets by nature.

Liquid resources

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

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.

Agency arrangements

The College acts as an agent in the collection and payment of Discretionary Support Funds. Related payments received from the funding bodies and subsequent disbursements to students are excluded from the Income and Expenditure account and are shown separately in Note 26, except for the 5 per cent of the grant received which is available to the College to cover administration costs relating to the grant. The College employs one member of staff dedicated to the administration of Discretionary Support Fund applications and payments.

LANCASTER & MORECAMBE COLLEGE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2014

Notes to the Accounts (continued)

2 FUNDING BODY GRANTS

	2014 £'000	2013 £'000
Recurrent grant – Education Funding Agency	6,133	6,464
Recurrent grant – Skills Funding Agency	2,695	2,474
Provision for repayment of Adult funding in previous year no longer required to be repaid – Skills Funding Agency	11	142
Work Based Learning	617	1,471
Releases of deferred capital grants (note 15)	67	14
Work Placed Learning	-	162
Other Funds	177	339
	<hr/>	<hr/>
TOTAL	9,700	11,066
	<hr/>	<hr/>

3 TUITION FEES AND EDUCATION CONTRACTS

	2014 £'000	2013 £'000
Tuition fees	745	346
Education contracts	559	679
	<hr/>	<hr/>
TOTAL	1,304	1,025
	<hr/>	<hr/>

There are no tuition fees funded by bursaries.

4 RESEARCH GRANTS AND OTHER CONTRACTS

	2014 £'000	2013 £'000
European Funds	450	296
Releases from deferred capital grants (non-funding bodies) (note 15)	30	50
	<hr/>	<hr/>
TOTAL	480	346
	<hr/>	<hr/>

LANCASTER & MORECAMBE COLLEGE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2014

Notes to the Accounts (continued)

5 OTHER INCOME

	2014 £'000	2013 £'000
Catering	221	183
LCC contribution re M6 Link	452	50
Post 16 High Needs Student Funding	229	-
Other income (including Exam Fees, Nursery Fees and Sales from Training Activities)	853	842
	<hr/>	<hr/>
TOTAL	1,755	1,075
	<hr/> <hr/>	<hr/> <hr/>

During the year the College received £452k as part compensation in respect of the M6 to Heysham Link Road which will run through College property.

6 INVESTMENT INCOME

	2014 £'000	2013 £'000
Interest receivable	71	227
	<hr/>	<hr/>
TOTAL	71	227
	<hr/> <hr/>	<hr/> <hr/>

7 STAFF COSTS

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

	2014 Number	2013 Number
Teaching staff	104	108
Non teaching staff	191	199
	<hr/>	<hr/>
TOTAL	295	307
	<hr/> <hr/>	<hr/> <hr/>

LANCASTER & MORECAMBE COLLEGE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2014

Notes to the Accounts (continued)

7 STAFF COSTS (CONTINUED)

Staff costs for the above persons

	2014 £'000	2013 £'000
Wages and salaries	7,077	7,322
Social security costs	412	450
Other pension costs (including FRS 17 adjustments of £95,000 – 2013 (£115,000))	1,027	982
	8,516	8,754
Restructuring costs	31	50
TOTAL	8,547	8,804

The number of senior post-holders and other staff who received emoluments, excluding pension contributions but including benefits in kind, in the following ranges was:

	Senior post-holders	
	2014 Number	2013 Number
£20,001 to £30,000	1	1
£50,001 to £60,000	1	-
£60,001 to £70,000	1	2
£70,001 to £80,000	1	1
£100,001 to £110,000	1	1
	5	5

8 SENIOR POST-HOLDER'S EMOLUMENTS

Senior post-holders are defined as the Accounting Officer and holders of the other senior posts whom the Governing Body has selected for the purposes of the articles of government of the College relating to the appointment and promotion of staff who are appointed by the Governing Body.

	2014 Number	2013 Number
The number of senior post-holders including the Accounting Officer was:	5	5

LANCASTER & MORECAMBE COLLEGE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2014

Notes to the Accounts (continued)

7 STAFF COSTS (CONTINUED)

Senior post-holders' emoluments are made up as follows:

	2014 £'000	2013 £'000
Salaries	320	323
Pension contributions	44	47
	<hr/>	<hr/>
Total emoluments	364	370
	<hr/>	<hr/>

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

	2014 £'000	2013 £'000
Salaries	106	106
	<hr/>	<hr/>
Pension contributions	16	18
	<hr/>	<hr/>

The pension contributions in respect of the Principal and senior post-holders are in respect of employer's contributions to the Pension Scheme and are paid at the same rate as for other employees.

The members of the Corporation other than the Principal and the staff member did not receive any payment from the institution other than the reimbursement of travel and subsistence expenses incurred in the course of their duties.

9 OTHER OPERATING EXPENSES

	2014 £'000	2013 £'000
Teaching costs	1,171	1,379
Non teaching costs	1,317	1,359
Premises costs	762	994
	<hr/>	<hr/>
TOTAL	3,250	3,732
	<hr/>	<hr/>

Other operating expenses include:

	2014 £'000	2013 £'000
Auditors' remuneration:		
Financial statements audit	12	13
Internal audit	10	14
Other services provided by the financial statements auditors	4	4
Operating leases – other equipment	33	33
Losses/(Gains) on foreign exchange	19	(28)
	<hr/>	<hr/>

LANCASTER & MORECAMBE COLLEGE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2014

Notes to the Accounts (continued)

10 INTEREST AND OTHER FINANCE COSTS

	2014 £'000	2013 £'000
Interest	4	4
Pension finance costs (net) (note 22)	68	96
	<hr/>	<hr/>
TOTAL	72	100
	<hr/> <hr/>	<hr/> <hr/>

11 TAXATION

The members do not believe the College is liable for any corporation tax arising out of its activities during the year (2013- £nil).

12 TANGIBLE FIXED ASSETS

	Freehold Land and Buildings £'000	Equipment £'000	Total £'000
Cost or valuation			
At 1 August 2013	25,360	7,013	32,373
Additions	2,816	367	3,183
	<hr/>	<hr/>	<hr/>
At 31 July 2014	28,176	7,380	35,556
	<hr/>	<hr/>	<hr/>
Depreciation			
At 1 August 2013	5,621	6,283	11,904
Charge for the year	543	377	920
	<hr/>	<hr/>	<hr/>
At 31 July 2014	6,164	6,660	12,824
	<hr/>	<hr/>	<hr/>
Net book value at 31 July 2014	22,012	720	22,732
	<hr/>	<hr/>	<hr/>
Net book value at 31 July 2013	19,739	730	20,469
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Inherited land and buildings were valued for the purpose of the 1994 financial statements at depreciated replacement cost by Mr J J Worsnop ARICS, an employee of the Valuation Office Agency, a firm of Independent Chartered Surveyors. Other tangible fixed assets inherited from the Local Education Authority at Incorporation have been valued by the Corporation on a depreciation replacement cost basis.

The historic cost of inherited assets is £nil.

Freehold Land & Buildings additions include £1,527,000 (2013 : £7,784,000) relating to Assets still under Construction at 31 July 2014. These assets are not depreciated until they are brought into use.

LANCASTER & MORECAMBE COLLEGE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2014

Notes to the Accounts (continued)

13 DEBTORS

	2014 £'000	2013 £'000
Amounts falling due within one year:		
Trade debtors	83	73
Prepayments and accrued income	252	256
	<hr/>	<hr/>
TOTAL	335	329
	<hr/> <hr/>	<hr/> <hr/>

14 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2014 £'000	2013 £'000
Trade creditors	696	1,651
Other taxation and social security	228	235
Amounts due to Education Funding Agency	71	71
Amounts due to Skills Funding Agency	(31)	57
Accruals	797	888
	<hr/>	<hr/>
TOTAL	1,761	2,902
	<hr/> <hr/>	<hr/> <hr/>

15 DEFERRED CAPITAL GRANTS

	Funding Body Grants £'000	Other grants £'000	Total £'000
At 1 August 2013	2,925	675	3,600
Cash received	1,590	-	1,590
Released to income and expenditure account	(67)	(30)	(97)
	<hr/>	<hr/>	<hr/>
AT 31 JULY 2014	4,448	645	5,093
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Funding Body Grants Cash Received includes £1,296,000 (2013 : £2,393,000) relating to Assets still under Construction at 31 July 2014.

LANCASTER & MORECAMBE COLLEGE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2014

Notes to the Accounts (continued)

16 REVALUATION RESERVE

	2014 £'000	2013 £'000
At 1 August	7,199	7,451
Transfer from revaluation reserve to general reserve in respect of depreciation on revalued Land & Buildings	(194)	(252)
	<hr/>	<hr/>
At 31 July	7,005	7,199
	<hr/>	<hr/>

17 MOVEMENT ON GENERAL RESERVES

	2014 £'000	2013 £'000
Income and expenditure account reserve		
At 1 August	9,875	8,221
Surplus retained for the year	521	247
Transfer from revaluation reserve	194	252
Actuarial gain in respect of pension scheme	357	1,155
	<hr/>	<hr/>
At 31 July	10,947	9,875
	<hr/>	<hr/>
Balance represented by:		
Pension reserve	(4,734)	(4,928)
Income and expenditure account reserve excluding pension reserve	15,681	14,803
	<hr/>	<hr/>
At 31 July	10,947	9,875
	<hr/>	<hr/>

LANCASTER & MORECAMBE COLLEGE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2014

Notes to the Accounts (continued)

18 RECONCILIATION OF OPERATING SURPLUS TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2014 £'000	2013 £'000
Surplus on continuing operations after depreciation of assets at valuation	521	247
Depreciation (note 12)	920	856
Deferred capital grants released to income (note 15)	(97)	(64)
Interest payable (note 10)	4	4
Interest receivable (note 6)	(71)	(227)
FRS 17 pension cost less contributions payable (notes 7, 10 and 22)	163	211
Increase in debtors	(6)	(5)
(Decrease)/increase in creditors	(1,141)	1,054
	<hr/>	<hr/>
Net cash inflow from operating activities	293	2,076
	<hr/>	<hr/>

19 RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

	2014 £'000	2013 £'000
Interest received	71	227
Interest paid	(4)	(4)
	<hr/>	<hr/>
Net cash inflow from returns on investment and servicing of finance	67	223
	<hr/>	<hr/>

20 CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

	2014 £'000	2013 £'000
Purchase of tangible fixed assets	(3,183)	(8,628)
Deferred capital grants received	1,590	1,715
	<hr/>	<hr/>
Net cash outflow from capital expenditure and financial investment	(1,593)	(6,913)
	<hr/>	<hr/>

LANCASTER & MORECAMBE COLLEGE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2014

Notes to the Accounts (continued)

21 ANALYSIS OF CHANGE IN NET FUNDS

	At 1 August 2013 £'000	Cash flows £'000	At 31 July 2014 £'000
Cash in hand, and at bank	7,706	(1,233)	6,473
	<hr/>	<hr/>	<hr/>
Total	7,706	(1,233)	6,473
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

22 PENSIONS AND SIMILAR OBLIGATIONS

The College's employees belong to two principal pension schemes: the Teachers' Pension Scheme England and Wales (TPS) for academic and related staff; and the Local Government Pension Scheme (LGPS) for non-teaching staff, which is managed by Lancashire County Council. Both are defined-benefit schemes.

Total pension cost for the year	2013/14 £'000	2012/13 £'000
Teachers Pension Scheme: contributions paid	439	437
Local Government Pension Scheme:		
Contributions paid	493	430
FRS17 Adjustment	<hr/> 95	<hr/> 115
Charge to the Income and Expenditure Account under staff costs	588	545
	<hr/>	<hr/>
Total Pension Cost for Year	1,027	982
	<hr/>	<hr/>

The pension costs are assessed in accordance with the advice of independent qualified actuaries. The latest actuarial valuation of the TPS was 31 March 2004 and of the LGPS 31 March 2010. There were no outstanding or prepaid contributions at either the beginning or the end of the financial year.

The FRS17 figures incorporate all recent changes to the reporting standard. In particular, asset values for quoted securities are now shown as "realisable values" (i.e. bid values) as opposed to the previous requirement of mid market values.

Notes to the Accounts (continued)

22 PENSIONS AND SIMILAR OBLIGATIONS (CONTINUED)

Teachers' Pension Scheme

The Teachers' Pensions Scheme ("TPS") is a statutory, contributory, defined benefit scheme. The regulations under which the TPS operates are the Teachers' Pensions Regulations 2010. Retirement and other pension benefits, including annual increases payable under the Pensions (Increase) Acts are, as provided for in the Superannuation Act 1972, paid out of monies provided by Parliament. Under the unfunded TPS, teachers' contributions on a 'pay as-you-go' basis, and employers' contributions, are credited to the Exchequer under arrangements governed by the above Act.

The Teachers' Pensions Regulations require an annual account, the Teachers' Pensions Budgeting and Valuation Account, to be kept of receipts and expenditure (including the cost of pensions' increases). From 1 April 2001, the Account has been credited with a real rate of return (in excess of price increases and currently set at 3.5%), which is equivalent to assuming that the balance in the Account is invested in notional investments that produce that real rate of return.

Valuation of the Teachers' Pension Scheme

Not less than every four years the Government Actuary ("GA"), using normal actuarial principles, conducts a formal actuarial review of the TPS. The aim of the review is to specify the level of future contributions. The last formal actuarial valuation undertaken for the Teachers' Pension Scheme was completed in 2004. Consequently, a formal actuarial valuation would have been due by 2008. However, formal actuarial valuations for unfunded public service pension schemes have been suspended by HM Treasury on value for money grounds while consideration is given to recent changes to public service pensions and while future scheme terms are developed as part of the reforms to public service pension provision. The primary purpose of the formal actuarial valuations is to set employer and employee contribution rates, and these are currently being determined under the new scheme design.

Approximate actuarial assessments in intervening years between formal valuations using updated membership data are accepted as providing suitably robust figures for financial reporting purposes.

The contribution rate paid into the TPS is assessed in two parts. First, a standard contribution rate ("SCR") is determined. This is the contribution, expressed as a percentage of the salaries of teachers and lecturers in service or entering service during the period over which the contribution rate applies, which if it were paid over the entire active service of these teachers and lecturers would broadly defray the cost of benefits payable in respect of that service. Secondly, a supplementary contribution is payable if, as a result of the actuarial investigation, it is found that accumulated liabilities of the Account for benefits to past and present teachers, are not fully covered by standard contributions to be paid in future and by the notional fund built up from past contributions. The total contribution rate payable is the sum of the SCR and the supplementary contribution rate.

As noted the last formal valuation of the TPS related to the period 1 April 2001 - 31 March 2004. The GA's report of October 2006 revealed that the total liabilities of the Scheme (pensions currently in payment and the estimated cost of future benefits) amounted to £166,500 million. The value of the assets (estimated future contributions together with the proceeds from the notional investments held at the valuation date) was £163,240 million. The assumed real rate of return is 3.5% in excess of prices and 2% in excess of earnings. The rate of real earnings growth is assumed to be 1.5%. The assumed gross rate of return is 6.5%.

Notes to the Accounts (continued)

22 PENSIONS AND SIMILAR OBLIGATIONS (CONTINUED)

Employer and employee contribution rates

As from 1 January 2007, and as part of the cost-sharing agreement between employers' and teachers' representatives, the SCR was assessed at 19.75%, and the supplementary contribution rate was assessed to be 0.75% (to balance assets and liabilities as required by the regulations within 15 years). This resulted in a total contribution rate of 20.5%, which translated into an employee contribution rate of 6.4% and employer contribution rate of 14.1% payable. The cost-sharing agreement also introduced – effective for the first time for the 2008 valuation – a 14% cap on employer contributions payable.

Scheme Changes

From 1 April 2012 to 31 March 2014, the employee contribution rate ranged between 6.4% and 8.8%, depending on a member's Full Time Equivalent salary, with Employer contributions set at 14.1%. With effect from 1st April 2014 the employee contributions rates were increased and ranged between 6.4% and 12.4%, depending on a member's Full Time Equivalent salary, with Employer contributions set to increase to 16.4% from September 2015.

Actuarial scheme valuations are dependent on assumptions about the value of future costs, design of benefits and many other factors. Many of these are being discussed in the context of the design for a reformed TPS, as set out in the Proposed Final Agreement, and scheme valuations are, therefore, currently suspended. The Government, however, has set out a future process for determining the employer contribution rate under the new scheme, and this process will involve a full actuarial valuation.

The Proposed Final Agreement can be found at:

<http://media.education.gov.uk/assets/files/ppt/t/tps%20proposed%20final%20agreement.pdf>

The pension costs paid to TPS in the year amounted to £439,000 (2013: £437,000).

FRS 17 – TPS

Under the definitions set out in Financial Reporting Standard (FRS 17) Retirement Benefits, the TPS 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 FRS17 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.

LOCAL GOVERNMENT PENSION SCHEME

The LGPS is a funded defined-benefit scheme, with the assets held in separate trustee-administered funds. The total contribution made for the year ended 31 July 2014 was £670,000, of which employer's contributions totalled £493,000 and employees' contributions totalled £177,000. The agreed contribution rates for future years are 13.0% for employers and between 5.5% and 11.4% for employees. Since April 2014 the College has been paying a further deficit recovery payment of £10,775 per month .

LANCASTER & MORECAMBE COLLEGE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2014

Notes to the Accounts (continued)

22 PENSIONS AND SIMILAR OBLIGATIONS (CONTINUED)

FRS17

Principal Actuarial Assumptions	At 31 July 2014	At 31 July 2013
Rate of CPI inflation	2.3%	2.4%
Rate of increase in salaries	3.8%	4.4%
Rate of increase for pensions in payment	2.3%	2.4%
Discount rate for scheme liabilities	4.3%	4.5%
Commutations of pensions to lump sums	50%	50%

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

	At 31 July 2014	At 31 July 2013
<i>Retiring today</i>		
Males	22.8	22.1
Females	25.3	24.8
<i>Retiring in 20 years</i>		
Males	25.0	23.9
Females	27.7	26.7

LANCASTER & MORECAMBE COLLEGE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2014

Notes to the Accounts (continued)

22 PENSIONS AND SIMILAR OBLIGATIONS (CONTINUED)

The College's share of the assets and liabilities in the scheme and the expected rates of return were:

	Long-term rate of return expected at 31 July 2014	Value at 31 July 2014 £'000	Long-term rate of return expected at 31 July 2013	Value at 31 July 2013 £'000
Equities	7.0%	7,093	7.0%	7,751
Government Bonds	3.2%	29	3.3%	1,043
Other Bonds	4.1%	3,796	4.3%	3,113
Property	6.2%	1,370	5.7%	1,254
Cash	0.5%	343	0.5%	710
Other	7.0%	1,641	7.0%	1,239
Total market value of assets		14,272		15,110
Present value of scheme liabilities	- Funded	(18,980)		(20,013)
	- Unfunded	(26)		(25)
Deficit in the scheme		(4,734)		(4,928)
Actual return on assets		(2,044)		2,235
Analysis of the amount charged to income and expenditure account				
		2014 £'000	2013 £'000	
Employer service cost		594	544	
Effect of Curtailments or Settlements		-	19	
Total Operating Charge		594	563	
Analysis of net return on pension scheme				
Expected return on pension scheme assets		843	712	
Interest on pension liabilities		(911)	(808)	
Pension finance cost		(68)	(96)	
Total amount charged to income and expenditure account		662	659	

LANCASTER & MORECAMBE COLLEGE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2014

Notes to the Accounts (continued)

22 PENSIONS AND SIMILAR OBLIGATIONS (CONTINUED)

Amount recognised in the statement of total recognised gains and losses (STRGL)

	2014 £'000	2013 £'000
Actual return less expected return on pension scheme assets	(2,044)	1,523
Experience gains and losses arising on the scheme liabilities	2,401	(368)
	<hr/>	<hr/>
Actuarial gain recognised in STRGL	357	1,155
	<hr/>	<hr/>

Movement in deficit during year

	2014 £'000	2013 £'000
Deficit in scheme at 1 August	(4,928)	(5,872)
Movement in year:		
Current service charge	(594)	(544)
Contributions	499	448
Net interest on assets	(68)	(96)
Effect of curtailments or settlements	-	(19)
Actuarial gain	357	1,155
	<hr/>	<hr/>
Deficit in scheme at 31 July	(4,734)	(4,928)
	<hr/>	<hr/>

Asset and Liability Reconciliation

	Unfunded Benefits £'000	2014 £'000	2013 £'000
Reconciliation of Liabilities			
Liabilities at start of period	25	20,038	18,751
Service cost	-	594	544
Interest cost	1	911	808
Employee contributions	-	176	161
Actuarial (gain)/loss	2	(2,401)	368
Benefits paid	(2)	(312)	(613)
Curtailments and settlements	-	-	19
	<hr/>	<hr/>	<hr/>
Liabilities at end of period	26	19,006	20,038
	<hr/>	<hr/>	<hr/>

LANCASTER & MORECAMBE COLLEGE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2014

Notes to the Accounts (continued)

22 PENSIONS AND SIMILAR OBLIGATIONS (CONTINUED)

	Unfunded Benefits £'000	2014 £'000	2013 £'000
Reconciliation of assets			
Assets at start of period	-	15,110	12,879
Expected return on assets	-	843	712
Actuarial (loss)/gain	-	(2,044)	1,523
Employer contributions	2	499	448
Employee contributions	-	176	161
Benefits paid	(2)	(312)	(613)
	<hr/>	<hr/>	<hr/>
Assets at end of period	-	14,272	15,110
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The estimated value of employer contributions for the year ended 31 July 2015 is £499,000.

History of experience gains and losses

	2014	2013	2012	2011	2010
Difference between the expected and actual return on assets:					
Amount £'000	(2,044)	1,523	(423)	681	786
% of scheme assets	14.3%	10.1%	3.3%	5.6%	7.4%
Experience gains and losses on scheme liabilities:					
Amount £'000	2,401	(368)	(893)	1,435	-
% of scheme liabilities	12.6%	1.8%	4.8%	8.7%	-
Total amount recognised in STRGL:					
Amount £'000	357	1,155	(1,316)	1,459	941
% of scheme liabilities	1.9%	5.8%	7.0%	8.8%	5.9%

History of pension deficit

	2014 £'000	2013 £'000	2012 £'000	2011 £'000	2010 £'000
Market value of assets	14,272	15,110	12,879	12,200	10,561
Present value of scheme liabilities	(19,006)	(20,038)	(18,751)	(16,559)	(16,092)
Deficit in the scheme	(4,734)	(4,928)	(5,872)	(4,359)	(5,531)

LANCASTER & MORECAMBE COLLEGE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2014

Notes to the Accounts (continued)

23 CAPITAL COMMITMENTS

	2014 £'000	2013 £'000
Commitments contracted for at 31 July	1,492	1,233

24 FINANCIAL COMMITMENTS

At 31 July the College had annual commitments under non-cancellable operating leases as follows:

	2014 £'000	2013 £'000
Other Equipment		
Expiring within two and five years inclusive	33	33
Total	33	33

25 RELATED PARTY TRANSACTIONS

Due to the nature of the College's operations and the composition of the board of governors (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 board of governors may have an interest. All transactions involving organisations in which a member of the board of governors may have an interest are conducted at arm's length and in accordance with the College's financial regulations and normal procurement procedures. No transactions were identified which should be disclosed under Financial Reporting Standard 8 "Related Party Disclosures".

The total expenses paid to or on behalf of the Governors during the year was £1,827; 6 governors (2012/13: £1,527; 6 governors). This represents travel and subsistence expenses and other out of pocket expenses incurred in attending Governor meetings and charity events in their official capacity. No Governor has received any remuneration or waived payments from the College or its subsidiaries during the year (2012/13: None).

Transactions with the funding bodies are detailed in notes 2, 12, 13 and 16.

The College is one of fourteen members of The Lancashire Colleges Limited, a company limited by guarantee and registered in England and Wales. The principal activity of the Lancashire Colleges Limited is to co-ordinate bids for ESF and other external funding. The College's investment is not considered material to consolidate.

During the year ended 31 July 2014 the College received income of £nil k and paid £8k to the Lancashire Colleges Limited. As at 31 July 2014 £nil k was outstanding from The Lancashire Colleges Limited.

LANCASTER & MORECAMBE COLLEGE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2014

Notes to the Accounts (continued)

26 AMOUNTS DISBURSED AS AGENT

Education Funding Agency – 16-19 Bursary Fund

	2014 £'000	2013 £'000
Funding body grants	271	300
	<hr/>	<hr/>
	271	300
	<hr/>	<hr/>
Disbursed to students	259	233
Administration costs	12	15
	<hr/>	<hr/>
	271	248
	<hr/>	<hr/>
Balance unspent as at 31 July, included in creditors	-	52
	<hr/>	<hr/>

Skills Funding Agency – Adult Discretionary Support

	2014 £'000	2013 £'000
Funding body grants	266	257
	<hr/>	<hr/>
	266	257
	<hr/>	<hr/>
Disbursed to students	229	244
Administration costs	13	13
	<hr/>	<hr/>
	242	257
	<hr/>	<hr/>
Balance unspent as at 31 July, included in creditors	24	-
	<hr/>	<hr/>

Funding body grants are available solely for students. In the majority of instances, the College only acts as a paying agent. In these circumstances, the grants and related disbursements are therefore excluded from the income and expenditure account.

LANCASTER & MORECAMBE COLLEGE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2014

Independent Auditor's Report on Regularity to the Corporation of Lancaster & Morecambe College and the Chief Executive of the Skills Funding Agency

This report is produced in accordance with the terms of our engagement letter dated [x] for the purpose of reporting on the College's Statement of Regularity, Propriety and Compliance in respect of whether the transactions underlying the College's financial statements for the year ended 31 July 2014 are regular in accordance with the authorities that govern them as defined by and in accordance with the Financial Memorandum with the Chief Executive of Skills Funding Agency.

The regularity assurance framework that has been applied is set out in the Joint Audit Code of Practice and the Regularity Framework published by the Skills Funding Agency and the Education Funding Agency.

Our review has been undertaken so that we might state to the Corporation of Lancaster & Morecambe College and the Chief Executive of Skills Funding Agency those matters we are required to state to them in a report and for no other purpose. This report is made solely to the Corporation of Lancaster & Morecambe College and the Chief Executive of Skills Funding Agency in accordance with the terms of our engagement letter. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the corporation of Lancaster & Morecambe College and the Chief Executive of Skills Funding Agency, for our review work, for this report, or for the opinion we have formed.

Responsibilities of the Corporation of Lancaster & Morecambe College and Auditors

The Corporation of Lancaster & Morecambe College is responsible under the requirements of the Further & Higher Education Act 1992, subsequent legislation and related regulations and the Financial Memorandum, for ensuring that financial transactions are in accordance with the framework of authorities which govern them and that transactions underlying the financial statements for the year ended 31 July 2014 are regular.

The Corporation of Lancaster & Morecambe College is also responsible, under the requirements of the Accounts Direction 2013/14 published by the Skills Funding Agency and the Education Funding Agency for the preparation of the Statement on Regularity, Propriety and Compliance.

Auditor's responsibilities

Our responsibility is to express a reasonable assurance opinion that the College's Statement of Regularity, Propriety and Compliance is fairly stated in respect of whether the transactions underlying the College's financial statements for the year ended 31 July 2014 are in all material respects regular, based on the procedures that we have performed and the evidence we have obtained. Our reasonable assurance engagement was undertaken in accordance with the Joint Audit Code of Practice, the Regularity Framework and our engagement letter dated [date]. The International Standards on Auditing (UK and Ireland) and Regularity Framework require that we plan and perform this engagement to obtain reasonable assurance in respect of the College's Statement of Regularity, Propriety and Compliance is fairly stated in respect of whether the transactions underlying the financial statements are in all material respects regular.

Basis of opinion

We have performed procedures on a sample basis so as to obtain information and explanations which we consider necessary in order to provide us with sufficient appropriate evidence to express reasonable assurance that the College's Statement of Regularity, Propriety and Compliance is fairly stated in respect of whether the transactions underlying the College's financial statements are in all material respects regular for the year ended 31 July 2014.

LANCASTER & MORECAMBE COLLEGE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2014

Independent Auditor's Report on Regularity to the Corporation of Lancaster & Morecambe College and the Chief Executive of the Skills Funding Agency (Continued)

Opinion

In our opinion the College's Statement of Regularity, Propriety and Compliance is fairly stated in respect of whether the transactions underlying the College's financial statements are in all material respects regular for the year ended 31 July 2014.

Baker Tilly UK Audit LLP
Chartered Accountants
3 Hardman Street
Manchester
M3 3HF

Date: