

HARMENY EDUCATION TRUST LIMITED
(Limited by guarantee)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2001

Registration No. SCO162021
Registered Charity Number SCO24256

IM.



HARMENY EDUCATION TRUST LIMITED

DIRECTORS

Gavin Reed
Alison Davies OBE
Kerr Cowan
Scott Rae (Appointed 15 August 2000)
Ivan Middleton (Appointed 15 August 2000)

CHIEF EXECUTIVE

Patrick Webb

COMPANY SECRETARY

Rosemary Fitch

AUDITORS

McCabe Partnership
Chartered Accountants
56 Palmerston Place
Edinburgh
EH12 5AY

SOLICITORS

Morton Fraser
30/31 Queen Street
EDINBURGH
EH2 1JX

BANKERS

The Royal Bank of Scotland plc
540 Lanark Road
Edinburgh
EH14 5DE

REGISTERED OFFICE

Harmeny School
Mansfield Road
Balerno
Midlothian
EH14 7JY

HARMENY EDUCATION TRUST LIMITED

DIRECTORS' REPORT

The directors submit their report together with financial statements for the year ended 31 March 2001.

Company Law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the surplus or deficit of the company for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

STATUS

Harmony Education Trust Limited is a company limited by guarantee and not having a share capital.

BUSINESS REVIEW

The principal activity of the company is to advance the education in Scotland of children with special educational needs, on a residential and day basis.

The company was incorporated on 6 December 1995 and the assets and liabilities of its predecessor organisation Harmony School were transferred to the company on 21 December 1995.

The school is currently one of seven Grant Aided Special Schools in Scotland. Income comes from a block maintenance grant from the Scottish Executive with the balance of costs being charged out in fees to Local Authorities.

The general fund for the year shows a deficit of £7,757 and the directors recommend that this deficit is transferred to reserves. The directors are satisfied with the results of the year and, having been given assurances that the Scottish Executive block maintenance will be available at £844,598 for the year to 31st March 2002, are confident that the balance of income required to meet costs, will be met from Local Authority fees.

A degree of uncertainty surrounds government policy with regard to grant aided, special educational needs provision after March 2003. Scottish Executive is considering withdrawal of the grant, diverting the funds so released to local authorities to be used on special educational needs at the discretion of the local authorities.

Should the grant be totally withdrawn, the fees at Harmony would require to increase significantly and the Directors are concerned that this could endanger the future operation of the school, along existing lines.

Consequently, the Directors and the Senior Management Team have developed a three year plan to include an extension of all year round care so that at the end of three years all pupils at this school are likely to be here on that basis. In addition, alternative services are being explored in order to create other sources of income. These services will remain closely related to the school's principle objectives.

The new classroom block and the two new residences have proved enormously successful as has the introduction of all year round care currently restricted to one residence and seven children.

Development continues however and in the short term, there are plans to develop a separate support room for children needing individual attention and in the longer term, it is planned to replace the oldest residential cottage.

A wholly owned subsidiary, Harmony Services Limited was created in November 1998 to conduct any school business, other than education, that is considered appropriate. The subsidiary company is currently dormant.

HARMENY EDUCATION TRUST LIMITED

Reserves

The Directors have reviewed the reserves of the charity, particularly in view of the threat to revenue funding by Scottish Executive and the resulting uncertainty concerning Harmeny's future activities.

The current level of unrestricted reserves is very low as under existing arrangements with Scottish Executive, Harmeny is not allowed to retain annual surpluses on educational provision.

It is considered that a reasonable level of reserves, assuming withdrawal of grant, would be six months expenditure of resources, approximately £1 million. This level of reserve would allow the charity to take appropriate steps to reorganise Harmeny's activities while maintaining essential skilled staff at a level sufficient to maintain operations.

The current reserves, while undoubtedly low at present are considered adequate if grant continues at its present level. Grant has been agreed for the year 2001/2002 and will continue to be paid, at a level to be negotiated, up to 31 March 2003.

The Directors are exploring ways of bringing Harmeny reserves into line with our target level in the event that grant funding is either withdrawn or significantly reduced.

Risk Management

The Directors regularly review the charities activities and assess the risks to which the charity is exposed.

The Board has implemented a strategy which comprises:

- an annual review of the risks that the charity may face.
- the establishment of systems and procedures to mitigate identified risks.
- the creation of procedures to minimise the potential impact on the charity should any of the risks materialise.

Volunteers

Harmeny is grateful to the volunteers in the "Friends of Harmeny Association" who devote many hours each year to fund raising and other activities on behalf of Harmeny.

DIRECTORS

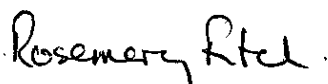
The directors are chosen for appointment with reference to their experience in the charity's line of work. The directors of the company, none of whom has a beneficial interest in the company are:

Gavin Reed
Alison Davies OBE
Kerr Cowan
Scott Rae (Appointed 15 August 2000)
Ivan Middleton (Appointed 15 August 2000)

AUDITORS

A resolution to re-appoint McCabe Partnership will be put to the members at the Annual General Meeting.

By Order of the Board



Rosemary Fitch
Secretary

Date: 27 June 2001

HARMENY EDUCATION TRUST LIMITED

BALANCE SHEET
as at 31 March 2001

	Note	2001 £	2000 £
FIXED ASSETS			
Tangible assets	7	2,554,276	2,588,463
Investments	8	2	2
		2,554,278	2,588,465
CURRENT ASSETS			
Debtors	9	114,950	75,652
Cash at bank and in hand		183,465	194,917
		298,415	270,569
Creditors: amounts falling due within one year	10	156,723	196,823
TOTAL CURRENT ASSETS LESS CURRENT LIABILITIES		141,692	73,746
NET ASSETS	13	2,695,970	2,662,211
FUNDS			
Unrestricted - General Fund	12	-	-
- Designated Capital Development Fund	12	116,484	110,874
Restricted - New Capital Development Fund	12	2,535,755	2,515,603
- Other Funds	12	43,731	35,734
		2,695,970	2,662,211

The financial statements on pages 2 - 13 were approved by the board of directors on 27th June 2001

Gavin Reed



Chairman

HARMENY EDUCATION TRUST LIMITED

STATEMENT OF FINANCIAL ACTIVITIES for the year to 31 March 2001

		Unrestricted Funds		Restricted Funds			
		General	Designated	New			
	Notes	Fund	Capital Development Fund	Building Capital Fund	Other Funds	Total 2001	Total 2000
Incoming Resources							
Local Authority fees		898,361	-	-	-	898,361	804,030
Scottish Executive maintenance grant		881,459	-	-	-	881,459	656,400
Scottish Executive - other grants		-	-	-	30,242	30,242	65,906
Bank interest		-	8,367	4,848	-	13,215	18,664
Donations		-	5,000	68,522	-	73,522	684,242
Other income		205	-	-	-	205	272
Total Incoming Resources		1,780,025	13,367	73,370	30,242	1,897,004	2,229,514
Cost of generating funds		-	-	3,072	-	3,072	26,048
Charitable Expenditure							
Direct expenditure		1,666,421	-	50,146	22,245	1,738,812	1,399,233
Administration		121,361	-	-	-	121,361	108,007
Total Charitable Expenditure	3	1,787,782	-	50,146	22,245	1,860,173	1,507,240
Total Resources Expended		1,787,782	-	53,218	22,245	1,863,245	1,533,288
Net Incoming/(Outgoing) Resources before Transfers							
		(7,757)	13,367	20,152	7,997	33,759	696,226
Transfers between funds		7,757	(7,757)	-	-	-	-
Net Movement in funds for the year		-	5,610	20,152	7,997	33,759	696,226
Fund Balance brought forward		-	110,874	2,515,603	35,734	2,662,211	1,965,985
Fund Balances carried forward at 31 March 2001	12/13	-	116,484	2,535,755	43,731	2,695,970	2,662,211

HARMENY EDUCATION TRUST LIMITED

INCOME AND EXPENDITURE ACCOUNT for the year to 31 March 2001

	Note	Unrestricted Funds £	Restricted Funds £	Total 2001 £	Total 2000 £
Income					
Local authority fees	2	898,361	-	898,361	804,030
Scottish Executive maintenance grant	2	881,459	-	881,459	656,400
Other income		13,572	24,428	38,000	18,936
Total Income		1,793,392	24,428	1,817,820	1,479,366
Expenditure					
Direct charitable expenditure		1,666,421	19,580	1,686,001	1,399,233
Administration		121,361	-	121,361	108,007
Cost of generating funds		-	3,072	3,072	26,048
Total Expenditure		1,787,782	22,652	1,810,434	1,533,288
Operating surplus/(deficit) for the year		5,610	1,776	7,386	(53,922)

- A detailed analysis of incoming and outgoing resources, providing full information on the movements during the year on all funds, is contained in the Statement of Financial Activities on page 6. In particular, all movements on capital funds, which are not included above, are disclosed therein.
- All activities relate to continuing operations.

HARMENY EDUCATION TRUST LIMITED

CASHFLOW STATEMENT
for the year to 31 March 2001

	2001	2000
Net Cash inflow from operating activities (See note below)	55,451	731,426
Capital Expenditure		
Payment to acquire fixed assets	(72,753)	(1,279,659)
Proceeds from sales of tangible fixed assets	5,850	-
Increase/(decrease) in cash within year	(11,452)	(548,233)

Note: Reconciliation of net incoming resources to net cash flow from operating activities

	£	£
Net incoming resources	33,759	696,226
Increase in Debtors	(39,298)	38,391
Decrease in Creditors	(40,100)	(70,485)
Depreciation	106,940	67,294
Gain on sale of fixed assets	(5,850)	-
	55,451	731,426

Analysis of changes in net cash resources:

	2000	Cashflow	2001
	£	£	£
Current Account	(9,488)	(27,869)	(37,357)
Deposit Account	203,805	16,991	220,796
Cash Balance	600	(574)	26
	194,917	(11,452)	183,465

NOTES TO THE FINANCIAL STATEMENTS
for the year to 31 March 2001

1. STATUS OF COMPANY

The company is limited by guarantee and does not have a share capital. The liability of each member is limited to £1. The company is a registered charity, number SC24256.

The financial statements cover the year to 31 March 2001.

2. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable accounting standards The Charities Accounts (Scotland) Regulations 1992 and Accounting and Reporting by Charities: Statement of Recommended Practice issued in October 2000.

Accounting convention

The financial statements are prepared under the historical cost convention.

Grants receivable

Grants receivable are recognised as incoming resources when the conditions for their receipt have been satisfied. Grants received for specific purposes are accounted for as restricted funds. Any grants restricted to future accounting periods are deferred, and recognised in the periods to which they relate. Grants for capital projects are credited to a separate capital restricted fund, which is not included in the income and expenditure account.

Local Authority fees

This represents amounts receivable against the school's net costs for the period and relative to the schools academic year.

Depreciation

Depreciation is provided at 2% on a straight line basis on all new property. Depreciation of all other assets is provided on the straight line method at the rate of 25% per annum

Expenditure

All expenditure is included on an accruals basis and is recognised when there is a legal or constructive obligation to pay for the expenditure. Harmeny Education Trust Limited is not registered for VAT.

Tangible Fixed Assets

On incorporation, Harmeny Education Trust Limited was gifted the land and existing property at Harmeny on condition that should the assets cease to be used for the purposes of Special Needs Education, the property would revert to The Save the Children Fund. The main building and the Lodge are listed and are inalienable.

The original cost of the asset is not available and only costs incurred by the predecessor organisation, Harmeny School, were capitalised on incorporation.

The users of the accounts are principally the Directors, Local Authorities, The Scottish Executive and donors. The directors consider that the cost of carrying out a professional valuation to include these assets at a value to be incorporated meaningfully in the accounts would not be justified.

Since incorporation all additions and improvements to land and buildings have been included at cost.

Other tangible assets costing more than £500 are capitalised.

HARMENY EDUCATION TRUST LIMITED

Restricted funds

Restricted funds are to be used for specified purposes laid down implicitly or explicitly by the donor. Expenditure which meets these criteria is identified to the fund.

Unrestricted funds

Unrestricted funds comprise donations and other incoming resources received or generated for charitable purposes.

Designated fund

Designated fund is unrestricted and earmarked by the directors for particular purposes.

Donations

Donations are recognised on a cash basis.

3. ANALYSIS OF TOTAL CHARITABLE EXPENDITURE

	Staff Costs	Other	Depreciation	Consumables	Total 2001	Total 2000
	£	£	£	£	£	£
Direct charitable expenditure	1,208,788	338,590	106,940	84,494	1,738,812	1,399,233
Administration	93,885	27,476	-	-	121,361	108,007
	<u>1,302,673</u>	<u>366,066</u>	<u>106,940</u>	<u>84,494</u>	<u>1,860,173</u>	<u>1,507,240</u>

4. STAFF COSTS

	Total 2001 £	Total 2000 £
Wages and salaries	1,156,700	970,710
Social security costs	84,871	66,326
Pension costs	61,102	57,615
	<u>1,302,673</u>	<u>1,094,651</u>

One employee received remuneration between £60,000 and £69,999 (2000 - one in range £50,000 to £59,999).

The average weekly number of persons (including part-time employees) employed by the company during the year, analysed by category, was as follows:

	Total 2001 Number	Total 2000 Number
Teaching staff	20	20
Care staff	42	39
Domestic staff	13	11
Administrative staff	6	6
Estate	2	2
	<u>83</u>	<u>78</u>

HARMENY EDUCATION TRUST LIMITED

Members of the teaching staff participate in the Scottish Office Teachers' Superannuation Scheme. A number of non-teaching staff are members of the SCVO Staff Final Salary Scheme. The pension costs shown above represent contributions payable by the company.

Directors are not remunerated, nor are they reimbursed for expenses. During the year fees of £1,104 were paid to Morton Fraser for legal services supplied to the company. One of the directors, Mr Scott Rae is a partner in Morton Fraser.

5. TAXATION

The company, being a charity, is exempt from tax under Section 505 Income and Corporation Taxes Act 1988.

6. OPERATING SURPLUS/(DEFICIT)

The operating deficit is stated after charging/crediting:

	Total 2001 £	Total 2000 £
Directors' emoluments	-	-
Trustee Indemnity Insurance Premium	250	240
Audit fee	4,380	4,818
Operating lease rentals - equipment	4,048	4,048

7. TANGIBLE FIXED ASSETS

	Heritable Property £	Fixtures & Fittings £	Motor Vehicles £	Total £
Cost or Valuation				
Cost or value brought forward	2,522,232	155,122	68,338	2,745,692
Additions	24,947	22,396	25,410	72,753
Disposals	-	-	(17,955)	(17,955)
At 31 March 2001	<u>2,547,179</u>	<u>177,518</u>	<u>75,793</u>	<u>2,800,490</u>
Depreciation				
Brought forward	27,428	82,803	46,998	157,229
Charge for period	50,861	37,280	18,799	106,940
Eliminated on disposals	-	-	(17,955)	(17,955)
At 31 March 2001	<u>78,289</u>	<u>120,083</u>	<u>47,842</u>	<u>246,214</u>
Net book value				
At 31 March 2000	<u>2,494,804</u>	<u>72,319</u>	<u>21,340</u>	<u>2,588,463</u>
At 31 March 2001	<u><u>2,468,890</u></u>	<u><u>57,435</u></u>	<u><u>27,951</u></u>	<u><u>2,554,276</u></u>

The Save the Children Fund, which previously controlled Harmeny School, has been granted a Standard Security over the whole of the heritable property transferred to the company on 21 December 1995.

The company owns the original main building and lodge house which are both listed. These properties were included in the gift of land and buildings by The Save The Children Fund when the company was incorporated in 1995. The "cost" value of the assets taken over at the date was recorded as £35,734 in the records of the previous organisation, Harmeny School, and this figure has been included as cost in the balance sheet and the value has been credited to Restricted Reserves. The original cost of the assets is not available and is not

HARMENY EDUCATION TRUST LIMITED

included in the balance sheet as the Directors consider that the cost of carrying out a professional valuation to include these assets meaningfully in the accounts would not be justified.

Heritable Property is insured for £3,547,000 which is an estimate of replacement cost.

The proceeds from heritable property if sold can only be applied to further the objectives of the school. Otherwise the Save the Children Fund may require consideration to be paid in exchange for their consent to the disposals.

CAPITAL COMMITMENTS

Amounts contracted for but not provided in the accounts amounted to £ NIL (2000 - £Nil)

Amounts authorised but not contracted for £60,000 (2000 - £Nil)

8. INVESTMENTS

	Total 2001	Total 2000
	£	£
Investment in subsidiary company, Harmeny Services Limited	2	2
	=	=

Harmeny Services Limited is a company registered in Scotland for the purpose of conducting school business, other than education, as considered appropriate. The company did not operate during the year to 31st March 2001.

9. DEBTORS

	Total 2001	Total 2000
	£	£
Fees	34,510	9,159
Scottish Executive maintenance grant	77,187	66,000
Sundry	3,253	493
	114,950	75,652

10. CREDITORS: amounts falling due within one year

	Total 2001	Total 2000
	£	£
Other taxes and social security	30,492	21,161
Trade creditors	71,453	131,144
Other creditors	27,910	37,216
Accruals	26,866	7,300
Amounts due to subsidiary company	2	2
	156,723	196,823

11. OBLIGATIONS UNDER OPERATING LEASES

The company had annual commitments under non-cancellable equipment leases as set out below.

	Total 2001	Total 2000
	£	£
Operating leases which expire: In the second to fifth years	4,034	4,048

HARMENY EDUCATION TRUST LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Contd.) for the year to 31 March 2001

12. MOVEMENT IN FUNDS

	General Fund £	Capital Development Fund £	New Building Capital Fund £	Other Funds £	Total £
Balance of funds brought forward	-	110,874	2,515,603	35,734	2,662,211
Net (outgoing)/ incoming resources before transfers	(7,757)	13,367	20,152	7,997	33,759
Transfers	7,757	(7,757)	-	-	-
Balance at 31 March 2001	-	116,484	2,535,755	43,731	2,695,970

13. ANALYSIS OF NET ASSETS BETWEEN FUNDS

	General Fund £	Capital Development Fund £	New Building Capital Fund £	Other Funds £	Total £
Fixed Assets	-	-	2,510,547	43,731	2,554,278
Current Assets	-	116,484	25,208	-	141,692
	-	116,484	2,535,755	43,731	2,695,970

HARMENY EDUCATION TRUST LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Contd.) for the year to 31 March 2001

Analysis of Costs (per General Fund)

	Total 2001 £	Total 2000 £
Consumables		
Food	40,168	33,214
Kitchen supplies	1,850	559
Resources	18,392	16,969
- Care		
- Education	11,847	15,453
- Outdoor Education	3,162	132
- Management	9,075	3,118
	84,494	69,445
	Total 2001 £	Total 2000 £
Other operating charges		
Laundry and cleaning	5,609	5,789
Insurance	12,248	12,571
Council tax	3,234	3,089
Heat and light	40,738	26,432
Motor and vehicle costs and travel	13,271	10,389
Maintenance	197,844	144,360
Operating Leases	4,048	4,048
Printing, postage and stationery	7,133	7,057
Miscellaneous costs	4,751	4,341
Telephone	10,707	7,125
Audit	3,781	4,818
Legal Fees	1,104	1,011
Other professional fees	3,065	7,898
Fire/security	3,106	5,032
Chemist/medical	2,931	3,377
Training/resources etc.	14,320	13,292
Recruitment	15,235	11,532
Public relations	5,532	-
Profit/Loss on sale of vehicle	(5,850)	-
Feasibility Study (fully funded)	19,580	-
Children's expenditure	3,679	3,689
	366,066	275,850

HARMENY EDUCATION TRUST LIMITED

AUDITORS' REPORT

to the members of Harmeny Education Trust Limited (by guarantee)

We have audited the financial statements on pages 2 to 13 which have been prepared on the basis of the accounting policies set out on page 9.

Respective responsibilities of directors and auditors

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

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the charitable company's affairs as at 31 March 2001 and of its incoming resources and application of resources, including income and expenditure in the year then ended and have been properly prepared in accordance with Companies Act 1985.



McCABE PARTNERSHIP
Chartered Accountants and
Registered Auditor

Date: 27 June 2001.....