

Notes to the financial statements
for the year ended 31 March 2008

1. Accounting policies (continued)

1.7 Other debtors

Other debtors comprise loans made to a utility provider to finance new infrastructure works in East Kent. The loans (utility loans) are index linked to RPI and are repayable as and when third parties pay the utility provider to connect to the new utility infrastructure. The amount of utility loan repayable is proportionate to the capacity connected as a percentage of the total capacity of the new utility network.

In order to make these utility loans the company has received grants (see 1.6 above). At the point of repayment, the grant made to finance the utility loan is released to the profit and loss account.

Although the company's classification is small and it is not therefore required to implement the provisions of FRS26 "Financial instruments: measurement", the company has adopted FRS26 as best practice on accounting for these utility loans. Accordingly the utility loans have been treated as an "available for sale financial asset" and are measured at fair value. Fair value is taken as the directors' best estimate of the discounted future income stream arising from the repayment of the utility loans.

Any movement in the value of this estimate, other than from the draw down or repayment, is taken to other reserves.

There is no certainty over the timing and percentage connection to the network that will be achieved. As such there is significant uncertainty over the carrying value of utility loans. The directors do not envisage 100% connection to the network and therefore they have made a provision to reduce the value of utility loans to their estimated fair value. The accumulated provision is shown as an other reserve, as disclosed in note 9.

1.8 Going concern

The company made a profit on ordinary activities after taxation of £24,891 (2007: £42,159). During the previous year, the company recognised a loss of £881,263. This included the recognition of an unrealised deficit of £923,422 arising from the revaluation of other debtors relating to utility loans made to finance infrastructure works following the adoption of the principles of FRS26 as explained in note 1.7.

There is no certainty over the timing and future value of the loan repayments and consequently the carrying value of the loans which are valued at the directors best estimate of fair value.

The recognition of the unrealised deficit relating to the revaluation of other debtors did not impact on the company's financial facilities. The company funds its activities from current cash resources together with the expected cash flow arising from loan repayments to be made to the company and grants that may become available for future activities. On this basis, the directors consider it appropriate to prepare the financial statements on the going concern basis.

East Kent Spatial Development Company
(A company limited by guarantee)

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2. Operating profit/(loss)

The operating profit/(loss) is stated after charging:

| | 2008 | 2007 |
|--|--------------|--------------|
| | £ | £ |
| Depreciation of tangible fixed assets: | | |
| - held under finance leases | 718 | - |
| Auditors' remuneration | 4,466 | 3,848 |
| | <u>4,466</u> | <u>3,848</u> |

During the year, no director received any emoluments (2007 - £NIL).

3. Taxation

| | 2008 | 2007 |
|--|--------------|----------------|
| | £ | £ |
| Analysis of tax charge/(credit) in the year | | |
| UK corporation tax charge on profit for the year | 6,223 | 6,514 |
| Adjustments in respect of prior periods | - | (15,023) |
| | <u>6,223</u> | <u>(8,509)</u> |

Factors affecting tax charge for the year

The company operates as a not for profit organisation and has not traded for tax purposes. As such the company does not pay tax on its operating profit. However the company is liable to tax on interest earned both on bank deposits and loans made.

Factors that may affect future tax charges

There are no additional factors affecting future tax charges other than those mentioned above.

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4. Tangible fixed assets

| | Furniture, fittings and equipment £ |
|-----------------------|--|
| Cost | |
| At 1 April 2007 | 1,789 |
| Additions | 366 |
| | <hr/> |
| At 31 March 2008 | 2,155 |
| | <hr/> |
| Depreciation | |
| At 1 April 2007 | - |
| Charge for the year | 718 |
| | <hr/> |
| At 31 March 2008 | 718 |
| | <hr/> |
| Net book value | |
| At 31 March 2008 | 1,437 |
| | <hr/> <hr/> |
| At 31 March 2007 | 1,789 |
| | <hr/> <hr/> |

The net book value of assets held under finance leases or hire purchase contracts, included above, are as follows:

| | 2008 £ | 2007 £ |
|-----------------------------------|-------------------|-------------------|
| Furniture, fittings and equipment | 1,437 | 1,789 |
| | <hr/> <hr/> | <hr/> <hr/> |

5. Debtors

| | 2008 £ | 2007 £ |
|-------------------------------------|-------------------|-------------------|
| Due after more than one year | | |
| Other debtors | 7,336,948 | 7,336,948 |
| Due within one year | | |
| Other debtors | 357,501 | 357,501 |
| Prepayments and accrued income | 1,489 | 1,739 |
| | <hr/> | <hr/> |
| | 7,695,938 | 7,696,188 |
| | <hr/> <hr/> | <hr/> <hr/> |

Other debtors comprise loans made to a utility service provider to finance the installation of new network infrastructure. The valuation principles of these loans and related uncertainties are described in note 1.7.

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6. Creditors:
Amounts falling due within one year

| | 2008 £ | 2007 £ |
|--|----------------|----------------|
| Grants received in advance | 532,501 | 459,372 |
| Net obligations under finance leases and hire purchase contracts | 591 | 784 |
| Trade creditors | 1,237 | 19,680 |
| Corporation tax | 6,223 | 1,986 |
| Other creditors | 9,754 | 9,813 |
| | <u>550,306</u> | <u>491,635</u> |

7. Creditors:
Amounts falling due after more than one year

| | 2008 £ | 2007 £ |
|--|------------------|------------------|
| Grants received in advance | 9,175,466 | 9,081,822 |
| Net obligations under finance leases and hire purchase contracts | 711 | 1,004 |
| | <u>9,176,177</u> | <u>9,082,826</u> |

8. Company status

The company is a private company limited by guarantee and consequently does not have share capital. Each of the members is liable to contribute an amount not exceeding £1 towards the assets of the company in the event of liquidation.

9. Reserves

| | Other reserves £ | Profit and loss account £ |
|---------------------|------------------------|---------------------------------|
| At 1 April 2007 | (1,460,358) | 239,272 |
| Profit for the year | | 24,891 |
| At 31 March 2008 | <u>(1,460,358)</u> | <u>264,163</u> |

Other reserves represent the provision made to reduce utility loans to the directors' best estimate of fair value. See accounting policy 1.7.

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10. Related party transactions

During the year the Company was recharged premises expenses totalling £11,675 (2007: £12,785) from Thanet District Council, a member of the Company. The balance owed by the Company to Thanet District Council at the year end was £209 (2007: £nil). Included within prepayments is an amount of £824 (2007: £794) relating to monies paid to Thanet District Council in advance.

Previously the company has received a Single Regeneration Budget (SRB) grant in advance administered through Thanet District Council as the accountable body for the SRB program. The unreleased balance remaining from the grant at the year end was £2,307,865 (2007: £2,307,242), and is included in Grants received in advance within creditors.

During the year the Company received a grant from English Partnerships of £nil (2007: £2,500,000). The unutilised balance remaining from the grant at the year end was £4,195,920 (2006: £4,363,444), and is included in Grants received in advance within creditors.

11. Controlling party

Throughout the period the Company was controlled by South East England Development Agency as a majority of directors on the board are appointed by this agency.