



The North Highland College
REPORT AND FINANCIAL STATEMENTS

for the year ended

31 July 2007

SCOTTISH CHARITY NUMBER SC021215

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1. STATUTORY BACKGROUND

The Further and Higher Education (Scotland) Bill 1992 transferred the statutory duty for Further Education from Local Authorities to the then Secretary of State for Scotland and is now the responsibility of the Scottish Ministers.

With effect from 1 July 1999 the Scottish Further Education Funding Council became responsible for funding further education in Scotland and was empowered by the 1992 Act. A new Scottish Funding Council was formally established on 3 October 2005. The Council has been established by the Further and Higher Education (Scotland) Act 2005 and replaces the Scottish Further Education Funding Council (SFEFC) and the Scottish Higher Education Funding Council (SHEFC). The Council intends to be known as the Scottish Funding Council (SFC).

Approval was sought and received to alter the College name from Thurso College to the North Highland College on 1 December 1999. The name change reflects the enhanced mission of the College.

The College Board of Management is responsible for the affairs of the College, which include the management of strategic planning, property, finance and personnel. The College Principal is the Accounting Officer and the Board is obliged to discharge its duties in accordance with the Financial Memorandum and other Scottish Funding Council guidance.

2. PRINCIPAL FUNCTIONS

The role of the Board specifically includes:

- To provide strategic leadership, direction, support and guidance for the College.
- To promote commitment to the College's core values, policies and procedures.
- To ensure the overall proper functioning of the College.
- To ensure the College provides suitable and efficient further education to its students.
- To ensure regularity of spend of funds received from SFC 33.
- To ensure proper stewardship of funds ensuring probity of spend and delivery of value for money in the use of the College's resources.

3. ACTIVITY REVIEW

A full analysis of College activity is detailed in the College Strategic Plan published as a separate document. Further education activity amounted to 23,476 weighted sums (WSUMs) compared to 20,546 WSUMs in academic year 2005-06. Activity amounting to 4,624 WSUMs was delivered under the collaborative further education arrangement with Argyll College.

Higher Education activity continued to grow with fundable education activity, as measured by full time equivalents (FTE's) amounting to 447 FTEs compared with 420 FTEs in 2005-06.

4. FINANCIAL RESULTS

In accordance with best practice, the College has implemented the requirements of Financial Reporting Standard 17: Retirement Benefits (FRS 17). After adjustment has been made for the requirements of FRS 17, the Income and Expenditure account for the year 2006-07 showed an operating surplus of £442,000 but after adjusting for the effect of depreciation on revalued fixed assets, the historical cost surplus amounted to £503,000. The College Income and Expenditure account including the FRS 17 pension liability amounts to £1,115,000.

The College remains concerned that all Colleges do not have to adopt FRS 17, dependent on the status of their Local Government Superannuation Scheme. As a result meaningful and consistent

comparison of financial performance across the sector is very difficult.

5. LAND AND BUILDINGS

The College carried out some on-going repairs work to properties, although no capital works were undertaken.

A number of major new capital works projects have been identified. It was agreed by the Board of Management to purchase Tern House in Alness, and it is hoped to complete this acquisition in January 2008.

The Board of Management also agreed to purchase Burghfield House Hotel in Dornoch with a view to providing facilities for a Training Hotel and the Centre for History. It is hoped to complete this acquisition in January 2008.

In Thurso a partnership between NHC, UKAEA, CASE and the NDA was established to oversee the provision of the Scottish hub of the National Skills Academy for Nuclear (NSAN) to be based in Thurso.

In addition the need to expand further education in Sutherland and Easter Ross was noted.

The College Strategic Estate Plan is now complete. The College reviews planned capital and revenue maintenance activity with the General Purposes Committee prioritising activity and making recommendation to Finance Committee for budget allocation based on affordability.

6. FUTURE DEVELOPMENTS

The Board of Management is committed to a substantial investment programme to widen participation in both Further & Higher Education. This strategy requires both the consolidation of the North Highland College estate in Thurso, Wick, Dornoch and Alness and a close contractual partnership with the local colleges in Argyll, Lochaber and Skye & Lochalsh. This together with further development of ICT supported delivery of the curriculum and infrastructure across the rural Highlands will thus be provided to ensure delivery to hitherto excluded learners as well as greater engagement with school pupils studying on vocational pathways.

The College has been in discussion with the SFC, Argyll and Lochaber Colleges and Skye & Lochalsh learning Centres with a view to an application for additional summable activity (approx 8,600 – 10,000 SUMs), geographically targeted to Argyll, Skye & Lochalsh and Lochaber being submitted to the Council in December 2007. The NHC will manage the delivery of these additional SUMs by contractual arrangement with the 3 areas. Thus, the summable activity to be delivered by NHC through its Argyll partnership is expected to increase to approximately 10,000 SUMs whilst in the other two areas NHC will oversee the delivery of approximately 2,500 SUMs each. It is likely that Council will insist that this growth is incremental over a period of 3 – 5 years, but NHC will ensure that the rate of growth can be adjusted as demand is evidenced. Whilst all three area development plans must reflect local area need it is important that, wherever possible, strategic fit with the overall NHC and UHI strategic plans is achieved so that the potential of the partnership and the opportunities afforded are available to all learners.

The College is ideally positioned to take full advantage of the new Scottish Credit & Qualification Framework (SCQF) when developing career pathways and already delivers at all levels from Access Level 1 to Postgraduate at Level 12. Our access programmes for those with learning difficulties and the associated work experience opportunities offered by the College's Recycling facility, may be extended to other areas in the future. A review will be undertaken to inform our decision.

The delivery of skills and training at all levels is a key strategic priority for all agencies charged with the future development of the economy of the Highlands & Islands, where the demographic profile still reflects the loss of the 18-35 age group. The College is seen as a key resource in this regard and in particular it has an important role to play within the context of the Caithness Socio-Economic Plan where the decommissioning of Dounreay and later the diversification of the economy will require both a substantial and highly skilled workforce. Thus it is important that access routes are created in anticipation of the College's involvement as lead partner for Scotland in the National Skills Academy for Nuclear, and to fulfil our role as a key partner for UHI delivering Science & Engineering as well as high quality Tourism related training reflecting the opportunities the area presents. Thus the following initiatives have been undertaken recently.

Discussions have taken place with a company in Alness regarding the delivery of a National Certificate in Engineering and a Core Skills programme to support their proposed Engineering Academy. The company has made an application to the HIE Skills Group for support to establish facilities and to deliver a Modern Apprenticeship programme which will be targeted initially at adult returners, as "community apprenticeships". The programme will allow trainees to achieve skills training at SVQ levels II and III, the latter through placements in the company network. North Highland College has been asked to provide the educational and core skills elements for this new Modern Apprenticeship. It is anticipated that the College will deliver to the first of 3 cohorts of 30 MAs, enrolling in January 2008.

The Construction facilities in Alness will be further expanded, and the College will roll out to partner colleges, new provision including Stonemasonry for Construction, Roof Slating & Tiling and specialist courses in Lime mortaring/plastering, etc., using the mobile rig.

Historically, unemployment figures are higher in the Wick area than in Thurso within both the young and more mature workforce. The provision of a dedicated Centre for Skills Training for Wick High School, unemployed young people and adult returners has been requested by both the local community and the High School, who have secured support from both Highland Council and HIE Caithness & Sutherland for their request. The College premises in Wick, Barrogill Hall, if appropriately modified, would provide opportunities for students in Wick to prepare for entry into the construction and engineering trades as well as access to higher level programmes through the Thurso based Skills Academy or to another Modern Apprenticeship programme of their choice. Outline plans for the facility, which would allow Wick High School pupils to further benefit from Skills for Work programmes for Carpentry & Joinery, Brickwork, Energy Engineering, Welding etc. have been drawn up and it is anticipated that the project will be available for session 2008-9. It is anticipated that an ERDF bid, with match funding secured from Highland Council and possibly the Dounreay Regeneration Fund would be successful.

The College will further develop the NC Tourism Passport to compliment other programmes such as the Hospitality VQs, Music and Drama programmes, etc., making it widely available across the rural Highlands. For migrant workers the successful ESOL programmes are well established with staff receiving CELTA training so that the subsequent training of ESOL trainers will ultimately increase provision.

In relation to HE activity delivered on behalf of UHI, the current strategy of a slow but steady increase in student numbers and focus on the Sciences & Engineering in Thurso and the Arts, Humanities and Tourism in Dornoch will continue.

The BSc Hons Engineering programme, with a focus on decommissioning, delivered the first graduates in 2007. The programme will now be extended to underpin the aspiration of the area to become a 'Centre for Energy Studies'. It is hoped that if UHI is successful in its application for Taught Degree Awarding Powers the 2 joint European Masters programmes, Nuclear Technology and Radiological Protection, within which NHC is a key partner would be validated among the first postgraduate UHI programmes. The MSc Renewable Energy, a research postgraduate award

developed and co-ordinated by NHC will be continued with the first successful students being offered the opportunity to study for a PhD. The existing key themes of the ERI will thus be augmented to include renewables. The delivery of grant funded research and commercial research services together with post-graduate teaching will increase again as the College benefits from engagement in the marine SUPERGEN programme and a strategic research project, grant funded by SFC, with Herriot Watt, to prepare for the marine development in the Pentland Firth. The ERI will subsume much of the work of DERC whilst a new business plan is developed for this facility.

The Dornoch campus HE provision will focus on the delivery of Heritage, Culture and Sport related high quality Tourism, together with the Hospitality training, within the context of a training hotel and through placements across the area and in the case of Golf Management, internationally. The College will take the lead with regard to the BA Drama degree and continue to consolidate the Music programmes available in Alness.

The UHI Centre for History will oversee the continued development and delivery of the BA Hons History degree. The Centre has now secured support from HIE for 3 years to establish the degree, and is currently seeking both ERDF and ESF funding for further development.

The Burghfield Hotel site which the College hopes to acquire, will be sympathetically renovated to provide the training hotel in the main mansion house, the Centre for History within the 3 storey "stable block" and a residential block will be built later within the grounds.

7. TRANSPARENCY ARRANGEMENTS

The College conducts its business through a number of committees. Full minutes of all board meetings are available from the College at:

The North Highland College
Ormlie Road
Thurso
Caithness
KW14 7EE

The College also maintains a register of interests of the members of the Board of Management. The register is available for inspection at the above address.

8. EMPLOYMENT POLICY

All College staffing procedures and policies have been reviewed and updated where necessary, in line with current legislation.

9. STAFF INVOLVEMENT

The College considers good communication with its staff to be very important and to this end publishes a regular newsletter, which is available to all staff.

10. PROMPT PAYMENT TO SUPPLIERS

The College observes the CBI Prompt Payment Code and the College has a policy of paying its suppliers within 30 days of invoice unless the invoice is contested. All disputes and complaints are handled as quickly as possible. Year-end creditors represented 4% (2006 – 4%) of the aggregate purchases invoiced during the year.

11. DISABILITY STATEMENT

The North Highland College positively welcomes people with disabilities into its learning environments. The College is fully committed to ensuring that all people with disabilities are treated fairly and every effort will be made to ensure that a person's additional needs are met.

12. CHARITABLE AND TAX STATUS

The College is registered as a charity with the Inland Revenue and is not liable to corporation tax.

13. PROFESSIONAL ADVISORS

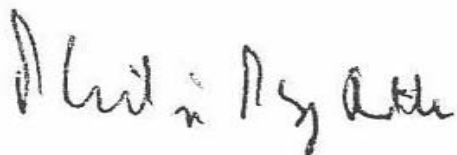
Internal Auditors	Chiene & Tait, Edinburgh
External Auditors	Tenon Audit Limited, Inverness
Bankers	Clydesdale Bank plc, Thurso
Solicitors	Brodies, Glasgow

14. MEMBERS OF THE BOARD OF MANAGEMENT

The Board of Management comprised of the following members during the period:

Mr P R G Arthur	Chairman / Chair - Remuneration and Nominations Committees / Ex-officio Member of Audit, Finance, General Purposes and Staffing Committees
Mrs J G Bundy	Vice Chair / Chair - Staffing Committee / Member of Audit Committee
Mrs J Campbell	Member of General Purposes Committee
Mr C Gregory	CASE Nominated Representative / Member of Finance Committee
Mrs S Henderson	Member of Staffing Committee
Mr J F Jackson	Member of Staffing Committee
Mrs A MacConnell	Member of Finance Committee
Mrs J McKelvie	Member of General Purposes and Staffing Committee (Resigned March 2007)
Mr T Sayles	Chair - General Purposes Committee / Member of Audit Committee
Mr K Sutherland	Academic Staff Representative / Member of General Purposes Committee (Resigned June 2007)
Mrs A Swanson	Support Staff Representative / Member of General Purposes Committee
Mrs R Thompson	Principal and ex-officio member of Finance, Staffing and General Purposes Committees
Mrs C Whitfield	Chairman - Finance Committee / Member of Audit Committee

Mrs J McKelvie and Mr K Sutherland resigned from the Board during the financial year.



P R G Arthur
Chairman
Thurso

INTRODUCTION

The College is committed to exhibiting best practice in all aspects of corporate governance. This summary describes the manner in which the College has applied the principles set out in Section 1 of the 2003 Combined Code on Corporate Governance issued by the London Stock Exchange in June 1998. Its purpose is to help the reader of the financial statements understand how the principles have been applied.

STATEMENT OF FULL COMBINED CODE COMPLIANCE

In the opinion of the Board of Management, the College complies with all the provisions of the 2003 Combined Code, in so far as they apply to the further education sector, and it has complied throughout the year ended 31 July 2007.

BOARD OF MANAGEMENT

The College's Board of Management meets not less than three times per year and has several committees, including an Audit & Assurance Committee, a General Purposes Committee, a Finance Committee, a Nominations Committee, a Remuneration Committee and a Staffing Committee. All of these Committees are formally constituted with terms of reference. The role of the Board of Management is the strategic overview of the College.

The Audit & Assurance Committee normally meets no less than three times a year, with the College's external and internal auditors in attendance as appropriate.

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 & Assurance Committee. Management is responsible for the implementation of agreed audit recommendations and internal auditors undertake periodic follow-up reviews to ensure that such recommendations have been implemented. The Committee considers detailed reports together with recommendations for the improvement of the College's systems of internal control and management's responses and implementation plans. It also receives and considers reports from the Scottish Funding Council as they affect the College's business and monitors adherence to the regulatory requirements.

Whilst senior management may attend meetings of the Audit & Assurance Committee as necessary, they are not members of the Committee and once a year the Committee meets the External Auditors on their own for independent discussions.

The Finance Committee inter alia recommends annual budgets to the Board of Management and monitors performance against approved budgets. The General Purposes Committee deals with estates and property matters and health and safety issues. The Staffing Committee deals with staffing and employment issues. The Remuneration Committee recommends the remuneration of the College Principal and the holders of other Senior Posts. The Nomination Committee informs and advises the Board as to appropriate persons who shall become members of the Board as and when vacancies arise.

CORPORATE STRATEGY

In respect of its strategic and development responsibilities, the Board of Management meets on at least three occasions to consider establishment of the College's strategic plan.

BOARD'S STATEMENT ON INTERNAL CONTROL

The College's Board of Management is responsible for the College's system of internal control

and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board of Management is of the view that there is an ongoing process for identifying, evaluating and managing the College's significant risks that has been in place since August 2000 and up to the date of approval of the annual report and financial statements. This process is regularly reviewed by the Board of Management and accords with the internal control guidance for directors on the Combined Code as deemed appropriate for higher and further education.

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

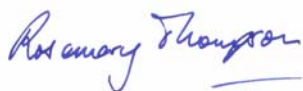
The senior management team and the Audit & Assurance Committee also receive regular reports from the internal audit and 'health, safety and environmental monitoring' functions which include recommendations for improvement. The Audit & Assurance Committee's role in this area is confined to a high level review of the arrangements for internal control. The Board of Management's agenda includes a regular item for consideration of risk and control and receives reports thereon from the senior management team and the Audit & Assurance Committee.

On 12 October 2006 the Board of Management undertook a self evaluation exercise as part of its annual review. Specific areas scrutinised in the evaluation included organisational structures and processes, accountability, internal controls, communication with stakeholders and annual reporting. A Strategic Planning and Review exercise was undertaken in June 2007 where the College's progress toward targets set in the Strategic Plan 2006-09 were reviewed and revised as appropriate.

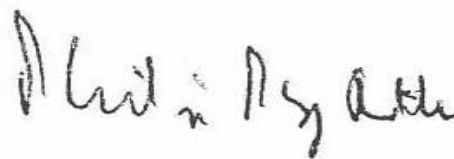
GOING CONCERN

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

By order of the Board



R Thompson
Principal



P R G Arthur
Chairman

Thurso

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

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

In causing the financial statements to be prepared, the Board of Management has ensured that:

- suitable accounting policies are selected and applied consistently;
- judgement and estimates are made that are reasonable and prudent;
- applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statement; and
- financial statements are prepared on the going concern basis unless it is inappropriate to presume that the College will continue in operation. The Board is satisfied that it has adequate resources to continue in operation for the foreseeable future: for this reason the going concern basis continues to be adopted in the preparation of the financial statements.

The Board of Management has taken reasonable steps to:

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

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

- clear definitions of responsibilities of, and the authority delegated to, College managers;
- a comprehensive planning process supplemented by detailed annual income, expenditure, capital and cash flow budgets;
- regular reviews of key performance indicators and business risks and monthly financial results involving variance reporting and updates of forecast outturns;
- clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to review according to approval levels set by the Board of Management;
- comprehensive Financial Regulations, detailing financial controls and procedures approved by the Finance and General Purposes Committee; and
- a professional internal audit service whose annual programme is established by the Audit & Assurance Committee and endorsed by the Board of Management with a report on internal audit activity within the College and an opinion on the adequacy and effectiveness of the College's system of internal control.

The North Highland College

STATEMENT OF RESPONSIBILITIES OF THE BOARD OF MANAGEMENT

31 July 2007

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

By order of the Board



R Thompson
Principal
Thurso

Independent auditor's report to the members of the Board of Management of North Highland College, the Auditor General for Scotland and the Scottish Parliament

We have audited the financial statements of North Highland College for the year ended 31 July 2007 under the Further and Higher Education (Scotland) Act 1992. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Auditor General for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Board of Management, Principal and auditor

The Board of Management and the Principal are responsible for preparing the Annual Report and the financial statements in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction issued thereunder by the Scottish Funding Council which requires compliance with the Statement of Recommended Practice on Accounting in Further and Higher Education Institutions. They are also responsible for ensuring the regularity of expenditure and income. These responsibilities are set out in the Statement of the Board of Management's Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland.

We report our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction. We also report if, in our opinion, the Report of the Board of Management is not consistent with the financial statements, if the body has not kept proper accounting records, or if we have not received all the information and explanations we require for my audit. We also report whether in all material respects

- the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers;
- funds provided by the Scottish Funding Council have been applied in accordance with the Financial Memorandum dated 1 January 2006 and any other terms and conditions attached to them for the year ended 31 July 2007; and
- funds from whatever source administered by the college for specific purposes have been properly applied for the intended purposes.

We review whether the Corporate Governance Statement reflects the college's compliance with the requirements of the Scottish Funding Council. We report if, in our opinion, it does not comply with these requirements or if it is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the college's corporate governance procedures or its risk and control procedures.

Independent auditor's report to the members of the Board of Management of North Highland College, the Auditor General for Scotland and the Scottish Parliament

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Report of the Board of Management and Statement of the Board of Management's Responsibilities for the Accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Auditor General for Scotland. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of expenditure and income included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Board of Management and Accountable Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the college's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

Financial statements

In our opinion

- the financial statements give a true and fair view, in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction, of the state of affairs of the college as at 31 July 2007 and of its surplus, total recognised gains and losses and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction made thereunder.

Regularity

In our opinion in all material respects

- the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers
- funds provided by the Scottish Funding Council have been applied in accordance with the Financial Memorandum dated 1 January 2006 and any other terms and conditions attached to them for the year ended 31 July 2007; and

The North Highland College

INDEPENDENT AUDITORS' REPORT

Independent auditor's report to the members of the Board of Management of North Highland College, the Auditor General for Scotland and the Scottish Parliament

- funds from whatever source administered by the college for specific purposes have been properly applied for the intended purposes.

Tenon Audit Limited

*10 Ardross Street,
Inverness.,
IV3 5NS.*

Date:

The North Highland College
INCOME AND EXPENDITURE ACCOUNT
for the year ended 31 July 2007

	Note	2007 £'000	2006 £'000
INCOME			
SFC grants	2	6,005	5,209
UHIMI grants	3	1,710	1,534
Education contracts	4	115	235
Tuition fees and charges	5	738	780
Other grant income	6	1,844	1,209
Other operating income	7	596	573
Investment income	8	97	60
		<hr/>	<hr/>
TOTAL INCOME		11,105	9,600
Less:			
EXPENDITURE			
Staff costs - ongoing	9 and 11	6,078	5,304
Other operating expenses	11	4,202	3,817
Depreciation	11 and 15	372	447
Interest payable	11 and 12	11	11
		<hr/>	<hr/>
TOTAL EXPENDITURE		10,663	9,579
SURPLUS/ (DEFICIT) ON CONTINUING OPERATIONS AFTER DEPRECIATION OF TANGIBLE FIXED ASSETS AT VALUATION AND BEFORE TAX			
		442	21
Taxation	13	-	-
		<hr/>	<hr/>
SURPLUS / (DEFICIT) ON CONTINUING OPERATIONS AFTER DEPRECIATION OF ASSETS AT VALUATION AND TAX	14	442	21
		===	===

The College has had no recognised gains and losses during this year and last other than the surplus for each of the years. The income and expenditure account is in respect of continuing activities.

The North Highland College

STATEMENT OF HISTORICAL COST SURPLUSES AND DEFICITS for the year ended 31 July 2007

	Note	2007 £'000	2006 £'000
Surplus/(Deficit) on continuing operations after depreciation of assets at valuation and tax	14	442	21
Difference between historical cost depreciation and the actual charge for the year calculated on the revalued amount	23	61	61
		—	—
HISTORICAL COST SURPLUS FOR THE YEAR BEFORE TAXATION		503 ===	82 ==
HISTORICAL COST SURPLUS FOR THE YEAR AFTER TAXATION		503 ===	82 ===

The North Highland College

STATEMENT OF THE TOTAL RECOGNISED GAINS AND LOSSES for the year ended 31 July 2007

	Note	2007 £'000	2006 £'000
Surplus/(Deficit) on continuing operations after depreciation of assets at valuation and tax		442	21
Actuarial Gain/(Loss) recognised		721	214
Restatement of SSAP 24 Provision		-	6
		—	—
TOTAL RECOGNISED GAINS/(LOSSES) RELATING TO THE YEAR		1,163	241
Prior Year Adjustment		-	(1,350)
		—	—
TOTAL RECOGNISED GAINS/(LOSSES) SINCE LAST FINANCIAL STATEMENTS		1,163	(1,109)
		=====	=====
RECONCILIATION			
Opening Reserves as previously reported		2,730	3,606
Prior Year Adjustment		0	(1,117)
Total recognised Gains/(Losses) for the year		1,163	241
		—	—
CLOSING RESERVES		3,893	2,730
		=====	=====

The North Highland College

BALANCE SHEET

31 July 2007

	Note	2007 £'000	2006 £'000
FIXED ASSETS			
Tangible Assets	15	7,342	7,405
Investments	16	0	0
		<u>7,342</u>	<u>7,405</u>
CURRENT ASSETS			
Stock	17	3	3
Debtors	18	920	879
Cash at Bank and in hand		973	644
		<u>1,896</u>	<u>1,526</u>
CREDITORS			
Amounts falling due within One Year	19	(772)	(748)
		<u>1,124</u>	<u>778</u>
NET CURRENT ASSETS			
		<u>1,124</u>	<u>778</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>8,466</u>	<u>8,183</u>
CREDITORS			
Amounts falling due after more than One Year	20	(157)	(165)
PROVISION FOR LIABILITIES AND CHARGES			
	21	(657)	(654)
NET ASSETS EXCLUDING PENSION LIABILITY		<u>7,652</u>	<u>7,364</u>
PENSION LIABILITY	25	(359)	(1,239)
NET ASSETS INCLUDING PENSION LIABILITY		<u>7,293</u>	<u>6,125</u>

The North Highland College

BALANCE SHEET

31 July 2007

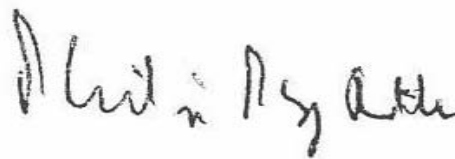
RESERVES

		2007 £'000	2006 £'000
Deferred Capital Grants	22	<u>3,399</u>	<u>3,395</u>
Revaluation Reserve	23	2,558	2,619
Designated Reserve	23	220	0
Income and Expenditure account including Pension Liability	23	<u>1,115</u>	<u>111</u>
Total Reserves		3,893	2,730
TOTAL RESERVES		<u>7,293</u> =====	<u>6,125</u> =====

The financial statements on pages 13 to 38 were approved by the Board of Management and signed on its behalf by:



R Thompson
Principal



P R G Arthur
Chairman

The North Highland College

CASH FLOW STATEMENT for the year ended 31 July 2007

	Note	2007 £'000	2006 £'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	26	370	44
Returns on investment and servicing of finance	27	39	34
Capital Grants / (expenditure)	27	(63)	21
Financing	27	(17)	(35)
		—	—
INCREASE IN CASH		329	64
		=====	====
 RECONCILIATION OF NET CASHFLOW TO MOVEMENT IN NET DEBT			
Increase in Cash in the year	28	329	64
Cashflow from decrease in debt	28	17	25
Finance leases adjustment		0	10
		—	—
Movement in net funds in the year		346	99
Net funds at 1 August 2006		461	362
		—	—
Net funds at 31 July 2007		807	461
		=====	====

1. ACCOUNTING POLICIES

BASIS OF PREPARATION

These financial statements have been prepared in accordance with the 2003 Statement of Recommended Practice (SORP) on Accounting in Further and Higher Education Institutions and in accordance with applicable Accounting Standards. They conform to the Accounts Direction to the Scottish Further Education Colleges for 2005-2006, issued by the Scottish Further Education Funding Council in circular SFC/35/2006.

BASIS OF ACCOUNTING

The financial statements are prepared in accordance with the historical cost convention modified by revaluation of certain Fixed Assets.

RECOGNITION OF INCOME

The main annual recurrent allocation from SFC, which is intended to meet recurrent costs, is credited direct to the Income and Expenditure Account.

Income from research grants, contracts and other services rendered is recognised in the Income and Expenditure account in proportion to the extent of completion of the contract or service concerned. This is generally equivalent to the sum of the relevant expenditure incurred during the year and any related contributions towards overhead costs.

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

All income from short-term deposits is credited to the Income and Expenditure Account in the period in which it is earned.

PENSION SCHEMES

Retirement benefits to employees of the College are provided by the Scottish Teachers' Superannuation Scheme (STSS) and the Local Government Superannuation Scheme (LGSS). These are Defined benefit schemes, which are externally funded and contracted out of the State Earnings Related Pension Scheme. The expected costs of providing staff pensions is recognised in the income and expenditure account, on a systematic basis over the expected remaining lives of members of the pension fund, in accordance with Financial Reporting Standard 17: Retirement Benefits and recognises retirement benefits as the benefits are earned and not when they are due to be paid.

The contributions are determined by qualified actuaries on the basis of triennial valuations using the projected unit method for the LGSS, and quinquennial valuations using a prospective benefit method for the STSS. The contribution charges are recognised in the accounting periods in which they arise.

TANGIBLE FIXED ASSETS

a. Land and Buildings

The transitional rules set out in FRS15 'Tangible Fixed Assets' have been applied on implementing FRS15. Accordingly, the book values at implementation have been retained.

1. ACCOUNTING POLICIES (continued)

TANGIBLE FIXED ASSETS (continued)

Land and Buildings inherited from the Local Authority are stated in the Balance Sheet at a Valuation less amounts written off by way of Depreciation. They have been valued at Depreciated Replacement Cost on an existing use basis, which is considered to be equivalent to Open Market Value on an existing use basis. Freehold land is not depreciated.

Land and Buildings acquired since incorporation are included in the Balance Sheet at cost.

- b. Plant and equipment
Plant and equipment costing less than £5,000 per individual item is written off to the income and expenditure account in the period of acquisition. All other equipment is capitalised at cost.
- c. Computer equipment and motor vehicles
Computer equipment and motor vehicles costing less than £2,500 per individual item is written off to the income and expenditure account in the period of acquisition. All other computers and vehicles are capitalised at cost.

Depreciation of Fixed Assets is charged by equal annual instalments commencing in the year of acquisition at rates estimated to write off their cost or valuation less any residual value over their expected useful lives, which are as follows:

Freehold Buildings	10 - 60 years
Plant and Equipment	3 years
Computer Equipment	3 years
Motor Vehicles	4 years

Where assets 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 fixed assets is carried out if events or changes in circumstances indicate that the carrying amount of any fixed asset may not be recoverable.

LEASED ASSETS

Costs in respect of Operating Leases are charged on a straight line basis over the lease term. Leasing agreements, which transfer to the College substantially all the benefits and risks of ownership of an asset, are treated as if the asset had been purchased outright. The assets are included in Fixed Assets and the capital elements of the leasing commitments are shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements.

The capital element is applied to reduce the outstanding obligations and the interest element is charged to the Income and Expenditure Account in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease term or the useful economic lives of equivalent owned assets.

INVESTMENTS

Fixed Asset Investments are carried at historical cost less any provision for a permanent

diminution in their value.

STOCKS

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

MAINTENANCE OF PREMISES

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

FOREIGN CURRENCY TRANSLATION

Transactions 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

As a registered charity the College benefits by being broadly exempt from Corporation Tax on income it receives from Tuition Fees, Interest and Rents.

The College is exempted from levying VAT on most of the services it provides to students. For this reason the College is generally unable to recover input VAT it suffers on goods and services purchased.

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 benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

2. SFC GRANTS	2007	2006
	£'000	£'000
Recurrent Grant	4,895	4,398
Release of Deferred Capital Grants (SFC)	62	35
Childcare funds	38	20
Estates Grant	301	275
Other SFC Grants	709	481
	<hr/>	<hr/>
	6,005	5,209
	=====	=====

Included in Other SFC Grants for the year ended 31 July 2007 is income relating to previous years which was accrued in provisions in Creditors for the year ended 31 July 2006. Under the principles of FRS 12 this has been released to income this year. This amounted to £82,000.

3. UHIMI GRANTS	2007	2006
	£'000	£'000

The North Highland College

NOTES ON FINANCIAL STATEMENTS

31 July 2007 (continued)

Recurrent Grant	1,370	1,048
Other UHIMI Grants	340	486
	—	—
	1,710	1,534
	=====	=====
4. EDUCATION CONTRACTS		
Other Non – SFC Funded Tuition	115	235
	=====	=====
5. TUITION FEES AND CHARGES		
Further education - UK	321	309
Further education – EU	-	-
Higher education – UK	308	320
Higher education – EU	1	-
LEC Contracts	108	151
	—	—
	738	780
	=====	=====
6. OTHER GRANT INCOME		
European Funds	1,030	789
Other Funds	610	98
Student Allowances - LEC contracts	24	49
Release of Deferred Capital Grants (other)	180	273
	—	—
	1,844	1,209
	=====	=====
7. OTHER OPERATING INCOME		
Residences and Catering	116	143
Other Income Generating Activities	325	269
Other Income	155	161
	—	—
	596	573
	=====	=====
8. INVESTMENT INCOME		
Other Interest Receivable	50	45
Net return on Pension Asset / Liability	47	15
	—	—
	97	60
	=====	=====
TOTAL	11,105	9,600
	=====	=====
9. STAFF		
STAFF NUMBERS		

The North Highland College

NOTES ON FINANCIAL STATEMENTS

31 July 2007 (continued)

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

	2007 Number	2006 Number
Senior management	5	5
Teaching staff	91	81
Teaching support	63	45
Administration and central services	37	33
Premises	11	11
Other income generating activities	16	16
Catering and residences	4	4
	<u>227</u>	<u>195</u>
	=====	=====

Analysed as:

Staff on permanent contracts	169	143
Staff on temporary contracts	58	52
	<u>227</u>	<u>195</u>
	=====	=====
	2007	2006
	£'000	£'000

STAFF COSTS

Staff costs for the above persons.

Wages and salaries	5,221	4,452
Social security costs	380	322
Other pension costs	477	530
	<u>6,078</u>	<u>5,304</u>
	=====	=====

Senior management	304	325
Teaching staff	3,008	2,599
Administration and central services (including Teaching Support & Research)	2,138	1,776
Premises	176	165
Other income generating activities	393	373
Catering and residences	59	66
	<u>6,078</u>	<u>5,304</u>
	=====	=====

Analysed as:

Staff on permanent contracts	4,861	3,758
Staff on temporary contracts	1,217	1,546
	<u>6,078</u>	<u>5,304</u>
	=====	=====

A general pay award of 3% was made with effect from 1 August 2006, and a further 1.75% from 1 February 2007, (net 3.875% annual) approved by the College.

10. EMOLUMENTS OF BOARD MEMBERS AND HIGHER PAID STAFF

EMOLUMENTS OF THE BOARD OF MANAGEMENT

Emoluments of the Board of Management including pension contributions, benefits in kind and bonuses but excluding the salaries of Employee Board members for normal staff duties amounted to:

	2007 £'000	2006 £'000
Travel and subsistence paid to Board Members	5 ===	3 ===

The number of staff, including Senior Post holders and the Principal, who received emoluments in the following ranges was:

	2007		2006	
	Number Senior Post- holders	Number Other Staff	Number Senior Post- holders	Number Other Staff
£50,001 – £60,000	3	-	3	-
£60,001 – £70,000	1	-	1	-
£70,001 – £80,000	1	-	1	-

	2007 £'000	2006 £'000
The emoluments paid were as follows:		
Salaries	254	256
Pension contributions	37	36
	—	—
Total Emoluments	291 =====	292 =====

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

	2007 £'000	2006 £'000
Salaries	67	64
Pension contributions	11	10
	—	—
Total Emoluments	78 ===	74 ===

The pension contributions in respect of the Principal and Senior Post-Holders are in respect of Employer's contributions to the Local Government Superannuation Scheme and Scottish Teacher Superannuation Scheme. The College's contribution to the scheme is paid at the same rate as for other members of staff.

11. ANALYSIS OF EXPENDITURE

	Staff costs £'000	Other operating expenses £'000	Depreciation £'000	Interest payable £'000	Total £'000	2006 £'000
Teaching Activities	3,008	2,536	190	-	5,734	5,209
Residences and Catering	59	82	-	-	141	152
Other Income Generating Activities	393	56	-	-	449	459
Premises	176	816	169	11	1,172	1,087
Administration	2,442	601	13	-	3,056	2,514
Other Expenses	-	111	-	-	111	158
	<u>6,078</u>	<u>4,202</u>	<u>372</u>	<u>11</u>	<u>10,663</u>	<u>9,579</u>
	=====	=====	=====	=====	=====	=====

	2007 £'000	2006 £'000
Other operating expenses include:		
Auditors' remuneration (including irrecoverable VAT)		
- Internal Audit	16	23
- External Audit	16	12
Hire of Other Assets - Operating Leases	282	229
Childcare Funds	38	20
	=====	=====

Included in other operating expenses is an additional Pension Provision of £34,738 required in respect of future pension costs arising from early retirement. Details of the basis of this provision are given at Note 21.

12. INTEREST PAYABLE

	2007 £'000	2006 £'000
On Bank Loans, Overdrafts and Other Loans:		
Repayable wholly or partly in more than 5 years	11	10
On finance leases	-	1
Net return on pension assets / liabilities	-	-
	---	---
	<u>11</u>	<u>11</u>
	===	===

13. TAXATION

The College is a registered charity and does not trade for tax purposes. It is not liable for Corporation Tax on its activities during this period.

14. SURPLUS / (DEFICIT) ON CONTINUING OPERATIONS

The North Highland College

NOTES ON FINANCIAL STATEMENTS

31 July 2007 (continued)

FOR THE YEAR					2007	2006
					£'000	£'000
Income and Expenditure Account					442	21
					===	===
15. TANGIBLE FIXED ASSETS						
	Land & Buildings	Computer Equipment	Plant & Equipment	Motor Vehicles	Total	
	£'000	£'000	£'000	£'000	£'000	
COST OR VALUATION						
Balance Brought Forward	9,836	935	1,059	51	11,881	
Additions	-	35	236	38	309	
	-----	-----	-----	-----	-----	
At 31 July 2007	9,836	970	1,295	89	12,190	
	-----	-----	-----	-----	-----	
DEPRECIATION						
Balance Brought Forward	2,561	900	964	51	4,476	
Charge for year	169	39	155	9	372	
	-----	-----	-----	-----	-----	
At 31 July 2007	2,730	939	1,119	60	4,848	
	-----	-----	-----	-----	-----	
NET BOOK VALUE						
At 31 July 2007	7,106	31	176	29	7,342	
	=====	===	=====	===	=====	
At 31 July 2006	7,275	35	95	0	7,405	
	=====	===	=====	===	=====	
ANALYSIS						
Inherited	2,984				2,984	
Financed by capital grant	3,904	31	176	29	4,140	
Other	218				218	
	-----	-----	-----	-----	-----	
At 31 July 2007	7,106	31	176	29	7,342	
	=====	===	=====	===	=====	

The transitional rules set out in FRS 15 Tangible Fixed Assets have been applied on implementing FRS 15. Accordingly the book values on implementation have been retained. Inherited land and buildings are valued at Depreciated Replacement Cost on an existing use basis, which is considered to be equivalent to open market value on an existing use basis. Inherited land and buildings were valued by Montague Evans, Chartered Surveyors, for the purposes of the 1994 financial statements.

TANGIBLE FIXED ASSETS (continued)

The North Highland College

NOTES ON FINANCIAL STATEMENTS

31 July 2007 (continued)

The Net Book Value of Tangible Fixed Assets includes an amount of £0 (2006 - £6,326) in respect of assets held under finance leases and hire purchase agreements. The depreciation charge on these assets for the year was £0 (2006 - £15,623).

If Inherited Land and Buildings had not been valued they would have been included at the following amounts:

	2007 £'000	2006 £'000
Cost	553	553
Aggregate Depreciation based on cost	(126)	(117)
	—	—
Net book value based on cost	427 =====	436 =====

Assets with a sales proceeds value of £500,000 or less can be disposed of without the prior approval of the Scottish Further Education Funding Council.

The Depreciation Charge for the year is analysed as follows:

	2007 £'000	2006 £'000
Depreciation based on cost	302	377
Depreciation based on valuation	70	70
	—	—
	372 =====	447 =====

FUTURE CAPITAL COMMITMENTS

Contracted for	193 =====	0 =====
Authorised but not contracted for	1,704 =====	602 =====

16. FIXED ASSET INVESTMENTS

INVESTMENT	£'000 Unlisted
COST	
31 July 2006 and 2007	22
PROVISION FOR PERMANENT DIMINUTION IN VALUE	—
31 July 2006 and 2007	(22)
	—
NET BOOK VALUE	
31 July 2006 and 2007	-
	===

During the year the College continued its minority shareholding in Caithness Multi Media Limited, a company incorporated in Great Britain and registered in Scotland. The College has retained 22,000 ordinary £1 shares for investment potential out of a total Share Capital of £335,000.

17. STOCK	2007	2006
	£'000	£'000
Consumables	3	3
	==	==
18. DEBTORS	2007	2006
	£'000	£'000
Amounts Falling Due within one year		
Trade Debtors	193	256
Other Debtors	2	1
Prepayments and Accrued Income	725	622
	—	—
	920	879
	=====	=====
19. CREDITORS		
Amounts falling due within One Year	2007	2006
	£'000	£'000
Bank Loans and Overdrafts (see note 20)	9	10
Obligations under Finance Leases (see note 20)	-	8
Trade Creditors	113	98
Other Taxation and Social Security	132	108
Accruals and Deferred Income	319	348
Other Creditors	199	176
	—	—
	772	748
	=====	=====

20. CREDITORS

Amounts falling due after more than One Year	2007 £'000	2006 £'000
Bank loans	157	165
Obligations under finance leases	-	-
	—	—
	157	165
	=====	=====

Bank Loans, Other Loans and Other Creditors are repayable as follows:

In one year or less (see note 19)	10	10
Between one and two years	9	9
Between two and five years	28	28
In five years or more	120	128
	—	—
	167	175
	=====	=====

The term loan is held with the Clydesdale Bank. The principal sum will be repaid in monthly instalments over a fifteen year period at a floating rate of interest, with interest calculated monthly. A standard security has been offered to the Clydesdale Bank in connection with the loan.

The net finance lease obligations to which the institution is committed are:

In one year or less (see note 19)	-	8
Between one and two years	-	-
	—	—
	0	8
	====	====

21. PROVISION FOR LIABILITIES AND CHARGES

	2007 £'000	2006 £'000
Future pension costs arising from early retirement including Scottish Teachers' Superannuation Scheme		
Opening Provision	654	648
Uplift for indexation allowance	19	18
Additional provision	35	44
	—	—
	708	710
	-----	-----
Charged to provision in year	(51)	(50)
Transfer of unfunded LGSS liability to pension (liability) / assets - note 26	-	(6)
	—	—
Closing Provision	657	654
	=====	=====

The pension provision has been revalued using actuarial tables supplied by SFC. The net interest applied was 2.5%. An additional provision of £34,738 has been made. The additional provision has been charged against other operating costs.

22. DEFERRED CAPITAL GRANTS

	SFC £'000	Other Grants £'000	Total £'000
As at 1st August 2006			
Land and buildings	699	2,527	3,226
Equipment	34	135	169
	<u>733</u>	<u>2,662</u>	<u>3,395</u>
	=====	=====	=====
GRANTS RECEIVABLE			
Land and buildings	-	-	-
Equipment	88	158	246
	<u>88</u>	<u>158</u>	<u>246</u>
	=====	=====	=====
RELEASED TO INCOME AND EXPENDITURE ACCOUNT			
Land and buildings	15	60	75
Equipment	47	120	167
	<u>62</u>	<u>180</u>	<u>242</u>
	=====	=====	=====
AS AT 31 JULY 2007			
Land and buildings	684	2,467	3,151
Equipment	75	173	248
	<u>759</u>	<u>2,640</u>	<u>3,399</u>
	=====	=====	=====

23. RESERVE

	Revaluation Reserves £'000	Designate d Reserves £'000	Income & Expenditur e Account £'000	Pension Reserve £'000	Total £'000
Balance Brought Forward	2,619	0	1,350	(1,239)	2,730
Transfer from Revaluation Reserve to Income & Expenditure Account	(61)	0	61	0	0
Surplus/(Deficit) on continuing activities of Tangible Fixed Assets at valuation	0	0	442	0	442
Actuarial Gain/(Loss) recognised in STRGL	0	0	0	721	721
Pension Operating Charge & Net Return	0	0	(159)	159	0
Transfer re Designated Reserve	0	220	(220)	0	0
At 31 st July 07	<u>2,558</u>	<u>220</u>	<u>1,474</u>	<u>(359)</u>	<u>3,893</u>

A Designated Reserves has been set up. The North Highland College is seeking to acquire, with a view to improve, Burghfield House Hotel, Dornoch as a Training Hotel. These funds are earmarked for this.

24. FINANCIAL COMMITMENTS

At 31 July 2007, annual commitments under non-cancellable Operating Leases were as follows:

	2007 £'000	2006 £'000
LAND AND BUILDINGS		
Expiring within one year	105	154
Expiring within two and five years inclusive	331	488
Expiring in over five years	347	455
	—	—
	783	1,097
	=====	=====
	2007 £'000	2006 £'000
OTHER		
Expiring within one year	51	65
Expiring within two and five years inclusive	41	132
Expiring in over five years	-	-
	—	—
	92	197
	=====	=====

25 PENSION AND SIMILAR OBLIGATIONS

The College's employees belong to two principal pension schemes, the Scottish Teachers' Superannuation Scheme (STSS) and the Local Government Superannuation Scheme (LGSS), which are Defined Benefit Schemes. The STSS is administered by the Scottish Public Pensions Agency. The total pension cost for the period was £477,000 (2006 – £530,000). Included in this year's figure was a credit adjustment of £183,000 in respect of past service costs identified by a qualified Independent Actuary.

Total pension cost for the year

	Year ended 31 July 2007 £000	Year ended 31 July 2006 £000
STSS : contributions paid	265	221
LGSS : Charge to income and expenditure account	212	309
	—	—
	477	530
	=====	=====

SCOTTISH TEACHERS' SUPERANNUATION SCHEME

The STSS scheme is an unfunded Defined Benefit Scheme. Contributions on a pay as you go basis are credited to the Exchequer under arrangements governed by the Superannuation Act 1972. A notional asset value is ascribed to the Scheme for the purpose of determining contribution rates.

Under the definitions set out in Financial Reporting Standard 17: 'Retirement Benefits', the STSS is a multi-employer Pension Scheme. The College is unable to identify its share of the underlying assets and liabilities of the scheme. Accordingly, the College has accounted for its contributions as if it were a Defined Contribution Scheme.

LOCAL GOVERNMENT SUPERANNUATION SCHEME

The Highland Council Pension Fund 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 2007 was £451,000 (2006 - £363,000) of which Employer's contributions totalled £327,000 (2006 - £259,000) and Employees' contributions totalled £124,000 (2006 - £104,000). The agreed contribution rate for future years is 16.5% for the Employer and 6% for Employees.

The following information is based upon a full actuarial valuation of the Fund at 31 March 2005, updated to 31 March 2007, by a qualified Independent Actuary.

	At 31 July 2007	At 31 July 2006	At 31 July 2005
Inflation	3.50%	3.10%	2.80%
Rate of increase in Salaries	5.00%	4.60%	4.30%
Rate of increase for Pensions	3.50%	3.10%	2.80%
Discount rate for Liabilities	5.80%	5.10%	5.00%

The assets in the scheme (of which the College's share is estimated at 0.90%) and the expected rates of return were:

	Long-term rate of return expected at 31 July 2007	Value at 31 July 2007 £000	Long-term rate of return expected at 31 July 2006	Value at 31 July 2006 £000	Long-term rate of return expected at 31 July 2005	Value at 31 July 2005 £000
Equities	7.80%	589,152	7.70%	515,400	7.30%	439,000
Gilts	4.80%	69,841				
Bonds	5.80%	62,915	4.70%	122,900	4.70%	111,000
Property	5.80%	96,225	5.70%	81,800	5.40%	65,000
Cash	5.80%	13,935	4.80%	17,200	4.50%	8,000
Total market value of assets	7.10%	832,068	6.90%	737,300	6.60%	623,000

Gilts are included with Other Bonds at 31 July 2006

The North Highland College

NOTES ON FINANCIAL STATEMENTS

31 July 2007 (continued)

	Year ended 31 July 2007	Year ended 31 July 2006	Year ended 31 July 2005
	£000	£000	£000
College's estimated asset share	6,811	6,154	4,765
Present value of funded liabilities	(7,096)	(7,316)	(6,115)
Present value of unfunded liabilities	(74)	(77)	(71)
	—	—	—
Deficit in the scheme	(359)	(1,239)	(1,421)
	=====	=====	=====

Analysis of the Income credited to Other Finance Income (Note 8 and note 12)

Expected return on Pension Scheme Assets	426	345
Interest on Pension Liabilities	(379)	(330)
	—	—
Net return	47	15
	===	===

AMOUNTS RECOGNISED IN THE STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES (STRGL)

	2007	2006
	£'000	£'000
Actual Return less expected return on Pension Scheme Assets	207	432
Experience Gains and Losses arising on the Scheme liabilities	0	73
Change in Financial and Demographic assumptions underlying the scheme liabilities	514	(291)
	—	—
Actuarial loss recognised in STRGL	721	214
	=====	=====

	Year ended 31 July 2007	Year ended 31 July 2006
	£000	£000
MOVEMENT IN SURPLUS DURING YEAR		
Deficit in scheme at Beginning of Year	(1,239)	(1,421)
Movement in Year:	0	
Current Service Charge	(212)	(309)
Contributions	324	262
Net Interest / Return on assets	47	15
Actuarial Gain or Loss	721	214
	—	—
Deficit in scheme at Close of Year	(359)	(1,239)
	=====	=====

HISTORY OF EXPERIENCE GAINS AND LOSSES

	Year ended 31 July 2007 £000	Year ended 31 July 2006 £000	Year ended 31 July 2005 £000	Year ended 31 July 2004 £000	Year ended 31 July 2003 £000
Difference between the expected and actual return on assets:	207	432	605	(340)	(215)
Value of assets	6,811	6,154	4,765	3,650	2,868
% of scheme assets	3.0%	7.0%	12.7%	(9.3%)	(7.5%)
Experience gains and losses on scheme liabilities:	-	73	(14)	-	(112)
Present value of liabilities	7,170	7,393	6,186	4,767	3,913
% of scheme liabilities	-	1.0%	(0.2%)	-	(2.9%)
Total amount recognised in STRGL	721	214	(255)	(20)	(854)
Present value of liabilities	7,170	7,393	6,186	4,767	3,913
% of scheme assets	10.0%	2.9%		(4.1%)	(21.8%)

The history of experience and losses only dates back to year ended 31 July 2003

26. RECONCILIATION OF OPERATING SURPLUS TO NET CASH FLOW FROM OPERATING ACTIVITIES

	2007 £'000	2006 £000
Surplus on continuing operations after depreciation of assets at valuation and tax	442	21
Pension costs less contributions payable	(112)	47
Depreciation (note 15)	372	447
Deferred grants released to income (note 22)	(242)	(308)
(Increase) in debtors	(41)	(251)
Increase / (Decrease) in creditors	34	125
Increase in provisions	3	12
Interest receivable	(97)	(60)
Interest payable	11	11
NET CASH INFLOW FROM OPERATING ACTIVITIES	370	44
	=====	=====

27. ANALYSIS OF GROSS CASH FLOW FOR HEADINGS NETTED IN CASH FLOW STATEMENT

	2007 £'000	2006 £000
RETURNS ON INVESTMENT AND SERVICING OF FINANCE		
Interest received	50	45
Interest paid	(11)	(11)
	39	34
	====	====
CAPITAL EXPENDITURE	2007	2006
	£'000	£000

Payments to acquire tangible fixed assets	(309)	(114)
Capital grants received	246	135
	—	—
	(63)	21
	=====	====

FINANCING

Repayment of loans	(9)	(11)
Repayment of finance lease	(8)	(24)
	—	—
	(17)	(35)
	=====	=====

28. ANALYSIS OF NET DEBT

	Open Balance	Cash Flows	Other Non-Cash Changes	Closing Balance
	£,000	£,000	£,000	£,000
Cash	644	329	-	973
Debt due within One Year	(18)	17	(9)	(10)
Debt due after One Year	(165)	-	9	(156)
	461	346	0	807
	=====	=====	=====	=====

29. LOSSES AND SPECIAL PAYMENTS

There were no amounts written off during the year in respect of losses and special payments.

30. POST BALANCE SHEET EVENTS

There are no post balance sheet events to disclose.

31. CONTINGENT LIABILITIES

There were no known contingent liabilities at 31 July 2007.

32. RELATED PARTY TRANSACTIONS

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

The College had transactions during the year or worked in partnership with the following publicly funded or representative bodies in which members of the Board of Management hold official positions.

The North Highland College

NOTES ON FINANCIAL STATEMENTS

31 July 2007 (continued)

MEMBER	ORGANISATION	POSITION
Mr P R G Arthur	UKAEA	Financial Controller
Mrs J G Bundy	UKAEA	Training Manager

Income transactions totalling £106,000 and expenditure transactions totalling £1,000 were made with UKAEA

Mr C Gregory	HIE (Caithness & Sutherland)	Director
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Income transactions totalling £25,000 were made with Caithness & Sutherland Enterprise.

Anna McConnell	Caithness Partnership	Manager
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Income transactions totalling £11,000 were made with The Caithness Partnership.

All Board of Management members receive no emoluments other than attendance allowances. The volume of voluntary commitment made was considerable and is greatly appreciated.

The Board of Management of the North Highland College is a body incorporated under the Further and Higher Education (Scotland) Act 1992 sponsored by the Scottish Funding Council (SFC). SFC is regarded as a related party. During the period the North Highland College had various material transactions with SFC and with other entities for which SFC is regarded as the sponsor department e.g., Student Awards Agency for Scotland.

During the period the College had various material transactions with the University of the Highlands & Islands Millennium Institute (UHI). UHI was designated a Higher Education Institute in April 2001 and received funding from the Scottish Funding Council from 1 July 2002. The College receives funding for Higher Education activity from UHI.

During the period the College also had material transactions with Argyll College. From 2003-04 onwards the College received a ring-fenced allocation from SFC for Further Education delivery in Argyll. The activity is delivered through a collaborative arrangement with Argyll College governed by legal agreement. During the period the College received £1.384 million (2006 - £1.385 million) of SFC funding, of which £1.218 million (2006 - £1.204 million) was passed onto Argyll College, a further £11,000 (2006 - £34,000) was due for payment after the year end and £154,000 (2006 - £146,000) was retained, as agreed, by the College to finance the costs of the academic and support functions required for the collaborative arrangement. The grants transferred to Argyll College are shown as part of the College other operating costs.

The College continues to hold a minority shareholding in Caithness Multi Media Limited as detailed in note 16.

33. BURSARY AND OTHER STUDENT SUPPORT FUNDS

	FE Bursary £'000	FE Hardship £'000	EMAs £'000	Other £'000	2007 Total £'000	2006 Total £'000
Balance b/fwd	63	2	0	0	65	37
Funds receivable in year	573	51	101	21	746	709
Virement in year	0	28	0	0	28	22
Expenditure	(552)	(67)	(101)	(23)	(743)	(703)
Repaid to SFC in year	(7)	(14)	0	0	(21)	0
	—	—	—	—	—	—
Balance c/fwd	77	0	0	(2)	75	65
	===	===	===	===	=====	===

Represented by:

Repayable to SFC as clawback	-	-	-	-	-	-
Retained by College for Students	77	-	-	(2)	75	65

FE CHILDCARE FUNDS

	2007 £'000	2006 £'000
Balance b/fwd	42	9
Funds received in year	78	75
Virement in year	(28)	(22)
Expenditure	(38)	(20)
Repaid to SFC in year	-	-
	—	—
Balance c/fwd	54	42
	===	===

Represented by:

Repayable to SFC as clawback	-	-
Retained by College for Students	54	42

These Funding Council Grants are available solely for students, the College acts only as paying agent. The grants and related disbursements are therefore now excluded from the Income and Expenditure account with any unspent balance being included as a Creditor in the Balance Sheet.

During the year funds were transferred from the SFC Childcare allocation to augment the Hardship funds available for Further Education students.

The sums shown as Other Funds relate to Higher Education Hardship Funds administered on behalf of UHIMI.