

**The North Highland College**  
**REPORT AND FINANCIAL STATEMENTS**  
for the year ended  
31 July 2006  
SCOTTISH CHARITY NUMBER SC021215

# The North Highland College

## REPORT AND FINANCIAL STATEMENTS

for the year ended 31 July 2006

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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 20,546 weighted sums (WSUMs) compared to 21,786 WSUMs in academic year 2004-05. Activity amounting to 4,458 WSUMs was delivered under the collaborative further education arrangement with Argyll College. The decrease in fundable further education activity reflects, in part, the introduction by SFC of a new measurement methodology for full time activity.

Higher education activity continued to grow strongly with fundable education activity, as measured by full time equivalents (FTE's) amounting to 420 FTEs compared with 378.4 FTEs in 2004-05.

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 2005/06 showed an operating surplus of £21,000 but after adjusting for the effect of depreciation on revalued fixed assets, the historical cost surplus amounted to £82,000. The College Income and Expenditure account including the FRS 17 pension liability amounts to £111,000.

If the College had not implemented FRS 17, the Income and Expenditure account for the year 2005/06 would show an operating surplus of £53,000 but after adjusting for the effect of depreciation on revalued fixed assets, the historical cost surplus would have amounted to £114,000. The accumulated surplus on the College Income and Expenditure account would have amounted to £1,273,000.

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 re-secured the lease of the main building at River Wynd, Alness from Highland Council in order to provide accommodation for the construction trades. The premises were upgraded to CITB standard for the delivery of SVQ II and III, Roof Slating and Tiling and Carpentry and Joinery. These premises will also be used to support our partners in Argyll, Skye and Lochaber, where appropriate, through the development and housing of mobile units.

The College undertook capital works to the Environmental Research Institute, Thurso, creating additional mezzanine space in order to accommodate a substantial number of new research appointments made possible through the ARC 'Addressing Research Capacity' project, which was supported by SFC, HIE and ERDF. However, in addition, the College undertook the leadership of two ESF Renewable Energy Network Research projects for UHI and additional space is urgently required. A commitment has been made to AEAT by NHC that, subject to funding being made available by AEAT and CASE, the College will support and continue their research and development efforts into the recycling of batteries. Again additional space is required for process units and laboratories, however planning permission is being sought to convert industrial space on the main campus.

A number of major new capital works projects have been identified. In Thurso a partnership between NHC, UKAEA, CASE and the NDA was established to oversee the provision of the Nuclear Skills Academy Scotland (NSA) to be based in Thurso. In Dornoch a need to expand the campus and to provide residential accommodation for students was identified with feasibility option appraisals and other studies being developed. 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 Sub Committee prioritising activity and making recommendation to Finance Sub Committee for budget allocation based on affordability.

6. FUTURE DEVELOPMENTS

The Board of Management acknowledges that the College must sustain its development activity with respect to both Further and Higher education. Demographic changes across the HIE area indicating substantial population growth in all areas, with the exception of Caithness and Sutherland, inform the decision to work with SFC to widen participation in Skye, Lochalsh and Lochaber. A dedicated project officer has been appointed to coordinate the work although the majority of curriculum will be delivered locally through a number of partnerships. NHC will however deliver construction training in Skye and further support Argyll and Lochaber to deliver this training as they commission new premises. The expansion of construction training in Alness and Thurso is also anticipated, the latter through the NSA, Scotland. A new award, the Tourism Passport, will be developed. The College secured HIE support for the development of a new (Professional Development Award) PDA for (English as a second language) ESOL trainers and recognises the need to provide dedicated support to in-migrants, particularly those wishing to enter the Hospitality and Tourism Sectors.

Our curriculum portfolio will be further extended through the Determined to Succeed Initiative. In particular we will strive to introduce in partnership with local schools, employers and the Nuclear Decommissioning Authority, a pilot young apprenticeship programme in Science, Engineering, to complement that already in place for Construction, for the 14-16 year olds, with both formal timetabled classes and young scientist/engineer club activities. The NDA has agreed that the College contribution of land adjacent to the main building on the Thurso campus would represent the total contribution from the College for the establishment of a 'state of the art' facility to house the NSA, Scotland. This strategic development will provide the focus for transforming the existing campus, which still includes buildings dating back to the late 1950s, for the future. The NSA Project Management Group are appointing a Project Manager to scope this development. The construction of this facility is not foreseen until 2008. A formal proposal to house the National Nuclear Archive has also been made to the NDA.

The College will continue to work with the North Highland Initiative partners to address the Built Environment agenda, particularly developing a skilled workforce for the restoration, repair and maintenance of vernacular buildings. The College has submitted, as part of the Construction Forum of the Highland & Islands, a substantial Strategic Development Grant application to support this initiative.

6. FUTURE DEVELOPMENTS (continued)

The strategy of on-line development of the curriculum to widen participation, reduce costs and secure external income will continue.

In relation to higher education curriculum the College will continue to increase delivery by 7% on an annual basis on its under-graduate programmes and substantial increase its post-graduate taught and research programmes. The strategy of developing the Thurso campus as the base for all Science and Engineering, including renewables, teaching and research will continue. This will include using the frameworks developed by the European partnerships, i.e., the EU Masters programme in Decommissioning and the new training for Radiation Protection professionals which has just secured EU development funding. An HND for Archaeological Technicians will be developed using ERI/DERC staff to support Cultural Tourism

The Dornoch campus will lead provision for Arts, Humanities and Business HE curriculum. Hospitality training, both FE and HE will be available at Thurso, Dornoch and across the network using on-line delivery whilst Advanced IT provision will be available at Thurso and AIness. NHC will lead delivery of the UHI MA Hons. programme in Scottish History for the first time from September 2007. HIE have indicated their willingness to support curriculum development and research in this field. Two substantial projects, development of the UHI Centre for History in Dornoch and curriculum development, have been developed, and submitted to HIE for funding. In addition the estate development is being considered as a pilot project by the UHI Development Trust, who will seek additional private sector funding to establish a prestigious Centre in Dornoch. The proposed extended campus in Dornoch would allow the existing NHC Centre, Ross House, to be dedicated for the delivery of the BA Golf Management Degree whilst additional land and premises would establish the UHI Centre for History, a Centre for Cultural Destination and Sports Tourism, a new and expanded FE Centre in addition to the Hospitality Training Centre. A final decision on whether to proceed with this project is expected in early 2007.

In consequence of these substantial developments across the north highland area, especially those foreseen in Dornoch, the management structure of the College will need to be reviewed.

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 financial and personal 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% (2005 – 11%) of the aggregate purchases invoiced

during the year.

11. DISABILITY STATEMENT

The College welcomes enquiries from applicants with a disability or learning difficulty. Our policy is to assess applications from disabled persons on the same grounds that are applied to all candidates. The College is committed to improving access to all College buildings and to improving services for disabled students.

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

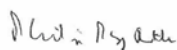
Internal Auditors	Chiene & Tait, Edinburgh
External Auditors	Baker Tilly, Edinburgh
Bankers	Clydesdale Bank plc, Thurso
Solicitors	Bishops, Glasgow

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 Finance Committee
Mr C Gregory	CASE Representative / Member of Finance Committee
Mr J F Jackson	RACE Representative (to March '06) / Member of Staffing Committee
Mrs J McKelvie	Member of General Purposes and Staffing Committee
Mr G A Nicolson	Vice Chairman / Chair - Audit Committee / Member of Finance, Remuneration and Nominations Committees
Mr D Omand	Member of General Purposes and Staffing Committees
Mr T Sayles	Chair - General Purposes Committee / Member of Audit Committee
Mr K Sutherland	Academic Staff Representative / Member of General Purposes Committee
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

Mr Nicolson and Mr Omand resigned from the Board during the financial year.



**P R G Arthur**  
**Chairman**  
Thurso  
11 December 2006

## 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 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 Combined Code, in so far as they apply to the further education sector, and it has complied throughout the year ended 31 July 2005.

## 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 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 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 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 North Highland College

## CORPORATE GOVERNANCE STATEMENT

31 July 2006

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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.

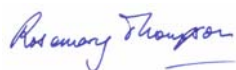
The senior management team and the Audit Committee also receive regular reports from the internal audit and 'health, safety and environmental monitoring' functions which include recommendations for improvement. The Audit Committee's role in this area is confined to a high level review of the arrangements for internal control. The 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 Committee.

The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At a meeting on 26 September 2006, the Board of Management carried out annual review of its risk management by considering documentation from the senior management team and earlier internal audit work. Further review is scheduled for Spring 2007 as part of the strategic planning process.

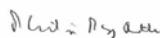
### GOING CONCERN

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  
11 December 2006

# The North Highland College

## STATEMENT OF RESPONSIBILITIES OF THE BOARD OF MANAGEMENT

31 July 2006

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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:

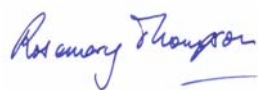
- ensure that funds from the Scottish Funding Council are used only for the purposes that they have been given and in accordance with the Financial Memorandum with the SFC and any other conditions that the SFC may from time to time prescribe;
- ensure that there are appropriate financial and management 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 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.

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

11 December 2006

# The North Highland College

## INDEPENDENT AUDITORS' REPORT

To the Members of the Board of Management of the North Highland College, the Scottish Parliament and the Auditor General for Scotland

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### **Independent Auditors' Report to the members of the Board of Management of The North Highland College, the Auditor General for Scotland and the Scottish Parliament**

We have audited the financial statements of the North Highland College for the year ended 31 July 2006 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 Historical Cost Surpluses and Deficits 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 the Code of Audit Practice approved by the Auditor General for Scotland and for no other purpose as set out in paragraph 43 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by Audit Scotland, dated July 2001.

### **Respective responsibilities of the Board of Management, Accountable Officer and Auditor**

The Board of Management and Accountable Officer 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 Board and Accountable Officer'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 Foreword 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 our 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 2006; 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.

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 by the Board of Management and the Corporate Governance Statement. 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.

# The North Highland College

## INDEPENDENT AUDITORS' REPORT

To the Members of the Board of Management of the North Highland College, the Scottish Parliament and the Auditor General for Scotland

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### **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 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 2006 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 2006; and
- funds from whatever source administered by the college for specific purposes have been properly applied for the intended purposes.

Baker Tilly  
Registered Auditors  
Chartered Accountants  
23 Queen Street  
Edinburgh  
EH2 1JX

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The North Highland College  
 INCOME AND EXPENDITURE ACCOUNT  
 for the year ended 31 July 2006

		2006	2005
	Note	£'000	(restated) £'000
<b>INCOME</b>			
SFC grants	2	5,209	4,508
UHIMI grants	3	1,534	1,269
Education contracts	4	235	302
Tuition fees and charges	5	780	736
Other grant income	6	1,209	1,211
Other operating income	7	573	293
Investment income	8	60	32
		—	—
<b>TOTAL INCOME</b>		<b>9,600</b>	<b>8,351</b>
		—	—
Less:			
<b>EXPENDITURE</b>			
Staff costs - ongoing	9 and 11	5,304	4,880
Other operating expenses	11	3,817	2,932
Depreciation	11 and 15	447	524
Interest payable	11 and 12	11	23
		—	—
<b>TOTAL EXPENDITURE</b>		<b>9,579</b>	<b>8,359</b>
		—	—
<b>SURPLUS/ (DEFICIT) ON CONTINUING OPERATIONS AFTER DEPRECIATION OF TANGIBLE FIXED ASSETS AT VALUATION AND BEFORE TAX</b>			
		21	(8)
Taxation	13	-	-
		—	—
<b>SURPLUS / (DEFICIT) ON CONTINUING OPERATIONS AFTER DEPRECIATION OF ASSETS AT VALUATION AND TAX</b>			
	14	21	(8)
		===	===

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 2006

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		2006	2005
	Note	£'000	(Restated) £'000
Surplus/(Deficit) on continuing operations after depreciation of assets at valuation and tax	14	21	(8)
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		82	53
		===	==
HISTORICAL COST SURPLUS FOR THE YEAR AFTER TAXATION		82	53
		===	==

# The North Highland College

## STATEMENT OF THE TOTAL RECOGNISED GAINS AND LOSSES for the year ended 31 July 2006

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	Note	2006 £'000	2005 (Restated) £'000
Surplus/(Deficit) on continuing operations after depreciation of assets at valuation and tax		21	(8)
Actuarial gain/(loss) recognised		214	(255)
Restatement of SSAP 24 Provision		6	71
		—	—
TOTAL RECOGNISED GAINS/(LOSSES) RELATING TO THE YEAR		241	(192)
		===	==
Prior Year Adjustment	32	(1,350)	-
		—	—
TOTAL RECOGNISED GAINS/(LOSSES) SINCE LAST FINANCIAL STATEMENTS		(1,109)	(192)
		===	==
RECONCILIATION			
Opening reserves as previously reported		3,606	3,798
Prior Year Adjustment	32	(1,117)	-
Total recognised gains/(losses) for the year		241	(192)
		—	—
CLOSING RESERVES		2,730	3,606
		===	==

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# The North Highland College

## BALANCE SHEET

31 July 2006

		2006	2005 (Restated)
	Note	£'000	£'000
<b>FIXED ASSETS</b>			
Tangible assets	15	7,405	7,764
Investments	16	-	-
		—	—
		7,405	7,764
		—	—
<b>CURRENT ASSETS</b>			
Stock	17	3	3
Debtors	18	879	692
Cash at bank and in hand		644	580
		—	—
		1,526	1,275
<b>CREDITORS</b>			
Amounts falling due within one year	19	(748)	(663)
		—	—
<b>NET CURRENT ASSETS</b>			
		778	612
		—	—
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		8,183	8,376
<b>CREDITORS</b>			
Amounts falling due after more than one year	20	(165)	(186)
<b>PROVISION FOR LIABILITIES AND CHARGES</b>			
	21	(654)	(648)
		—	—
<b>NET ASSETS EXCLUDING PENSION LIABILITY</b>			
		7,364	7,542
<b>PENSION LIABILITY</b>			
	26	<u>(1,239)</u>	<u>(1,421)</u>
<b>NET ASSETS EXCLUDING PENSION LIABILITY</b>			
		6,125	6,121
		=====	=====
<b>RESERVES</b>			
Deferred capital grants	22	<u>3,395</u>	<u>3,632</u>
Revaluation reserve	23	<u>2,619</u>	<u>2,680</u>
Income and expenditure account excluding pension liability		1,350	1,230
Pension Reserve		<u>(1,239)</u>	<u>(1,421)</u>
Income and expenditure account including pension liability	24	111	(191)
		—	—
<b>TOTAL RESERVES</b>			
		6,125	6,121
		=====	=====

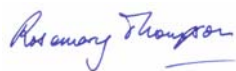
# The North Highland College

## BALANCE SHEET

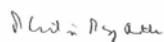
31 July 2006

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The financial statements on pages 10 to 36 were approved by the Board of Management on 11 December 2006 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 2006

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	Note	2006 £'000	2005 £'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	27	44	12
Returns on investment and servicing of finance	28	34	20
Capital grants / (expenditure)	28	21	374
Financing	28	(35)	(53)
		—	—
INCREASE IN CASH		<u>64</u>	<u>353</u>
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT	29		
INCREASE IN CASH FOR THE YEAR		64	353
Cashflow from decrease in debt		25	50
Finance leases adjustment		10	3
		—	—
MOVEMENT IN NET FUNDS IN THE YEAR		99	406
Net cash at 31 July 2005		362	(44)
		—	—
NET CASH AT 31 JULY 2006		<u>461</u>	<u>362</u>

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### 1. ACCOUNTING POLICIES

#### BASIS OF PREPARATION

These financial statements have been prepared in accordance with the 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

Income from grants, contracts and other services rendered are recognised in the income and expenditure account in proportion to the extent of completion of the contract or service concerned. All income from short-term deposits are credited to the income and expenditure account in the period in which it is earned. The main annual recurrent allocation from SFC, which is intended to meet recurrent costs, is credited direct to the income and expenditure account.

#### 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

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.

# The North Highland College

## NOTES ON FINANCIAL STATEMENTS

31 July 2006

(continued)

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### 1. ACCOUNTING POLICIES (continued)

#### TANGIBLE FIXED ASSETS (continued)

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.

# The North Highland College

## NOTES ON FINANCIAL STATEMENTS

31 July 2006

(continued)

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1. ACCOUNTING POLICIES (continued)

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.

2. SFC GRANTS	2006 £'000	2005 £'000
Recurrent grant	4,398	4,094
Childcare funds	20	22
Release of deferred capital grants (SFC)	35	44
Estates grant	275	231
Other SFC grants	481	117
	<u>5,209</u>	<u>4,508</u>
3. UHIMI GRANTS		
Recurrent grant	1,048	1009
Other UHIMI grants	486	260
	<u>1,534</u>	<u>1,269</u>
4. EDUCATION CONTRACTS		
Other non – SFC funded tuition	235	302
	<u>235</u>	<u>302</u>
5. TUITION FEES AND CHARGES		
Further education - home and EU	309	306
Higher education – home and EU	320	283
LEC contracts	151	147
	<u>780</u>	<u>736</u>
6. OTHER GRANT INCOME		
European funds	789	803
Other funds	98	28
Student allowances - LEC contracts	49	69
Release of deferred capital grants (other)	273	311
	<u>1,209</u>	<u>1,211</u>

# The North Highland College

## NOTES ON FINANCIAL STATEMENTS

31 July 2006

(continued)

7. OTHER OPERATING INCOME	2006 £'000	2005 £'000
Residences and catering	143	114
Other income generating activities	269	80
Other income	161	99
	—	—
	<u>573</u>	<u>293</u>

8. INVESTMENT INCOME	2006 £'000	2005 (Restated) £'000
Other interest receivable	45	32
Net return on pension asset / liability	15	-
	—	—
	<u>60</u>	<u>32</u>

### 9. STAFF

#### STAFF NUMBERS

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

	2006 Number	2005 Number
Senior management	5	5
Teaching staff	81	82
Teaching support	45	41
Administration and central services	33	35
Premises	11	10
Other income generating activities	16	12
Catering and residences	4	4
	—	—
	<u>195</u>	<u>189</u>

Analysed as:

Staff on permanent contracts	143	131
Staff on temporary contracts	52	58
	—	—
	<u>195</u>	<u>189</u>

Staff costs for the above persons.

	2006 £'000	2005 (Restated) £'000
Wages and salaries	4,452	4,127
Social security costs	322	297
Other pension costs	<u>530</u>	<u>456</u>
	<u>5,304</u>	<u>4,880</u>

# The North Highland College

## NOTES ON FINANCIAL STATEMENTS

31 July 2006

(continued)

### 9. STAFF (continued)

#### STAFF COSTS (continued)

	2006	2005 (Restated)
	£'000	£'000
Senior management	325	302
Teaching staff	2,599	2,581
Administration and central services (including Teaching Support & Research)	1,776	
1,559		
Premises	165	123
Other income generating activities	373	258
Catering and residences	66	57
	<u>5,304</u>	<u>4,880</u>
	2006	2005
	£'000	£'000
Analysed as:		
Staff on permanent contracts	3,758	3,519
Staff on temporary contracts	1,546	1,361
	<u>5,304</u>	<u>4,880</u>

### 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:

	2006	2005
	£'000	£'000
Travel and subsistence paid to Board Members	3	3
	=	=

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

	2006		2005	
	Number Senior Post-holders	Number Other Staff	Number Senior Post-holders	Number Other Staff
£40,000 – £50,000	-	-	1	-
£50,001 – £60,000	3	-	3	-
£60,001 – £70,000	1	-	1	-
£70,000 – £80,000	1	-	-	-

# The North Highland College

## NOTES ON FINANCIAL STATEMENTS

31 July 2006

(continued)

### 10. EMOLUMENTS OF BOARD MEMBERS AND HIGHER PAID STAFF (continued)

The emoluments paid were as follows:	2006 £'000	2005 £'000
Salaries	256	240
Pension contributions	36	33
	—	—
Total Emoluments	<u>292</u>	<u>273</u>

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

	2006 £'000	2005 £'000
Salaries	64	60
Pension contributions	10	8
	—	—
Total Emoluments	<u>74</u>	<u>68</u>

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
Teaching activities	2,599	2,346	263	1	5,209
Residences and catering	66	86	-	-	152
Other income generating activities	373	86	-	-	459
Premises	165	742	170	10	1,087
Administration	2,101	399	14	-	2,514
Other expenses	-	158	-	-	158
	—	—	—	—	—
	<u>5,304</u>	<u>3,817</u>	<u>447</u>	<u>11</u>	<u>9,579</u>

	2006 £'000	2005 £'000
Other operating expenses include:		
Auditors' remuneration (including irrecoverable VAT)		
- internal audit	23	6
- external audit	12	14
Hire of other assets - operating leases	229	167
Childcare funds	20	22
	<u>284</u>	<u>209</u>

Included in other operating expenses is an additional pension provision of £44,000 required in respect of future pension costs arising from early retirement. Details of the basis of this provision are given at Note 21.

# The North Highland College

## NOTES ON FINANCIAL STATEMENTS

31 July 2006

(continued)

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12.	INTEREST PAYABLE	2006	2005
		£'000	(Restated) £'000
	On bank loans, overdrafts and other loans:		
	Repayable wholly or partly in more than 5 years	10	10
	On finance leases	1	2
	Net return on pension assets / liabilities	-	11
		—	—
		11	23
		==	==

### 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 FOR THE YEAR	2006	2005
		£'000	£'000
	Income and expenditure account	21	(8)
		==	==

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# The North Highland College

## NOTES ON FINANCIAL STATEMENTS

31 July 2006

(continued)

### 15. TANGIBLE FIXED ASSETS

	Land & buildings £'000	Computer equipment £'000	Plant & equipment £'000	Motor vehicles £'000	Total £'000
COST OR VALUATION					
At 31 July 2005	9,836	908	1,001	45	11,790
Additions	-	25	56	7	88
	—	—	—	—	—
At 31 July 2006	9,836	933	1,057	52	11,878
	—	—	—	—	—
DEPRECIATION					
At 31 July 2005	2,391	836	754	45	4,026
Charge for year	169	59	212	7	447
	—	—	—	—	—
At 31 July 2006	2,560	895	966	52	4,473
	—	—	—	—	—
NET BOOK VALUE					
At 31 July 2006	7,276	38	91	-	7,405
	=====	==	=====	==	=====
At 31 July 2005	7,445	72	247	-	7,764
	=====	=====	=====	==	=====
ANALYSIS					
Inherited	3,054	-	-	-	3,054
Financed by capital grant	4,000	32	91	-	4,123
Other	222	6	-	-	228
	—	—	—	—	—
At 31 July 2006	7,276	38	91	-	7,405
	=====	==	=====	==	=====

# The North Highland College

## NOTES ON FINANCIAL STATEMENTS

31 July 2006

(continued)

### 15. TANGIBLE FIXED ASSETS (continued)

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.

The net book value of tangible fixed assets includes an amount of £6,326 (2005 - £21,949) in respect of assets held under finance leases and hire purchase agreements. The depreciation charge on these assets for the year was £15,623 (2005 - £46,831).

If inherited land and buildings had not been valued they would have been included at the following amounts:

	2006 £'000	2005 £'000
Cost	553	553
Aggregate depreciation based on cost	(117)	(108)
	—	—
Net book value based on cost	<u>436</u>	<u>445</u>

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:

	2006 £'000	2005 £'000
Depreciation based on cost	377	454
Depreciation based on valuation	70	70
	—	—
	<u>447</u>	<u>524</u>

### FUTURE CAPITAL COMMITMENTS

Contracted for	<u>32</u>	<u>-</u>
Authorised but not contracted for	<u>602</u>	<u>461</u>

# The North Highland College

## NOTES ON FINANCIAL STATEMENTS

31 July 2006

(continued)

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### 16. FIXED ASSET INVESTMENTS

INVESTMENT	£'000 Unlisted
COST	
31 July 2005 and 2006	22
PROVISION FOR PERMANENT DIMINUTION IN VALUE	—
31 July 2005 and 2006	(22)
NET BOOK VALUE	
31 July 2005 and 2006	-
	==

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	2006 £'000	2005 £'000
Consumables	3	3
	=	=
18. DEBTORS		
AMOUNTS FALLING DUE WITHIN ONE YEAR		
Trade debtors	256	106
Other debtors	1	16
Prepayments and accrued income	622	570
	—	—
	879	692
	==	==

# The North Highland College

## NOTES ON FINANCIAL STATEMENTS

31 July 2006

(continued)

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19. CREDITORS	2006	2005
Amounts falling due within one year	£'000	£'000
Bank loans and overdrafts (see note 20)	10	8
Obligations under finance leases (see note 20)	8	24
Trade creditors	98	175
Other taxation and social security	108	110
Accruals and deferred income	348	267
Other creditors	176	79
	—	—
	748	663
	===	===

20. CREDITORS	2006	2005
Amounts falling due after more than one year		
Bank loans	165	178
Obligations under finance leases	-	8
	—	—
	165	186
	===	===

Bank loans, other loans and other creditors are repayable as follows:

In one year or less (see note 19)	10	8
Between one and two years	9	9
Between two and five years	28	28
In five years or more	128	141
	—	—
	175	186
	===	===

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:	2006	2005
	£'000	£'000
In one year or less (see note 19)	8	24
Between one and two years	-	8
	—	—
	8	32
	==	==

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# The North Highland College

## NOTES ON FINANCIAL STATEMENTS

31 July 2006

(continued)

### 21. PROVISION FOR LIABILITIES AND CHARGES

	2006 £'000	2005 (Restated) £'000
Future pension costs arising from early retirement including Scottish Teachers' Superannuation Scheme		
At 31 July 2005	648	719
Uplift for indexation allowance	18	22
Additional provision	44	26
	<u>710</u>	<u>767</u>
Charged to provision in year	(50)	(48)
Transfer of unfunded LGSS liability to pension (liability) / assets - note 26	(6)	(71)
	<u>—</u>	<u>—</u>
At 31 July 2006	<u>654</u>	<u>648</u>

The pension provision has been revalued using actuarial tables supplied by SFC. The net interest applied was 2.5%. An additional provision of £44,000 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 31 JULY 2005			
Land and buildings	714	2,587	3,301
Equipment	20	311	331
	<u>—</u>	<u>—</u>	<u>—</u>
	734	2,898	3,632
	<u>—</u>	<u>—</u>	<u>—</u>
GRANTS RECEIVABLE			
Land and buildings	-	-	-
Equipment	34	37	71
	<u>34</u>	<u>37</u>	<u>71</u>
	<u>—</u>	<u>—</u>	<u>—</u>
RELEASED TO INCOME AND EXPENDITURE ACCOUNT			
Land and buildings	15	60	75
Equipment	20	213	233
	<u>—</u>	<u>—</u>	<u>—</u>
	35	273	308
	<u>—</u>	<u>—</u>	<u>—</u>
AS AT 31 JULY 2006			
Land and buildings	699	2,527	3,226
Equipment	34	135	169
	<u>—</u>	<u>—</u>	<u>—</u>
	<u>733</u>	<u>2,662</u>	<u>3,395</u>

# The North Highland College

## NOTES ON FINANCIAL STATEMENTS

31 July 2006

(continued)

### 23. REVALUATION RESERVE

	Note	2006 £'000	2005 £'000
		£'000	£'000
At 31 July 2005		2,680	2,741
Transfer from revaluation reserve to income and expenditure account		(61)	(61)
At 31 July 2006		<u>2,619</u>	<u>2,680</u>

### 24. MOVEMENT ON INCOME & EXPENDITURE ACCOUNT

	Note	2006 £'000	2005 (Restated) £'000
At 31 July 2005		(191)	1,057
Transfer from revaluation reserve to income and expenditure account	23	61	61
Surplus / (Deficit) on continuing activities after depreciation of tangible fixed assets at valuation and tax		21	(8)
Prior Year Adjustment	32	-	(1,117)
Restatement of SSAP24 provision		6	71
Actuarial gain / (loss) recognised in STRGL		214	(255)
At 31 July 2006		<u>111</u>	<u>(191)</u>

### 25. FINANCIAL COMMITMENTS

At 31 July 2006, annual commitments under non-cancellable operating leases were as follows:

	2006 £'000	2005 £'000
LAND AND BUILDINGS		
Expiring within one year	154	99
Expiring within two and five years inclusive	488	300
Expiring in over five years	455	96
	—	—
	<u>1,097</u>	<u>495</u>

# The North Highland College

## NOTES ON FINANCIAL STATEMENTS

31 July 2006

(continued)

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### 25. FINANCIAL COMMITMENTS (Continued)

#### OTHER

Expiring within one year	65	63
Expiring within two and five years inclusive	132	50
Expiring in over five years	-	-
	—	—
	197	113
	===	===

# The North Highland College

## NOTES ON FINANCIAL STATEMENTS

31 July 2006

(continued)

### 26. 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 £530,000 (2005 – £456,000)

Total pension cost for the year

	Year ended 31 July 2006	Year ended 31 July 2005
	£000	£000
STSS : contributions paid	221	188
LGSS : Charge to income and expenditure account	309	268
	—	—
	530	456
	===	===

#### 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 2006 was £363,000 (2005 - £322,000) of which employer's contributions totalled £259,000 (2005 - £226,000) and employees' contributions totalled £104,000 (2005 - £96,000). The agreed contribution rate for future years is 15.6% and 6% for employees.

The following information is based upon a full actuarial valuation of the Fund at 31 March 2005 updated to 31 July 2006 by a qualified independent actuary.

	At 31 July 2006	At 31 July 2005	At 31 July 2004
Inflation	3.1%	2.8%	2.9%
Rate of increase in salaries	4.6%	4.3%	4.4%
Rate of increase for pensions	3.1%	2.8%	2.9%
Discount rate for liabilities	5.1%	5.0%	5.8%

# The North Highland College

## NOTES ON FINANCIAL STATEMENTS

31 July 2006

(continued)

### 26. PENSIONS AND SIMILAR OBLIGATIONS (continued)

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 2006	Value at 31 July 2006 £000	Long-term rate of return expected at 31 July 2005	Value at 31 July 2005 £000	Long-term rate of return expected at 31 July 2004	Value at 31 July 2004 £000
Equities	7.7%	515,000	7.3%	439,000	7.9%	360,000
Bonds	4.7%	123,000	4.7%	111,000	5.4%	99,000
Property	5.7%	82,000	5.4%	65,000	6.7%	29,000
Cash	4.8%	17,000	4.5%	8,000	4.5%	10,000
Total market value of assets	6.9%	737,000	6.6%	623,000	7.3%	498,000

	Year ended 31 July 2006 £000	Year ended 31 July 2005 £000	Restated value at 31 July 2004 £000
College's estimated asset share	6,154	4,765	3,650
Present value of funded liabilities	(7,316)	(6,115)	(4,701)
Present value of unfunded liabilities	(77)	(71)	(66)
Deficit in the scheme	(1,239)	(1,421)	(1,117)

Analysis of the amount charged to staff costs

	Year ended 31 July 2006 £000	Year ended 31 July 2005 £000
Current service cost	309	268
Past service cost	-	-
Total operating charge	309	268
Less: contributions paid	(262)	(230)
	47	38

# The North Highland College

## NOTES ON FINANCIAL STATEMENTS

31 July 2006

(continued)

### 26. PENSION AND SIMILAR OBLIGATIONS (continued)

#### LOCAL GOVERNMENT SUPERANNUATION SCHEME (continued)

Analysis of the income credited to other finance income (Note 8 and note 12)

	Year ended 31 July 2006 £000	Year ended 31 July 2005 £000
Expected return on pension scheme assets	345	274
Interest on pension liabilities	(330)	(285)
	—	—
Net return	15	(11)
	==	==

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

Actual return less expected return on pension scheme assets	432	605
Experience gains and losses arising on the scheme liabilities	73	(14)
Change in financial and demographic assumptions underlying the scheme liabilities	(291)	(846)
	—	—
Actuarial loss recognised in STRGL	214	(255)
	===	==

Year ended 31 July 2006 £000	Year ended 31 July 2005 £000
------------------------------------	------------------------------------

#### MOVEMENT IN SURPLUS DURING YEAR

Deficit in scheme at 1 August	(1,421)	(1,117)
Movement in year		
Current service charge	(309)	(268)
Contributions	262	230
Net interest / return on assets	15	(11)
Actuarial gain or loss	214	(255)
	—	—
Deficit in scheme at 31 July	(1,239)	(1,421)
	===	===

### 26. PENSION AND SIMILAR OBLIGATIONS (continued)

# The North Highland College

## NOTES ON FINANCIAL STATEMENTS

31 July 2006

(continued)

### LOCAL GOVERNMENT SUPERANNUATION SCHEME (continued)

#### HISTORY OF EXPERIENCE GAINS AND LOSSES

	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:	432	605	(340)	(215)
Value of assets	6154	4,765	3,650	2,868
% of scheme assets	7%	12.7%	(9.3%)	(7.5%)
Experience gains and losses on scheme liabilities:	73	(14)	-	(112)
Present value of liabilities	7,393	6,186	4,767	3,913
% of scheme liabilities	1%	(0.2%)	-	(2.9%)
Total amount recognised in STRGL	214	(255)	(20)	(854)
Present value of liabilities	7,393	6,186	4,767	3,913
% of scheme assets	2.9%	(4.1%)	(0.4%)	(21.8%)

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

#### 27. RECONCILIATION OF OPERATING SURPLUS TO NET CASH FLOW FROM OPERATING ACTIVITIES

	2006 £'000	2005 (Restated) £'000
Surplus on continuing operations after depreciation of assets at valuation and tax	21	(8)
Pension costs less contributions payable	47	38
Depreciation (note 15)	447	524
Deferred grants released to income (note 22)	(308)	(355)
(Increase) in debtors	(251)	(156)
Increase / (Decrease) in creditors	125	(22)
Increase in provisions	12	-
Interest receivable	(60)	(32)
Interest payable	11	23
	—	—
NET CASH INFLOW FROM OPERATING ACTIVITIES	44	12
	==	===

#### 28. ANALYSIS OF GROSS CASH FLOW FOR HEADINGS NETTED IN CASH FLOW STATEMENT

# The North Highland College

## NOTES ON FINANCIAL STATEMENTS

31 July 2006

(continued)

### RETURNS ON INVESTMENT AND SERVICING OF FINANCE

Interest received	45	32
Interest paid	(11)	(12)
	—	—
	34	20
	==	==

### CAPITAL EXPENDITURE

Payments to acquire tangible fixed assets	(114)	(136)
Capital grants received	135	510
	—	—
	21	374
	===	===

### FINANCING

Repayment of loans	(11)	(7)
Repayment of finance lease	(24)	(46)
	—	—
	(35)	(53)
	==	==

### 29. ANALYSIS OF NET DEBT

	31 July 2005 £'000	Cash flows £'000	Other non cash changes £'000	31 July 2006 £'000
Cash	580	64	-	644
Debt due within one year	(32)	25	(11)	(18)
Debt due after one year	(186)	-	21	(165)
	—	—	—	—
	362	89	10	461
	==	===	==	===

### 30. LOSSES AND SPECIAL PAYMENTS

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

### 31. POST BALANCE SHEET EVENTS

There are no post balance sheet events to disclose.

### 32. PRIOR YEAR ADJUSTMENT

As set out in accounting policies note 1, the college has adopted FRS17 in full in these financial statements. The full adoption this year of FRS 17 has had the following impact upon the accounts.

The impact of the prior year adjustment on the net assets at 31 July 2005 represents the reversal of the SSAP 24 pension provision at 31 July 2005 of £71,000 and the inclusion of the FRS 17 liability of £1,117,000. The impact of the prior year adjustment on the profit and loss account for the year ended 31 July 2005 represents the reversal of the SSAP 24 net pension charges of £230,000 and the inclusion of net pension return under FRS 17 of £279,000.

# The North Highland College

## NOTES ON FINANCIAL STATEMENTS

31 July 2006

(continued)

### 33. 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.

MEMBER	ORGANISATION	POSITION
Mr P R G Arthur	UKAEA	Financial Controller
Mrs J G Bundy	UKAEA	Training Manager
Income transactions totalling £132,000 and expenditure transactions totalling £1,000 were made with UKAEA		
Mr C Gregory	Caithness & Sutherland Enterprise	Director
Income transactions totalling £74,000 were made with Caithness & Sutherland Enterprise		
Mr J F Jackson	HIE Inverness & East Highland (formerly Ross & Cromarty Enterprise)	Director
Income transactions totalling £138,000 were made with Ross & Cromarty Enterprise		
Mr A Nicolson	W A Geddes Ltd	Director
Expenditure transactions totalling £6,000 were made with WA Geddes Ltd		

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 £1.385 million (2005 - £1.143 million) of SFC funding, of which £1,204 million (2005 - £933,000) was passed onto Argyll College, a further £34,000 (2005 - £65,000) was due for payment after the year end and £146,000 (2005 - £145,000) was retained, as agreed, by the College to finance the costs of the academic and support functions required for the collaborative arrangement. A further £3,000 is expected from SFC following the finalisation of 2005-06, these funds will be passed onto Argyll College. 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.

# The North Highland College

## NOTES ON FINANCIAL STATEMENTS

31 July 2006

(continued)

### 34. BURSARY AND OTHER STUDENT SUPPORT FUNDS

	FE Bursary	FE Hardship	EMAs	Other	2006 Total	2005 Total
	£'000	£'000	£'000	£'000	£'000	£'000
Balance b/fwd	35	2	-	-	37	219
Funds receivable in year	580	45	69	15	709	670
Virement in year	-	22	-	-	22	30
Expenditure	(552)	(67)	(69)	(15)	(703)	(701)
Repaid to SFC in year	-	-	-	-	-	(181)
	—	—	—	—	—	—
Balance c/fwd	<u>63</u>	<u>2</u>	<u>-</u>	<u>-</u>	<u>65</u>	<u>37</u>

### FE CHILDCARE FUNDS

	2006 £'000	2005 £'000
Balance b/fwd	9	44
Funds received in year	75	52
Virement in year	(22)	(30)
Expenditure	(20)	(22)
Repaid to SFC in year	-	(35)
	—	—
Balance c/fwd	<u>42</u>	<u>9</u>

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.